



McBride plc Annual Report and Accounts 2012



Effective execution
...everyday!

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Passionate about Private Label

McBride is Europe's leading provider of Private Label Household and Personal Care products. We develop, produce and sell our products to the major grocery retailers throughout Europe and beyond.

We have embarked on a journey to further strengthen our business model under our Project Refresh programme, by focusing on our growth categories and new market opportunities, driving out complexity and improving the productivity and efficiency of the business. All these goals will be delivered through competent and effective execution.

But we are not stopping here. Although we have made significant progress there is still more to do and we are now implementing the next phase of our strategic development.

Effective execution ... *everyday!*

Progress review



1. Organisational change
Pages 12, 14, 18 and 19



2. Category management
Pages 15, 20, 21 and 28-33



3. Competitiveness and efficiency
Pages 12, 16, 22 and 23



4. Continuing geographic expansion
Pages 13, 17, 24 and 25

Business performance

Highlights of the year

- Total revenue of £813.9 million (2011: £812.4m)
- 1% revenue growth at constant currency
- Adjusted operating profit⁽¹⁾ was £29.5 million and reported operating profit was £18.1 million
- Adjusted diluted earnings per share of 9.7 pence⁽¹⁾
- Full year dividend of 3.0 pence per share, to be remitted through the B Share scheme
- Year end net debt of £81.2 million (2011: £83.7m)
- Reorganisation of the Group by removing divisional structures implemented on 1 July 2012

⁽¹⁾ Adjusting items include amortisation of intangible assets, exceptional items, changes in estimates of contingent consideration arising on business combinations, and any non-cash financing costs from unwind of discount on initial recognition of contingent consideration and any related tax.

The Directors believe that adjusted profit before tax and adjusted diluted earnings per share measures provide additional useful information for shareholders on underlying trends and performance. These measures are used for performance analysis. Adjusted profit is not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures. It is not intended to be a substitute for, or superior to, IFRS measurements of profit.

Key financial trends

Revenue £m

2012	813.9
2011	812.4
2010	812.2
2009	792.4
2008	700.9

Adjusted profit before tax⁽¹⁾ £m

2012	23.7
2011	22.5
2010	44.4
2009	31.0
2008	21.3

Return on capital employed⁽¹⁾ %

2012	14.7
2011	14.7
2010	25.9
2009	17.1
2008	12.8

Cash flows from operations⁽¹⁾ £m

2012	39.5
2011	42.6
2010	85.1
2009	61.8
2008	49.4

Adjusted operating profit⁽¹⁾ £m

2012	29.5
2011	29.0
2010	50.0
2009	36.2
2008	27.0

Adjusted diluted earnings per share⁽¹⁾ pence

2012	9.7
2011	9.3
2010	18.1
2009	12.8
2008	8.6

Payment to shareholders⁽¹⁾ pence

2012	5.0
2011	6.8
2010	6.8
2009	6.0
2008	5.6

Group key performance indicators

Organic revenue growth

1%

(2011: 0%)

Return on capital employed⁽¹⁾

14.7%

(2011: 14.7%)

Waste efficiency

1.6%

(2011: 1.3%)

Customer service level

96%

(2011: 97%)

Adjusted diluted earnings per share⁽¹⁾

9.7p

(2011: 9.3p)

Key performance indicators

McBride uses a number of key performance indicators (KPIs) to measure its performance and progress against its strategic objectives. The most important of these KPIs focus on the five key areas of organic revenue growth, earnings per share, return on capital employed, customer service level and waste efficiency.

Organic revenue growth	Return on capital employed	Waste efficiency
Reported revenues adjusted to take account of acquisitions and disposals and currency exchange rate movements.	Adjusted operating profit ⁽¹⁾ as a percentage of net assets excluding net debt.	Tonnes of waste relative to total production tonnage.
Adjusted diluted earnings per share ⁽¹⁾	Customer service level	
Profit attributable to shareholders before adjusting items ⁽¹⁾ divided by the average diluted number of shares.	Volume of products delivered in the correct volumes and within agreed timescales relative to the total volumes ordered by customers.	

Cautionary statement

This Annual Report has been prepared for the shareholders of McBride plc, as a body, and no other persons. Its purpose is to assist shareholders of the Company to assess the strategies adopted by the Group and the potential for those strategies to succeed and for no other purpose. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

This Annual Report contains certain forward-looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements in this Annual Report will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Directors' report

Pages 1 to 75, inclusive, of this Annual Report comprise a Directors' Report that has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that Report shall be subject to the limitations and restrictions provided by such law. In particular, Directors would be liable to the Company (but not to any third party) if the Directors' report contains errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

Market review

What we are keeping our eye on



Consumer spending

McBride closely monitors those factors which influence consumer spending and the way in which consumers are reacting to the current economic climate.

The level of economic activity in Europe remains weak as the economic crisis continues to impact many of the markets of western Europe, in particular the countries of southern Europe.

Families remain concerned over the combination of weak economic growth and continuing record levels of unemployment.

Currently there are almost 25 million people unemployed across Europe almost 11% of the population.

Worries over job security coupled with increasing pressures on disposable income continue to influence consumer confidence. This has resulted in significant changes to spending patterns of consumers, who are trying to manage their weekly budgets.



Value for money

Household budgets remain under tremendous pressure.

Consumers continue to seek value for money in their weekly shop and today 'good value' does not refer just to the price of a particular product.

Many consumers consider themselves to be 'savvy' shoppers, seeking out the best deals and value to help them manage the weekly shop.

Today's retailers seek to provide their customers with excellent value for money offering Private Label ranges to meet all budgets, from the lowest price point, through the store label to premium ranges or niche ranges. In a recent survey by IGD Shopper Vista, 69% of consumers questioned agreed that supermarket Private Label products tend to provide better value for money than the alternative brands.

Today's Private Label products are increasingly considered to be 'best in class' for quality and performance.



Material costs

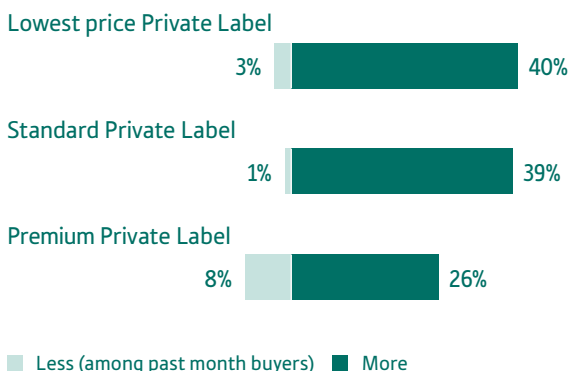
Managing our raw material and packaging cost base remains a key priority for McBride. Our analysts and procurement specialists continuously monitor not just those materials we purchase, but also many other commodity prices and external influences which can impact material prices.

We track key economic drivers which can influence demand, including changes in GDP growth in developing and emerging markets, currency fluctuations which can influence the supply/demand balance and the price of commodities such as oil and chemicals on a global scale.

We review capacity restructuring and planned shutdowns for our key materials to identify potential shortfalls in capacity and we monitor crop harvests for many of our naturally derived intermediates.

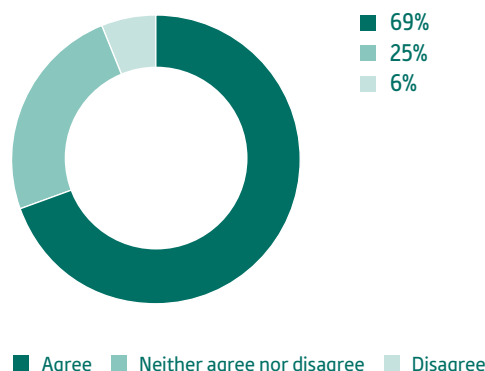
We are leveraging our global procurement scale and reach and have invested and strengthened our relationships with our suppliers to help understand the supply/demand economics of our supply chain and reduce the risks posed by external environmental factors.

Expected change to Private Label purchasing in the next 12 months



Source: IGD Shopper Vista Survey June 2012.

Supermarket Private Label products tend to provide better value for money than alternative brands



Source: IGD Shopper Vista shopper attitudes to Private Label and brands.



Innovation

Innovation and new product development are key drivers of Private Label growth, ensuring consumer expectations are met.

McBride not only undertakes its own research and development but continuously monitors innovation in new technology, formulations, packaging development and delivery systems from around the globe.

Keeping products fresh and attractive in the eye of the consumer means we need a continuous flow of new product ideas, and new packaging concepts to stay at the forefront of Private Label development in our chosen categories.

We continue to invest in new packaging formats such as doy packs, refill packs and lighter weight packaging to provide more sustainable products for our customers.

McBride has established three Centres of Excellence in Europe and one in China for product innovation in laundry liquids, machine dishwashing, skincare and air care to exploit our scale and improve speed to market of our new developments across Europe and beyond.



Retailer differentiation

Building and retaining customer loyalty is more critical than ever in the current economic environment with consumers continuing to focus on price and value for money.

Retailers need to differentiate their offering to the consumer and Private Label ranges play an important role in creating something unique to the store.

Private Label ranges provide the opportunity to demonstrate a quality proposition, a differentiated price point or product for a specific target audience or consumer demographic.

The traditional Private Label propositions based on 'Good', 'Better', 'Best' are being expanded to include exclusive ranges, discount ranges and environmental and premium offerings.

McBride's experience in Private Label formulation, packaging development and product innovation means we are well positioned to listen to our customers' ideas on how they want to position their household and personal care Private Label ranges and react quickly to their needs.

The market and category research we undertake enables McBride to provide greater insight into how Private Label ranges can be developed in line with the overall store brand position to drive not only increased loyalty but greater margin potential for our customers.

We are also taking this expertise to new markets and customers as grocery chains across Central and Eastern Europe and South East Asia are extending and improving the range of Private Label goods in store as an integral element of building their brand, increasing loyalty and attracting new consumers to their stores.

As competition among retailers for share of the consumer purse increases, we believe that both Private Label and McBride are well positioned for future growth by providing the opportunity for differentiation and building customer loyalty.



Source: IGD Shopper Vista shopper attitudes to Private Label and brands.

We continue to invest in new packaging formats such as doy packs, refill packs and lighter weight packaging.

Winning at Private Label

Keeping products fresh and attractive in the eye of the consumer means we need a continuous flow of new product ideas and packaging concepts to stay at the forefront of Private Label development in our chosen categories.



30 new soluble sachet products launched

Soluble sachet formats have been launched across Europe. This has resulted in new contract wins in Belgium, Netherlands and Italy, with the launch of around 30 new products, driving the growth of Private Label share across Europe.



Poland

In Poland we have been at the forefront of developing new attractive value for money Household and Personal Care products which are increasingly gaining popularity with consumers in the region.



Laundry liquids

Laundry liquids are one of the core growth categories for McBride. Significant resources have been invested to grow the category and drive the growth of Private Label across Europe.

- Bespoke research undertaken in the UK, leading to new range developments and launches
- Soluble sachet formats launched across Europe
- New pouch line for soluble sachets
- LSP-L (laundry sustainable programme for liquids) launch initiative in Europe with 50 new product references

Specialist cleaners

In the UK we have extended the range of antibacterial cleaners using the unique Byotrol® 24-hour germ-killing technology. These cleaners produce a microscopic barrier which remains effective for 24 hours.



In France, a combination window and stainless steel cleaner has been launched.



Machine dishwashing

In the machine dishwashing category, our most recent development provides the consumer with a fast dissolving product, allowing consumers to utilise quick cycles and lower temperatures, saving time and reducing their energy costs. This more sustainable alternative also helps reduce carbon emissions.



Chairman's statement



Iain Napier Chairman

Introduction

The weak economic environment in Western Europe has continued to impact consumer spending. Whilst total retail sales volumes in our core Household category have declined year-on-year in a number of markets, we have started to see consumers move into Private Label as they seek better value. Year on year Private Label retail sales have outperformed branded sales in the UK Household category in three of the last four quarters, whilst in France and Italy, Private Label also gained share year on year. McBride's revenue growth reflects this trend with growth achieved in all divisions on a constant currency basis. Our small Asian division continued to deliver strong growth.

Our actions to recoup the material cost increases of 2010 to 2011 were completed and the Group's operating margin recovered steadily through the year as a result.

The Group's previously announced supply chain restructuring is nearing completion as planned. In order to make the Group even more competitive we implemented a restructuring programme in June 2012 that will have the effect of removing the Group's historic divisional organisation structure. As a result, the commercial and operations functions will join the other functions in being centrally led, and will become focused on fully exploiting the Group's scale in the pursuit of profitable growth.

Board

A number of changes to the Board were announced during the year. Jeff Carr resigned as a Non-Executive Director on 24 October 2011, having accepted an executive role that presented a potential conflict of interest with McBride. Jeff was replaced by Neil Harrington who joined as a Non-Executive Director on 3 January 2012 and was appointed to the Nomination, Remuneration and Audit sub-committees on the same date. Neil has recently taken up the role of CFO of Cath Kidston Ltd and was for the last 7 years the Group Finance Director of Mothercare plc, and has extensive financial experience. As communicated in last year's Report and Accounts, Colin Smith and Christine Bindert resigned as Non-Executive Directors during the year and Sandra Turner was appointed as a Non-Executive Director on 1 August 2011.

People

This has been a challenging year for our people. Collectively they have been asked to deliver an improved operating margin whilst implementing strategic projects. I would like personally to thank them for their hard work and commitment.

"I am convinced that our strategy is the right one for McBride and I am reassured by our progress this year."

Corporate governance

Our Board seeks continually to improve the governance of the Group for the benefit of all our stakeholders. My statement and details of how the main principles of the UK Corporate Governance Code are being applied are set out in the Corporate Governance section of the Report on pages 46 to 55.

During the year, we have carried out an externally-facilitated evaluation of the Board's effectiveness. The results of this have confirmed our belief that we are working to good practice standards, whilst also revealing some small opportunities to improve our effectiveness.

The Board has also carried out an exercise to benchmark executive and senior management remuneration packages. This has confirmed that our remuneration policy is appropriate, and the Board remains focused on ensuring that executive remuneration is commensurate with Group performance.

Results and payments to shareholders

Revenues increased by £1.5 million to £813.9 million (2011: £812.4m), with 1% growth at constant currency. Profit after tax attributable to shareholders was £9.1 million (2011: £5.3m). Adjusted diluted earnings per share were 9.7 pence (2011: 9.3p).

At the year end, net debt was £81.2 million (2011: £83.7m). Operating cash flows were offset by exceptional costs of £6.7 million (2011: £7.4m) and capital expenditure of £26.4 million (2011: £24.8m).

The Board has considered the need to ensure that it has the maximum financial resources available to it in order to exploit the potential for Private Label growth. The Board is therefore recommending a rebasing of the final dividend to shareholders to 3.0 pence per share (2011: 4.8p). This would result in a total dividend for the year of 5.0 pence, which would be covered 2.0 times by adjusted basic earnings per share (2011: 1.4 times). Subject to approval at the AGM, the payment would be made by means of an allotment of 30 B shares, giving a total allotment for the year of 50 B shares.

Looking to the future

The outperformance of Private Label retail sales in our core categories seen in recent months has strengthened our conviction that our strategy for McBride is the right one. We have now reorganised the Group to be able fully to exploit our opportunities for growth, and remain fully focused on achieving that growth.

We have made a good start to the new financial year with trading in line with expectations.

Iain Napier
Chairman

Chief Executive Officer's review



Chris Bull Chief Executive Officer

Overview

During the past year we have started to see Private Label retail sales out-perform those of our branded competition in a number of our core Western European markets. Consumers are becoming ever more value conscious in a fragile economic environment, and retailers are increasingly recognising that Private Label can meet their needs of driving value to consumers and differentiating their offering. These developments have been particularly marked in some of our core categories.

The outlook for Central and Eastern Europe is more positive with strong Private Label growth continuing in our core market of Poland. We have also achieved strong growth in South East Asia and remain well placed to support international retailers' growth plans in that region.

We are nearing completion of the supply chain restructuring announced in 2011, with all aspects of the programme delivering to plan. Our focus on category management has started to yield new customer initiatives and our Lean manufacturing programme has achieved its Year 1 targets.

On 1 July 2012, we implemented a reorganisation of the Group with the principal aim of removing the divisional structures. This is a logical progression from the organisational changes we have implemented under Project Refresh over the last eighteen months to exploit our scale and capabilities. The resulting leaner organisation is focused around Group Commercial, Operations and R&D functions. These are tasked collectively with better leveraging the Group's scale by targeting the most profitable investment and growth opportunities, whilst striving for lower costs. I am confident that our new organisation is now well positioned to exploit the opportunity for Private Label growth.

We have also completed this year the actions to recover our operating margin following the material price increases of 2010 to 2011.

McBride achieved solid revenue growth through the year, although this was impacted in the fourth quarter by the relinquishing of low margin contracts. Group revenues were £813.9 million as a result, an increase of 1% at constant currency.

Trading since year-end has been in line with our expectations. Although the economic environment in Western Europe remains depressed, the strong performance of Private Label in some of our core categories and geographies has confirmed to us that we are taking the right actions to deliver future growth.

The industry, market and competitive environment

The weak economic environment in Western Europe has continued to impact consumer spending. Whilst total retail sales volumes in our core Household category have declined year-on-year in a number of markets, we have started to see consumers move into Private Label as they seek better value.

In the 52-week period to June 2012 total retail sales volumes in the UK Household category fell by 4% with Private Label volumes broadly stable resulting in an improvement in Private Label volume share from 28%, to 29% over the period.

A similar trend was seen in France, our largest market in Continental Europe, where total Household category volumes fell by 4% whilst Private Label volumes increased by 1% resulting in a Private Label volume share up to 36% (2011: 34%). In Italy the overall Household market was down 6% with Private Label volume up 4% resulting in Private Label volume share of 22% (2011: 20%).

Private Label share has remained stable in Germany at 43% and in Poland Euromonitor reported Household Private Label sales up 15% year on year reaching 8% market share up from 7% in value terms.

The Personal Care market in the UK in the 52-week period to June grew by just 2% with Private Label volumes down 4% due to continuing high level of promotional activity in the sector. Overall Private Label volume share of the UK Personal Care market fell slightly from 19% to 18%. In France, the overall market for Personal Care products was flat for the 52 weeks to June 2012 with Private Label volumes down 4% resulting in a Private Label volume share of 25% (2011: 26%).

Branded promotional activity has continued to affect some of our core categories, particularly in machine dishwashing. As a result, Private Label sales at constant currency grew by 2% in laundry liquids and by 4% in specialist cleaners, but fell by 7% in machine dishwashing.

The latest IGD Shopper Vista review of UK shopper trends for June 2012 reported that many shoppers are contending with the pressure on their household budgets in 2012, which is maintaining their overall focus on value and causing them to respond in a number of ways. The June survey of 2,000 shoppers reported that 37% of shoppers interviewed claimed they will buy more value Private Label products in the next 12 months, 38% will buy more standard Private Label products and 18% will buy more premium Private Label ranges.

Chief Executive Officer's review continued

McBride differentiates itself from its Private Label competition by focusing on new product development, category development with customers, and by offering products of outstanding value. Leading retailers see Private Label as a key way of differentiating their offering to the consumer, with many deciding to relaunch their Private Label range to capitalise on the consumer's increasing confidence in Private Label products. We believe we are best positioned to help them do this in our core categories.

Strategy

We have continued this year with the implementation of the Refresh strategy launched in early 2011. The main achievements have been:

- delivery of the supply chain re-structuring savings with the closure of the Burnley site and consolidation of liquids production in the UK, and the creation of a Centre of Excellence for machine dishwash manufacturing and research;
- the Group Lean Manufacturing programme implemented across all sites, with first year target pre-inflation savings of £1 million achieved;
- the Group-led R&D function starting to drive New Product Development projects more effectively through Centres of Excellence and with greater customer engagement;
- the further development of the organisation of the Group, with the removal of the divisional structures and the creation of Group Commercial and Operations functions focused respectively on driving growth and cost reduction.

Our strategy is to drive Private Label growth in Household and Personal Care sectors throughout Europe and into developing and emerging markets through product innovation, improving customer service and quality, and by better leveraging our scale in procurement and operational efficiency. We will continue to focus on a number of core product categories which we believe offer the best growth prospects, and to examine opportunities to expand our geographic reach.

Business performance

Geographic and category performance

McBride's revenue grew 1% in the year on a constant currency basis. Selling price increases contributed 3% revenue growth, while sales volume accounted for a 2% decline, reflecting the difficult trading conditions across Western Europe. Our Polish business achieved another strong performance with revenue growth of 23%. Our core and future growth categories now account for 47% (2011: 45%) of total Private Label revenue. The laundry liquids and specialist cleaners categories performed particularly well, with revenue growth of 2% and 4% being achieved respectively.

Performance in laundry liquids was enhanced by the extension of our soluble sachet capability, and by re-launches of key products. In machine dishwash, we are bringing to market our first pan-European launch with an innovative format developed in our new machine dishwashing Centre of Excellence in Luxembourg. This format comprises powder in a soluble sachet that provides superior cleaning performance at lower temperatures along with ease of use. Specialist cleaners performance was underpinned by the effective use of our category management approach to drive range extension in a number of retailers.

Material cost management

The past year has seen ongoing volatility in our principal commodity markets. Uncertainty over expectations for global economic growth, capacity restructuring by suppliers and currency movements have led to unpredictable movements in the market prices of a number of commodities. Against this background, McBride has followed its procurement strategy to achieve stable material costs through the year. We will invest further in our procurement talent and processes to ensure ongoing improvement in our capabilities in this critical area.

The Euro price of oil and some other commodities have remained volatile in the last two months and could have some short term impact in the first half that would not be recovered until later in the 2012/13 financial year.

New product development

The Group's R&D organisation comprises over 170 staff. They work in a number of technical centres in Europe and Asia which include Centres of Excellence for four of our growth categories introduced 18 months ago as part of Project Refresh. The objective was to focus the work of our very best expertise on those categories for the benefit of the Group. Having successfully proven this approach, we are now extending it to eight Centres of Excellence and in so doing will cover all of our main categories. Their work ranges from the development of unique patent-protected innovations that will out-perform the best products on the market, through to the adaptation of formulations to best meet customer needs.

McBride is active in taking measures that will protect our environment. Our new machine dishwashing sachets enable effective cleaning at lower temperatures, while we continue to reduce the environmental impact of our liquid products through minimising packaging wherever possible. Our Group Sustainability Team oversees activities to reduce water and energy usage and waste, and we continue to meet the requirements of the FTSE4Good Index.

We have further strengthened our R&D organisation with the appointment of a new Chief Research and Development Officer. Matthias Kreysel joined us on 1 September 2012, and brings with him over 20 years experience of leading international R&D teams. He will report directly to myself and will be a member of the Executive Management Team (EMT).

“I am encouraged by recent Private Label share gains and am confident that our new organisation is well positioned to exploit this trend.”

Cost efficiency

The previously announced restructuring of the Group's Supply Chain has progressed to plan. The Burnley site was closed during the third quarter, and the consolidation of auto dishwashing manufacturing in Europe is nearing completion.

The first year of the Group's Lean manufacturing programme has been highly successful, with the achievement of pre-inflation savings in excess of the £1 million target. The programme is now fully effective in all European sites and the identification of savings to meet targets for the second year of the programme is well advanced.

This reorganisation of the Group, while primarily intended to drive growth, will deliver savings from simplifying and de-layering the organisation.

Total pre-tax exceptional costs for the year were £9.7 million and associated cash expenditure was £6.7 million. The annualised savings from our various restructuring programmes is expected to be £8.0 million.

The Group invested £26.4 million of capital expenditure during the year in New Product Development, efficiency and capacity expansion projects.

Winning with customers

The objective of our new organisation is to strengthen our relationships with the major European retailers. This will be achieved through aligning regional business units with groups of customers, then focusing the business unit teams on helping customers grow their Private Label sales. The business units will be supported by a strengthened Group category management team that will offer leading-edge services to our customers. We will also continue to work with our international customers to capture opportunities across their geographies.

Customer service is a critical measure for the Group. Our aim is always to deliver the products ordered by the customer in the correct volumes and to the agreed timescales, which can be as short as 24 hours. The Group's customer service level this year was 96% (2011: 97%), although the goal we strive to deliver to our customers consistently is 98%. Our new organisation combines professionals across the Group under a single leadership which will help us to drive sustainable improvements in customer service.

People

Our aim is to recruit, retain and develop the best people available. We achieve this by actively developing our staff through a number of Group-wide programmes, promoting from within where possible, but not hesitating to recruit external expertise to fill important skill gaps. During the year, we have invested further in our commercial, finance and procurement resources.

Our Mission is to be the leading provider of Household and Personal Care products of exceptional value and performance to our customers and their consumers. Our Vision is to be the most successful Private Label company in the world. We have three simple Principles underpinning this direction:

- Engage our people
- Focus on our customers
- Drive our performance

We have again made improvements with health and safety. The number of greater than three day lost time accidents fell to 97, a 2% improvement on last year, and the frequency per 100,000 hours worked at 1.0 was maintained at the same level as last year. The number of hours lost fell by 4% resulting in the best health and safety performance the Group has reported.

The environment

We are committed to reducing our environmental impact and progress has been made in a number of areas. The Group's water usage decreased by 8% to 1.024,602m³ (2011: 1,116,434m³) due to the combined impact of more concentrated product in the mix and lower production volumes.

Energy consumption and CO₂ emissions increased by 2% and 1% respectively, equivalent to 61,542 tonnes of CO₂ emissions. Green energy accounted for 20% of total demand giving a net CO₂ impact of 51,882 tonnes CO₂e. Waste as a percentage of total production was 1.6% (2011: 1.3%) with the level of waste reused, recycled and recovered increased by 1% to 78%.

Objectives for the current year

Our principal objective for the current year is to exploit the opportunities available to us to drive Private Label growth in our core categories, whilst taking action to become more competitive. The five main activities will be:

- Driving revenue growth, supported by extending the use of our category management approach;
- Targeting profitable new product development through the re-organised R&D team;
- Delivering Year 2 targets from Lean manufacturing;
- Achieving targeted overhead cost reductions, complexity reduction and process improvements;
- Continuing to strengthen our geographic weighting in higher growth environments.

Chris Bull

Chief Executive Officer

Q&A

Interview with Chris Bull

Q. You introduced a major strategic review of the business, Project Refresh, to reposition the business for future growth. Eighteen months into the project, is it delivering the expected results?

A. In the review we set out a plan to strengthen the McBride business model and reposition the Group for future growth. The four pillars underpinning the process – organisational change, category review, competitiveness and efficiency and new market opportunities – are all delivering.

New ways of working were put in place to improve our speed to market commencing with the successful implementation of the category leadership roles and the establishment of our Centres of Excellence underpinned by the new way we are approaching category management. I am really excited that this is delivering Private Label share gains, and very encouraged by the positive feedback that we are receiving from our customers on this initiative.

We have delivered on our rationalisation plans for our European manufacturing footprint and we are seeing the benefits from the enthusiasm with which our operations are embracing Lean manufacturing and identifying opportunities to drive out costs from our processes.

The markets of Central and Eastern Europe are the growth engine for the business, with Asia providing further opportunities as a source of growth for the future.

We have made good progress across the board, but there is still more that we can do to drive out unnecessary complexity from the business and strengthen our business model.

Q. The economic environment continues to be challenging across Europe. Is this benefiting the demand for Private Label products?

A. Yes, definitely. The value for money proposition of Private Label products has never been more important to today's consumers, especially in the Eurozone where we are seeing record levels of unemployment.

Shoppers are increasingly 'savvy' in searching for great deals as they try to manage their weekly shop. In a recent study by the Institute of Grocery Distribution, 69% of consumers said supermarket Private Label products tend to provide better value for money than the alternative brands. We are working more closely with our retail customers to ensure that their Private Label ranges of Household and Personal Care products deliver real value to the consumer, and the most recent market data in the UK shows that one in every three household products bought is a Private Label.

Q. Organisational change was at the heart of Project Refresh. What benefits are you starting to see from these changes?

A. We have improved our speed to market and the roll-out of new product introductions across markets. The new ways of working means that we are more responsive to changing customer needs. Today we are a more joined up and connected

organisation. International customer teams are in place, and the research and development Centres of Excellence and the category leader and category development leadership roles have significantly improved category focus and development efficiency. Examples of our new ways of working include the successful launch of our fast dissolving auto dishwash tablets in both the UK and Germany. Our teamwork across markets has resulted in Skincare contract gains with major retailers in France and the UK with products sourced from Brno, and the roll-out of our laundry liquids sachets expertise to our European customers.

Building on the success achieved so far we announced in June 2012 that we are taking the logical evolutionary step of moving to a fully functional based organisation.

We are moving to a single commercial organisation under one leadership which comprises customer facing and focused business units covering geographies, and together with a category organisation which now covers all of our categories. The new structure makes McBride even more focused on customers, focused on developing categories and focused on driving profitable growth.

We have also moved to a single end-to-end supply chain under one leadership, from buying through manufacturing to delivery. This function will build on the great work carried out so far and is focused on delivering the lowest possible total cost for our supply chain, while most effectively serving our customers.

Research and development also moves to a fully functional organisation under single leadership, building on the success of the Centre of Excellence model, which is already driving innovation and delivering fantastic value to our customers and consumers.

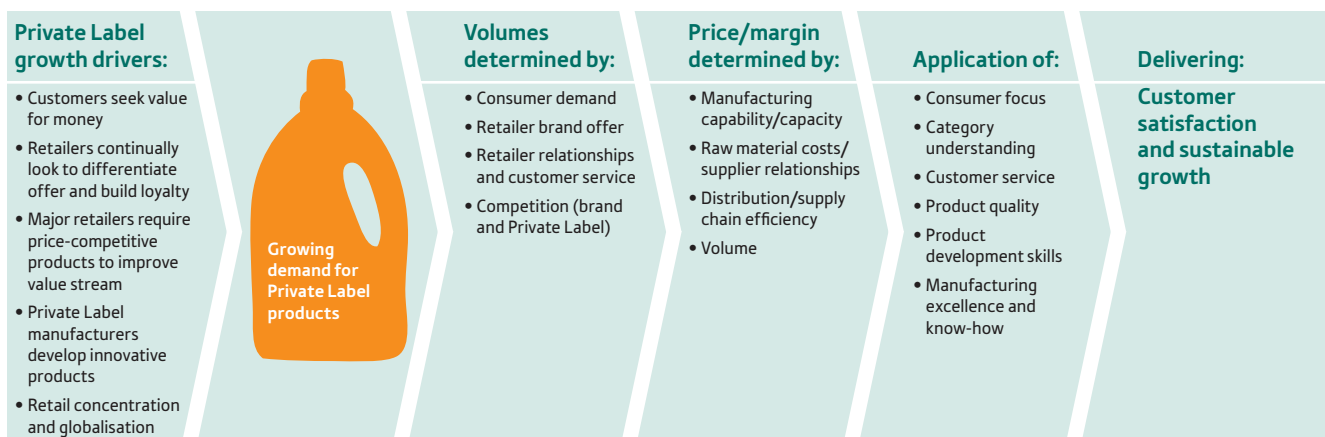
The picture is completed with the Finance and HR functions supporting the business in a lean and effective way.

This final step is a natural consequence of all the other organisational improvements we have been making over the last two years. All our efforts are driven by an internal mantra to seek to be 'responsive to customers, quick in decision-making and faultless in execution'.

Q. The Group indicated that major changes were planned in its supply chain infrastructure and in the introduction of Lean manufacturing across the Group. How are these important initiatives progressing?

A. We have made significant progress over the last two years in remodelling our European supply chain footprint and reducing complexity within the business. We have closed two factories in the last 12 months, focusing production in a smaller number of large-scale sites and centres of manufacturing excellence. The implementation of our Lean manufacturing programme is gathering pace and delivering real savings with our Year 2 target of £2 million of savings confirmed. As more teams attend our in-house Lean 'Bootcamps', further opportunities for efficiency improvements and cost saving initiatives are being identified. A really encouraging initiative!

Our business model



Q. McBride has been developing its business in Central and Eastern Europe and South East Asia. How are these businesses performing and do you expect to make further acquisitions in these regions?

A. Central and Eastern Europe is a growth engine for the business in the short to medium term. Retailers in the region are expanding and improving their Private Label offer. We are working with them to deliver improved packaging and performance and consumers are buying into this. Our sales in Poland increased 23% last year.

South East Asia is also growing strongly, albeit from a lower base and it has a key growth role in our future. We are embedding McBride manufacturing and Private Label competencies in the region and winning contracts with the result that sales in Vietnam are up 32% and Malaysia up 9%. Regarding acquisitions, we continually look for attractive partners to expand our technology capacity in the target development markets.

Q. The retail environment is changing rapidly with traditional formats and shopper channels coming under pressure; press reports are showing increased consumer demand for convenience and growing interest in on-line retailing. What is McBride doing to adapt to these challenges?

A. We monitor how the retail environment is developing and the way consumers are changing their approach to the weekly shop. This helps us to understand how these trends may influence the future demand for Private Label products. Hypermarkets and large superstores still account for over 60% of the UK grocery market, based on the latest Planet Retail data.

Today, consumers are increasingly using a mix of channels: combining convenience shopping with a large weekly shop either in store or increasingly on-line, with click and collect in store also gaining popularity. As part of our approach to category management we work with our customers to consider the optimum pack sizes and which product ranges would be most suitable for alternative channel formats and constantly assess what the implications of these options are for our supply chain.

Q. How is McBride making its business more sustainable in the current economic environment and does this conflict with the objectives of Project Refresh?

A. Making our business more sustainable is an intrinsic element of Project Refresh. Improving efficiencies, reducing complexity, streamlining our operations and eliminating waste are key functions of both our sustainability and Refresh agendas.

But we are doing more than this. We are building sustainability into our product development programme, with lighter weight packaging, more concentrated products and laundry products designed to work at lower temperatures. These not only reduce our carbon footprint, but help consumers use less energy. Our sustainability working group and the packaging development group are sharing best practice on energy savings and reducing packaging complexity, both key contributors to sustainability.

Q. Two years into the job, what have been the biggest challenges you have faced, and what are the current main challenges/opportunities for you as Chief Executive of McBride?

A. I am pleased with the progress made but there is much more to do. It's fair to say we have been faced with some tough economic headwinds, particularly around raw material cost inflation, but the direction we have set is absolutely the right one and we are making solid progress.

Today we are a more connected, focused and agile business better able to leverage our scale and capabilities. The actions we are taking continue to build on that. The new organisation will cement the steps we have been taking over the last two years and allow us to accelerate the pace of progress. It will allow us to deploy our best resources when and where we want to gain maximum advantage.

These may be difficult economic times but we will emerge stronger, with a more robust business better able to capture the full potential of Private Label.

Managing change at a progressive pace

1. Organisational change

What we said

The Refresh programme identified the need to change our organisation and ways of working to provide a greater focus on our increasingly multinational customer base, focus on core and future growth categories, better co-ordinate the Group's considerable R&D capability and give leadership to the Group-wide supply chain. Group leadership for R&D, the supply chain programme, category teams and international customer teams have been implemented.

What we did

We have been implementing change in the way McBride works at an increasingly progressive pace. During the year we further enhanced our Group ways of working through expanding the Group purchasing function to include indirect purchases. We took the first steps toward a Group R&D organisation and established a Group packaging development team. A Group Information Systems structure has been implemented and we have piloted a Group supply chain organisation.

Still to do

On 1 July 2012 the Group implemented the further development of the organisation of the Group, with the removal of the divisional structures and the creation of Group Commercial and Operations functions focused respectively on driving growth and cost reduction.

The embedding of the new organisational structure and new ways of working will be a key task for the Group in the coming year.

	12-month action plan (2010)	→ Delivered (2011)	✓ 24-month action plan (2011 →)	→ Delivered 2012	✓
Customer focus	<ul style="list-style-type: none"> → Build stronger relationships at a senior level → Establish international customer teams → Build leading category management capabilities 	<ul style="list-style-type: none"> → Top-to-top meetings held with over 25 leading retailers → International customer teams and leaders established for 11 multinational customers and ways of working established → Category management training programme established in the UK business with roll-out to rest of Europe planned 2011/12 	<ul style="list-style-type: none"> → Continue geographic expansion → Category management training programme roll-out to rest of Europe planned 2011/12 	<ul style="list-style-type: none"> → Category management approach adopted by laundry liquids and skincare teams in Europe 	
Product development	<ul style="list-style-type: none"> → Establish core category development and R&D resources 	<ul style="list-style-type: none"> → Refocus of R&D resources → Three Centres of Excellence established → Four category leaders in place → Four category development leaders appointed 	<ul style="list-style-type: none"> → Exploit scale → Improve speed to market → Improve R&D effectiveness avoiding duplication 	<ul style="list-style-type: none"> → Move towards Group R&D with new structure aligned around technology and functional lines → Additional Centre of Excellence established → Category leadership approach extended to specialist cleaners and general liquids categories 	
Group functions	<ul style="list-style-type: none"> → Supply chain → Group procurement → IT 	<ul style="list-style-type: none"> → Group-wide leadership of supply chain effectiveness established → Group-wide Lean manufacturing initiated → Group procurement extended to indirect purchasing → Packaging group established → Group-wide IT systems support in place 	<ul style="list-style-type: none"> → Lean assessments to be undertaken at all sites 	<ul style="list-style-type: none"> → Move towards a single integrated supply chain team across all countries → Move towards standardised opex and lean tools → Group packaging technology leaders established for bottles, skillets, corrugated, printed films and closures 	



Read more on pages 18 and 19

Read more on pages 20 and 21

2. Category management

What we said

A comprehensive review of McBride's Household and Personal Care portfolio identified categories which we believe will provide the greatest growth potential in both the short to medium and longer term. We have named these 'core growth and future growth' categories. The core growth categories comprise laundry liquids, machine dishwashing and specialist cleaners, while the future growth categories comprise skincare, air care, male grooming and mouthwash. All growth categories provide a significant growth opportunity and are margin enhancing.

What we did

The growth category teams have worked cross-functionally to share best practices and drive harmonisation across the business. The resulting focus on more integrated ways of working has improved our response times to customer tenders as well as enabling more effective use of resources. Category management training has also been shared with all category teams, with bespoke usage and attitude research being undertaken in three areas to date. Significant Private Label share gains have been achieved in categories where we have been able to work closely with our customers to drive Private Label up the consumer agenda.

Still to do

Category management has been extended to cover all of McBride's product categories as part of the new organisation structure. The new category teams will use the learning's of the existing Category Leadership teams to develop pan European category plans, establish ways of working with the new R&D Centres of Excellence to identify growth opportunities.

	12-month action plan (2010)	→ Delivered (2011)	✓ 24-month action plan (2011 →)	→ Delivered 2012	✓
Category focus and priority	<ul style="list-style-type: none"> → Review of core growth categories → Review of Group wide category management and category development effectiveness → Implement first Group-wide category investments → Future growth categories → Build leading category management capabilities 	<ul style="list-style-type: none"> → Three core growth categories confirmed laundry liquids, machine dishwashing and speciality cleaners → Future growth categories air care, skincare, oral care and male grooming → Group category management leaders and category development leaders established for laundry liquids, machine dishwashing, skincare and air care → Launch of first 24-hour germ kill trigger cleaners based on Byotrol® technology → Launch of super concentrated laundry liquids concepts in the UK and France → McBride skincare capability launched at PLMA Exhibition in Amsterdam → Category management training programme established in the UK business with roll-out to rest of Europe planned 2011/12 	<ul style="list-style-type: none"> → Continuing product development and innovation in growth categories → Continued progress on sharing of best practice and ways of working across the Group → Continued development of value proposition skincare ranges → Category management training programme roll-out to rest of Europe planned 2011/12 	<ul style="list-style-type: none"> → Innovative patent pending machine dishwashing tablet launched in the UK and Germany → Roll-out of laundry liquid sachets across Europe → New air care formats launched in Europe → Category leadership approach extended to specialist cleaners and general liquids categories. All Household categories are now benefiting from this structure and approach → Byotrol® technology extended in the UK → Roll-out of concentrated laundry liquid formulations across France, Belgium, Italy and Spain → New doy pack format for soluble liquid sachets launched in the UK → First Private Label skincare contracts gained with leading UK and French retailers, including anti-ageing face creams → Study into UK skincare consumer usage and attitudes further reinforces our skincare expertise with customers → New shave gel line commissioned in France, strengthening our capabilities in the male grooming category → Category management approach adopted by laundry liquids and skincare teams in Europe 	

3. Competitiveness and efficiency

What we said

A cornerstone of the Refresh programme was the goal to improve our competitiveness and manufacturing efficiencies through the further rationalisation of our European supply chain footprint and the reduction of complexity within the business. Further significant benefits to the Group in terms of manufacturing efficiency, capacity release and working capital improvements are being delivered through the implementation of Lean manufacturing within our manufacturing facilities.

What we did

During 2011/12 the Burnley household liquids factory was closed and production transferred in line with plan to other UK manufacturing sites. Production of household liquids in Italy has been consolidated to a single site at Bagnatica and European machine dishwashing production has been consolidated at the Foetz factory.

Still to do

The Group will continue to drive efficiencies, reduce complexity across the business and ensure delivery of targeted overhead cost reduction initiatives.

The Group will continue to roll out our Lean manufacturing initiative and ensure delivery of those projects already identified.

	12-month action plan (2010)	→ Delivered (2011)	✓ 24-month action plan (2011 →)	→ Delivered 2012	✓
Supply chain footprint	<ul style="list-style-type: none"> → Complete the next phase of manufacturing rationalisation → Estimated cost of £21 million → Cash cost c £13 million → Payback 2-3 years → Annualised savings of £7 million 	<ul style="list-style-type: none"> → Announced consultation on closure of Burnley factory, downsizing of Bradford and central overhead reduction in the UK → Announced consultation for refocusing of machine dishwashing tablet production in Europe → Project costs and savings in line with plan 	<ul style="list-style-type: none"> → Identify further cost-saving opportunities → Achieve full run rate of cost saving 	<ul style="list-style-type: none"> → Burnley factory closed with nine production lines transferred to Middleton and Bradford sites to plan and on budget → Satellite manufacturing facility in Italy closed and consolidated production in the main factory in Bagnatica → Two machine dishwashing lines transferred from Moyaux to Foetz. Foetz established as European Centre of Excellence for machine dishwashing in Europe → Annualised pre inflation savings of £8 million exceed target 	
Lean	<ul style="list-style-type: none"> → Perform Lean manufacturing assessments at all sites 	<ul style="list-style-type: none"> → Lean assessments undertaken at all European sites → Expected annualised net savings of £1 million confirmed 	<ul style="list-style-type: none"> → Extend Lean assessments to smaller factories → Delivery of expected Year 1 savings of £1 million post inflation 	<ul style="list-style-type: none"> → Eight on-site Lean 'Bootcamps' have been held across Europe → Year 2 and Year 3 savings of £2 million and £3 million confirmed with action plans → Further efficiency and Lean opportunities identified 	



Read more on pages 22 and 23

Read more on pages 24 and 25

4. Expanding our geographic reach

What we said

The potential for Private Label Household and Personal Care products in the developing and emerging markets of Central and Eastern Europe and South East Asia remains high as multinational retailers continue to expand their presence in these markets. McBride's decision to invest in Malaysia and Vietnam has been positively received by our customers in the region. In Central and Eastern Europe we will continue to build on the investments in both our manufacturing capability and management team to meet the increasing demand for Private Label products in the region.

What we did

In South East Asia, Newlane Cosmetics has seen a number of enquiries for both Private Label and contract manufacturing of Personal Care products including the biggest Private Label launch of a hair care range for a multinational retailer in the country. Fortlab in Malaysia is now producing Private Label ranges not only for the Malaysian market but also for customers in Australia. Central and Eastern Europe is seeing increased demand for higher quality, attractively packaged Private Label ranges which are building increased trust in Private Label among consumers in the region.

Still to do

The Group objective is to strengthen our geographic weighting in higher growth regions.

Progress has been made in integrating the acquired businesses but we need to accelerate the pace of growth in Central and Eastern Europe and South East Asia.

Further development of exports from our factories in Vietnam and Malaysia to adjacent markets will be key element in delivering this objective.

	12-month action plan (2010)	→ Delivered (2011)	✓ 24-month action plan (2011 →)	→ Delivered 2012	✓
Geographic expansion Asia and Australasia	<ul style="list-style-type: none"> → Continue expansion in developing and emerging markets 	<ul style="list-style-type: none"> → Key multinational customer meetings in the region → Integration of Fortlab Malaysia and Newlane Cosmetics into McBride Asia → Implant of McBride quality systems and processes and expansion of capabilities in the region → Investment of deionised water plant in Vietnam → Investment of sachet production line in Vietnam → Zhongshan factory expanded to include Household liquid capability 	<ul style="list-style-type: none"> → Continue geographic expansion 	<ul style="list-style-type: none"> → Private Label contract gains in Vietnam with Personal care products → Exports of Private Label ranges to adjacent South East Asian markets commenced → Growth of contract manufacturing opportunities with local brand owners → Expansion of air care format capability in the Zhongshan factory → Commenced sale of Private Label products into Australia sourced from Fortlab Malaysia 	
Geographic expansion Central and Eastern Europe		<ul style="list-style-type: none"> → Integration of Brno acquisition into McBride Group → Integration of Foetz and German operations into Central and Eastern Europe business unit → KPI: revenue from developing and emerging markets 9.1% (2011: 8.8%) 	<ul style="list-style-type: none"> → Build on our existing Central and Eastern Europe manufacturing capability to align with growing Private Label demand in Central and Eastern Europe → Exploit relationships with multinational retailers expanding across the Central and Eastern Europe 	<ul style="list-style-type: none"> → Sales growth of 23% in Poland compared to prior year → Announced the merger of our Western Continental Europe and Central and Eastern Europe commercial teams effective 1 July 2012 to exploit the Groups scale and focus in Europe 	

Progress review

1. Organisational change Improving speed to market and responsiveness

The opportunity

Improved speed to market and customer responsiveness were two of the key objectives of the changes proposed under Project Refresh.

We have to build stronger strategic relationships at senior levels with all of our customers and have established international customer teams for 11 international retailers to better co-ordinate resources and focus across markets.

We have applied the learning from our bespoke category management process across the Group and have extended our category leadership approach to the large and growing specialist cleaners category, as well as the remainder of our portfolio.

We have established Centres of Excellence to drive development processes and best practice across our business. These new ways of working have been instrumental in the successful launch of a number of exciting ranges of new products across all our core and future growth categories.

Progress

In addition to developments in the machine dishwashing and laundry liquids categories, we have been active in rolling out many more products across all the core and future growth categories. For example, the dishwasher gel formulations developed last year for the Italian market are now being launched to French customers.

In Italy, we have successfully launched a range of laundry liquids specifically designed for hand washing of woollen garments for Crai, one of Italy's leading retailers. The delicate laundry sector is important in Italy and Crai has secured the Woolmark™ endorsement for the products and promoted the range through its in-house magazine.

We have continued to develop our ranges of speciality cleaners in all markets.

In our future growth categories, we have gained Private Label skincare contracts in both the UK and France. We have gained further contracts with our mouthwash formulations in Malaysia. In the shave gel category new contracts have been won in France and Australia. Our recent new concepts in air care delivery systems such

as reeds, membranes and gels are resulting in good progress across a number of markets in Europe.

Within the Personal Care sector we have successfully launched a number of hair care ranges in France and Poland.



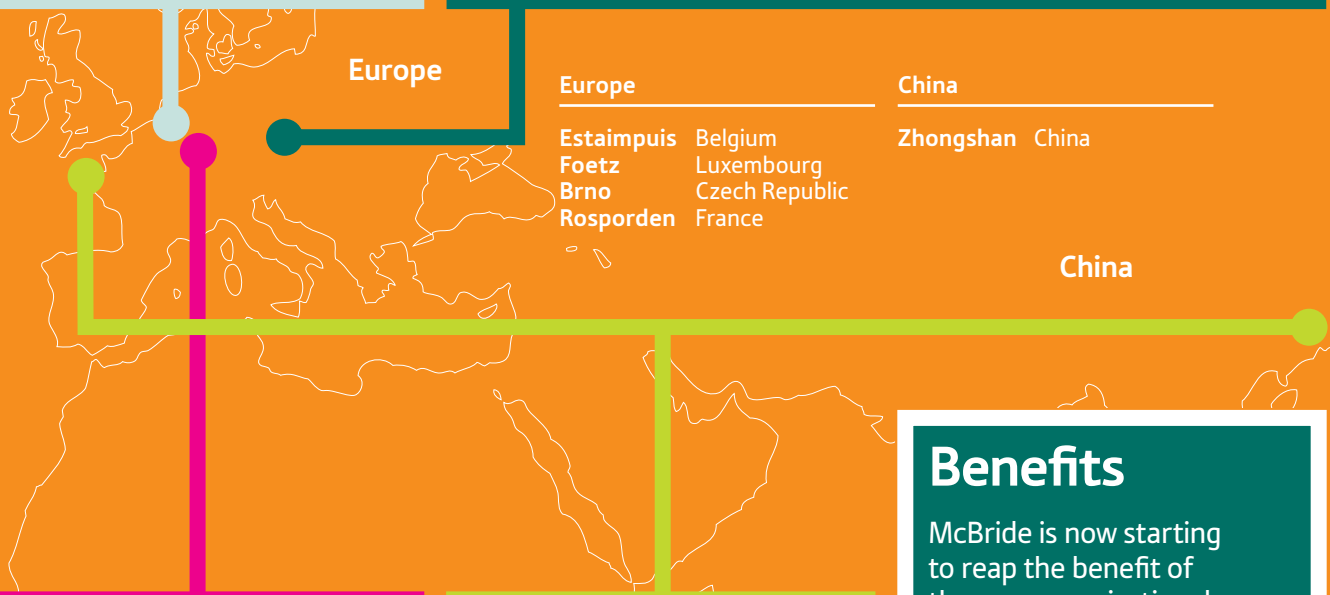
Centre of Excellence – Estaimpuis, Belgium
Focus on laundry liquids

We have centred our laundry liquids development activity in Estaimpuis, Belgium. The roll-out of concentrated liquids and sachets across Europe was the first major challenge for the category development team, requiring the development of a complete formulation and packaging portfolio for all our customers.



Centre of Excellence – Brno, Czech Republic
Focus on skincare

Brno has successfully hosted a number of customer and independent audits throughout the year. We continue to focus on driving product quality and value, with the addition of new in-house testing equipment and strengthened R&D, purchasing and packaging capabilities.



Europe

- Estaimpuis Belgium
- Foetz Luxembourg
- Brno Czech Republic
- Rosporden France

China

- Zhongshan China

China

Centre of Excellence – Foetz, Luxembourg
Focus on machine dishwashing

We have made significant progress during the year to integrate best practice from across the Group and have centralised performance testing and development for the whole of the machine dishwashing category at our main site in Foetz.



One Centre of Excellence two sites – Rosporden, France & Zhongshan, China
Focus on air care

Key to our success has been the more integrated ways of working between the expanded air care product development team in France, and the manufacturing team of McBride Zhongshan in China. This has enabled a number of exciting new concepts to be delivered.



Benefits

McBride is now starting to reap the benefit of the new organisational structure in terms of project prioritisation, managing complexity within our new product development processes, leveraging our scale in raw materials and packaging and improving speed to market.

- Core and future growth categories accounted for 47% of Private Label products (2011: 45%)
- Over 80 new laundry liquid and laundry sachet-based products were developed and launched in Europe

2. Category management

Increasing market share

The opportunity

Over the last 12-18 months the combination of slowing consumer demand and a significant increase in promotional activity by the major brand companies in the UK laundry sector resulted in Private Label losing shoppers to the major brands.

McBride needed to understand how we could turn this trend around and grow Private Label laundry products ahead of the market, whilst still providing our retail customers with the tool to drive their own agenda for customer loyalty.

We commissioned bespoke consumer research, to get to the heart of what laundry shoppers were looking for from Private Label laundry products, and provide the insight to develop a robust strategy for growth.

Using the insight gained we designed a complete relaunch of laundry ranges starting with laundry liquids and fabric conditioners.



Our efforts focused on the two 'moments of truth' – in the store at the point of purchase, and in the home at the point of usage.



Resulting from our product and packaging developments we are currently rolling out new Private Label laundry ranges of our UK customers. In the 52 weeks to June 2012 Private Label laundry liquid volumes were up 14% year on year with the Private Label share of the laundry liquid market reaching 20% (2011: 16%), and the Private Label share of concentrated fabric conditioners market reaching 26% (2011: 25%).

Progress

We have been actively developing our category management approach and are sharing learnings about consumer behaviour and needs across categories to improve our execution and delivery, category growth and profitability propositions for our retail customers.

How we are increasing Private Label share

Core growth categories

Laundry liquids

We are rolling out our soluble laundry sachet format and concentrated laundry liquids ranges across Europe.

Update

Over 30 new Private Label soluble sachet products have been launched across Europe.

Over 50 new concentrated laundry liquid products have been launched in Europe during the last 12 months.

Machine dishwashing

We have been actively developing and launching a new concept for Private Label machine dishwashing tablets.

Our patent pending fast dissolving dishwashing tablets have been launched in the UK and Germany. They are the fastest dissolving tablet in Europe making it suitable for even the quickest cycle.

Specialist cleaners

Specialist cleaners are continuing to show good growth in all our core markets and particularly in Eastern Europe.

In the UK we have extended the range of products incorporating Byotrol®. New concepts in specialist cleaners have been launched in the UK, France and Poland.

Future growth categories

Skincare

The skincare team has focused on developing a competitively priced range of skincare essentials, to complement the high-performance concept ranges launched in 2010/11.

Update

The developments have formed a portfolio of value formulations which have enabled us to respond quickly to tenders and opportunities across our European markets. Private Label contracts including anti-aging face creams have been gained with leading retailers in the UK and France.

Male grooming

We have further strengthened our capabilities in the male grooming sector following investment in shave gel production in Rosporden, France. Private Label ranges have been launched in Europe.

Private Label shave gel ranges to complement the shave foam variants have been launched in Europe. Private Label shave gel export contracts have been gained in Australia.

Mouthwash

We continue to exploit the potential for mouthwash combining and sharing expertise between our UK and Malaysian operations.

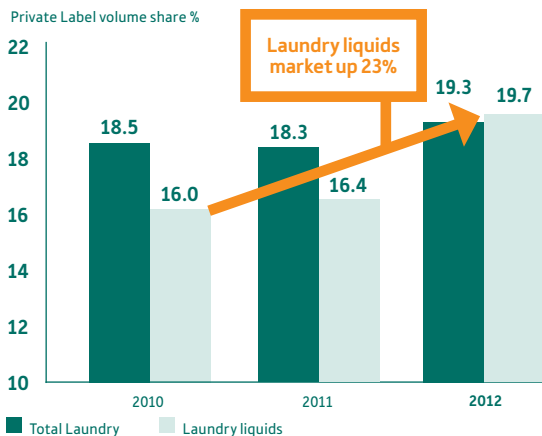
Private Label mouthwash contracts have been gained in Malaysia.

Air care

From new reed diffusers, EVA bead concepts and membrane technology to ongoing expansion of our timed release aerosols, a number of key product development projects have been delivered.

We have launched successful new air care ranges in France, Spain, Germany and Poland as well as the UK.

Progress in the UK Private Label laundry category driven by Private Label laundry liquid developments



Benefits

At a time when consumers are looking for the best value for money, the new Private Label ranges developed have delivered targeted product improvements and communicate best value to the consumer.

3. Competitiveness and efficiency

Delivering the benefits

The opportunity

Driving improvements in the Group's competitiveness and efficiency is integral to delivering our strategy for future growth.

By changing our ways of working, we aim to improve our speed to market, improve capacity utilisation and drive out costs across all our business processes.

Management of complexity plays a key role in delivering efficiency improvements. We are tackling complexity at many levels, from designing it out at the product development stage through raw material and packaging selection, controlling packaging footprints, reducing production line changeovers and downtime, to reviewing and optimising the manufacturing footprint of the Group.

Progress

During the year we have focused our efforts in a number of key areas to examine the manufacturing footprint and building manufacturing scale in a smaller number of core manufacturing and technology Centres of Excellence.

These studies have led to the consolidation of our UK Household liquids production at the larger sites of Middleton and Bradford. In Italy we consolidated a small satellite site into the main production site through capacity release from lean activities at the Bergamo site. We have focused European machine dishwashing capability at the Foetz site in Luxembourg following the transfer of two production lines from Moyaux in France and a major investment in the capability for new fast dissolving machine dishwashing tablet at Foetz.

'Lean and Mean' about driving cost savings

When it comes to driving out costs from our operations we take a 'lean and mean' approach to manufacturing. This 'lean and mean' approach involves sending up to 20 people at a time on a two week

intensive programme known as 'Bootcamps' to learn and practise lean techniques.

Run by in-house Lean coaches, the 'Bootcamps' involve training in techniques such as value stream mapping, followed by application of the skills in the local factory. Over the course participants identify and realise business projects which generate real savings.

The focus of the 'Bootcamps' is to provide colleagues with the skills to identify, analyse, plan and implement cost improvements, principally from process ideas, although some capital expenditure may be involved.

We are encouraged by the feedback received from attendees and the commitment, enthusiasm and inspiration they take back into the workplace.

During the last year the Company has run eight 'Bootcamps' across Europe, with a large number of improvements identified. For example the last 'Bootcamp' identified two potential projects related to the washing up liquids production line setup, which identified over £300,000 of savings for next year, and a warehouse project with the potential for £600,000 of savings.





Manufacturing rationalisation

As part of the continuing review of our manufacturing footprint, we have consolidated our UK household liquids production from three manufacturing sites into just two. The programme involved the transfer of nine filling lines with supporting infrastructure of blow moulding, mixing, filling and warehousing.

Following the decision to close the Burnley production facility in June 2011, the operations team put in place a detailed project plan covering capital investments in mixing and associated services at Bradford. The project comprised a detailed stock build plan, a production line decommissioning plan, and a detailed send and receive plan for our laundry liquid production.

The send and receive plans used in the project were developed as part of the Lean manufacturing 'Bootcamp' training and was used to transfer six blow moulding and three filling lines from Burnley to the Bradford factory.

The laundry liquids production capability was transferred to the Bradford site with household cleaners and trigger filling transferred to the Middleton site.

Lean techniques, in this case SMED (quick changeover methodology) improvements were applied to the high-speed lines at Middleton, increasing their available capacity and facilitating the removal of six older filling lines. The space created at Middleton enabled our manufacturing footprint plans to be realised and facilitated the transfer of the cleaner and trigger lines from the Burnley site.

The manufacturing footprint review has enabled the Group to consolidate its UK laundry liquids and sachets production in a single location at the Bradford site through further application of Lean techniques. In this case Kanban pull systems have been used to reduce inventory levels which has freed up a separate warehouse building to be used for the more value-adding activity of manufacturing. The new facility combines blowing, mixing and filling of bottles, tubs and the latest pouch format for our laundry sachets.

“Meaningful savings for the business”

We are delivering:
 → Direct labour improvement
 → Material usage improvements
 → Overhead savings

Our Year 1 target of net £1m savings has been achieved

Year 2 targets of £2m savings on track

4. Continuing geographic expansion

Exploiting new opportunities

The opportunity – Central and Eastern Europe

McBride has an established manufacturing capability in Central and Eastern Europe with a large household and personal liquids facility in Poland and a specialist skincare facility in the Czech Republic.

Our manufacturing scale combined with our category management skills and product development expertise mean the Group is well positioned to help drive the growth of Private Label in Central and Eastern Europe.

We have been at the forefront of developing new attractive value for money Private Label Household and Personal Care products, which are increasingly popular with consumers in the region. Recent successful product introductions include machine dishwashing tablets and dishwasher cleaner, new air freshener concepts, attractive hair care ranges and specialist cleaners.

Progress

Private Label products are growing market share in Central and Eastern Europe as multinational retailers continue their store opening plans and further develop the range of Private Label products being offered in store.

The developing markets of Central and Eastern Europe continue to be the growth engine for the Group in the short to medium term, and with sales in Poland up 23% year on year leading growth in the region.



The opportunity – South East Asia

McBride was approached by Hutchison China MediTech Ltd to work with their Consumer Products division in Asia to develop a unique professional mass market hair care range with Kim Robinson, one of the world's most sought after stylists. Kim Robinson has spent four decades in Asia, with devoted 'A List' clients which includes Cindy Crawford, Kate Moss, Michelle Yeoh, Gong Li, Zhang Ziyi and also the late Diana, Princess of Wales.

The unique concept for this range was based on combining traditional Chinese medicine ingredients, with professional salon-quality formulations developed by McBride in the UK and Malaysia, in conjunction with Kim Robinson who has unsurpassed knowledge of Asian hair needs.

McBride's UK technical experts worked with their counterparts in Malaysia to develop and refine the formulations, which were put through rigorous salon tests by Kim Robinson.

Results

The result was a range of formulations which have avoided the use of harsh chemicals, without compromising the effectiveness of the products. The formulations are free from parabens, phthalates, synthetic colours, and contain no added petrolatum surfactants.

Teamwork and knowledge-sharing across McBride's European and Asian divisions has been the critical success factor in delivering this new exciting range to market. It also demonstrates the professionalism and expertise of the cross-functional team in Malaysia, where the range will be manufactured. Following the initial launch in A S Watson's stores in Hong Kong, the range will be rolled-out to A S Watson's stores in other Asian countries in early 2013.

Progress

The expansion of multinational retailers in our developing and emerging markets is bringing the Private Label experience to millions of new consumers. McBride with its operations in Central and Eastern Europe and South East Asia is well positioned to support this growth.

- Developing and emerging markets sales up 6% year on year
- Sales in Poland up 23% year on year
- Sales in Vietnam up 32% year on year
- Sales in Malaysia up 9% year on year



The next phase of our journey

Objective for the current year

Our principal objective for the current year is to exploit the opportunities available to us to drive Private Label growth in our core categories, whilst taking action to become ever more competitive.

The five main activities will be:

- Driving revenue growth, by extending our category management approach
- Targeting profitable new product development through the reorganised R&D team
- Delivering Year 2 targets from Lean manufacturing implementation
- Achieving targeted overhead cost reductions, complexity reduction and process improvements and
- Continuing to strengthen our geographic weighting in developing and emerging markets

Priorities for 2012/13

On 1 July 2012, we implemented a re-organisation of the Group with the principal aim of removing the divisional structures. This is a logical progression from the organisational changes implemented under Project Refresh over the last eighteen months, aimed at better exploiting our scale and capabilities.

The resulting leaner organisation is focused around Group commercial, operations and R&D functions. These teams are tasked collectively with fully exploiting the Group's scale by targeting the most profitable investment and growth opportunities, whilst striving for lower costs.

Having successfully validated the Centres of Excellence approach for four of our growth categories, we are now extending this model to eight Centres of Excellence and in so doing will cover all of our main Household and Personal Care categories.

The output from the Centres of Excellence ranges from the development of unique patent-protected innovations that will out perform the best products on the market, to the adaptation of formulations to best meet specific customer needs.



To read more go to the Chief Executive's review on page 11

Research and development

Improving effectiveness and delivery

Our team of R&D scientists are based in Centres of Excellence around Europe. The first Centres of Excellence were established in early 2011, in four key growth categories, and are now being extended to cover all of our product areas.

Multinational teams of dedicated scientists are able to ensure we deliver the most appropriate innovation for each market sector. As a central knowledge resource, the teams can effectively share expertise to help solve problems and generate new ideas. By promoting communication and managing development centrally, the teams can also manage category complexity by optimising formulation work to suit multiple markets. This approach also enables local specialist requirements to be built into the front end of the development process so that local formulations can be easily adapted, improving our speed of response. Working with our category management teams, the Centres of Excellence are delivering superior value formulations with real consumer benefits.

Foetz in Luxembourg is the Centre of Excellence for our machine dishwashing category. The newly formed team of scientists quickly shared their knowledge and expertise to establish international performance league tables for machine dishwashing tablets. From this approach they were able to establish which cleaning performance attributes were important for particular markets, and adapt core formulations accordingly.

As a centre for extensive consumer research and testing, the Foetz team were also able to introduce our 'next generation' auto dishwashing sachets. This new patent pending technology, delivers enhanced performance at lower washing temperatures and dosage.

The multinational team carried out extensive consumer testing to ensure the product met our customers' needs, and then finalised and industrialised the product. It has recently been launched in the UK and German markets, with excellent feedback, and we will follow up with launches in other countries later this year.

From our skincare Centre of Excellence in Brno, our R&D team has worked closely with European marketing colleagues to develop a portfolio of value formulations, enabling us to respond more quickly and cost-effectively to customer tenders. Brno has also proved to be an invaluable central resource for product knowledge and skincare trends, as our global teams engage with potential new customers in Asia and Australia.

Driven by the different technologies involved across the product category, ranging from electric and battery-operated plug-ins to reed diffusers, gels and sprays, our air care teams have met the challenge of creating one Centre of Excellence over two very different manufacturing sites. The key to this has been effective communication and integrated ways of working. The success of the approach is illustrated by the development and launch of our new liquid reed systems as well as our innovative nitrogen-propelled aerosol air fresheners, convenient trigger formats and new membrane-based products.

Sustainability is an important focus for McBride, and our laundry liquids Centre of Excellence at Estaimpuis has exemplified this with the launch of over 50 new concentrated formulations this year. The team has reformulated both laundry liquid cleaners and fabric conditioners, delivering equivalent performance at lower dosage, thereby reducing our impact on the environment particularly in terms of packaging and distribution. The benefits of a unified Centre of Excellence were reflected in the successful rapid roll-out of the extensive new packaging and product portfolio to our customers in France, Belgium, Spain and Italy.

Going forward the expansion of our Centres of Excellence approach to other categories should deliver similar improvements in speed to market, reduced complexity and cost-effectiveness of our new product development programme.

On-line control of PET bottle production is designed to identify potential leakage problems at source.



Our new fast dissolving machine dishwashing tablet has been launched in Germany as a phosphate free variant.



Managing and delivering growth of core categories

McBride has identified and prioritised those categories which provide the greatest opportunity for profitable growth in both the short to medium term and the longer term horizons for McBride, its Private Label customers and its shareholders.

The market opportunity identified as part of Project Refresh, and subsequent planning reviews, has reconfirmed our three core growth categories, namely laundry liquids, machine dishwashing and specialist cleaners.

A further four categories provide longer term future growth opportunities: skincare, male grooming products, mouthwash and air fresheners (non-aerosol based).

Changing the way we work

Integral to the Project Refresh review was the need to understand how category management and development within McBride could be further enhanced to improve the effectiveness of product development and increase speed to market.

McBride prioritised four categories for its category and category development leadership approach to exploit research and development and Group-wide insights, provide a solid platform for growth and meet customers' expectations of McBride's passion for delivering value-adding Private Label products.

Progress to date

We have seen significant benefits from this new approach to category management.

Our bespoke research process has been successfully applied across the important laundry and machine dishwashing categories and recently extended to the skincare sector.

Private Label and category share gains have been delivered on the back of these initiatives in the UK, with further development and roll-out into Europe planned.

We have gained Private Label skincare contracts, including anti-ageing face creams in our key UK and French markets, and we have gained shaving gel contracts in France and Australia. We have also continued development in the mouthwash category.



Laundry liquids progress

Consumer preferences for laundry products vary considerably across Europe. We have seen clear commercial benefits from taking a Group-wide development approach which has enabled us to grow share in all core markets.

Our focus this year has been on driving the market for Private Label concentrated laundry liquid products and rolling out our soluble sachet technology across Europe.

Growing the Private Label laundry sachet market

Against an overall declining UK textile washing market in the 52-week period to end June 2012, Private Label laundry liquid sales significantly outperformed the sector, growing at 14% year on year, with the laundry sachets segment up 5%. The UK is the biggest market in Europe for laundry sachets, with a well established Private Label offering in all the major grocery chains. Private Label products now account for 1 in every 5 packs of soluble laundry sachets purchased in the UK.

France is currently the second largest market in Europe for laundry sachets, and the last two years have seen a number of new Private Label ranges launched based on McBride's development expertise. In 2011 the Private Label share of the French sachet market reached 3%, with significant potential for further share growth.

McBride's established manufacturing, technical and marketing expertise in laundry sachets has resulted in new contract wins in Belgium, Netherlands and Italy, with the launch of around 30 new products, driving the growth of Private Label share across Europe.

14%

Private Label laundry liquid sales in the UK significantly outperformed the sector growing at 14% year on year to June 2012.

1 in every 5

Private Label products now account for 1 in every 5 packs of soluble laundry sachets purchased in the UK.

Taking a sustainable approach to washing clothes

McBride is committed to delivering more sustainable cleaning solutions.

As a member of the European Surfactants Association (AISE) and as part of its voluntary sustainable cleaning initiative, McBride has been actively involved in launching new concentrated laundry liquid products across Europe in line with AISE's LSP-L programme (laundry sustainable programme for liquids). The LSP-L initiative is designed to ensure that all laundry liquids products meet a standard concentrated recommended dosage of 75ml.

During the year the LSP-L programme was rolled out across France, Belgium, Spain and Italy, with the German and Dutch markets already having switched to this standard. This involved McBride developing and launching more than 50 new Private Label products. The benefit to the environment from the initiative was a reduction in plastic used in bottles saving 114 tonnes of polyethylene, water savings of around 4 million litres and a reduction in carbon emissions due to almost 170 fewer truck journeys to transport product.

The LSP-L programme provided the opportunity for the category team to review all of our Private Label ranges with our customers. This proactive category approach meant we were able to provide greater clarity and tiering and secure improved consumer acceptance of the new ranges.



Machine dishwashing progress

The category management process was kick-started with a full usage and attitude study for the UK machine dishwashing market. The output from the study resulted in a deeper understanding of the extent to which current Private Label ranges were delivering against customer needs. We then utilised this data in our new tailored category management process.

Due to the differences between machine dishwashing tablet consumers, we were able to segment them and fully understand what products they buy and why. This seven-stage process allowed the team to identify which product characteristics would drive the Private Label share in the UK and what would drive the growth of the total category.

Over the past 12 months, McBride has focused on taking a category management approach to the machine dishwashing market. The category management approach has been piloted in the UK market, but the learnings are being shared and rolled out across the Group.

This in depth process has resulted in our proposing much simplified tiering, pricing and improved merchandising for ranges of machine dishwashing products in store.

Private Label in the machine dishwashing tablet category in the UK has recovered from a 14% year on year decline in 2011 to 5% growth (Kantar 52 weeks to June 2012).

The output

McBride's bespoke research generated a number of new product, packaging and format ideas which could be used to target consumers and increase value for the category. The output of the study has provided the formulation and packaging development platform for 2012/13 and beyond.

Machine dishwashing – centre of excellence

We have made significant progress during the year to combine best practice from across the Group and have centralised performance testing for the whole of the machine dishwashing category at our main site in Foetz in Luxembourg. Today McBride has a portfolio of products, providing our customers with a full range of machine dishwashing products from standard powders through to fast dissolving sachets in soluble film, for extra convenience. From our 2011/12 development plan we believe that the launch of the new McBride machine dishwash sachet format is a step-change in technology and performance.

Our most recent development provides the consumer with a fast dissolving product, allowing consumers to utilise quick cycles and lower temperatures, saving time and reducing their energy costs. This is a more sustainable alternative which helps reduce carbon emissions.

The first production of this patent pending technology has been launched in the UK where it is a first to market with a phosphate free formulation offered as a mainstream multi-functional product, further underpinning our sustainability credentials.



Speciality cleaners progress – driving Private Label growth

The demand for specialist household cleaning products across Europe remains strong.

Consumers' increasing awareness and concerns over hygiene within the home environment combined with the targeted cleaning power of trigger products are key factors underpinning the sector growth. Private Label household cleaners are increasingly recognised as providing cost-effective cleaning solutions for the home.

We have made good progress in all our core markets and continue to leverage our technical expertise and scale throughout Europe.

In the UK, we have extended the range of anti bacterial cleaners using the unique Byotrol® 24 hour germ-killing technology. These cleaners create a microscopic barrier which remains effective against germs for up to 24 hours, unlike traditional products which stop working as soon as they are dry.

Further work with a leading UK retailer to upgrade and extend the range of Private Label trigger cleaners, supported by improved merchandising and promotion, resulted in significant improvement and growth of Private Label share of the stores household cleaners. Following the launch of the new designs Private Label share increased from 15% of total sales to over 30% whilst driving Private Label category growth by double digits.

In Europe, we have launched a range of perfumed multi-surface cleaners including raspberry, basil, fig and orchid fragrances, providing cleaning solutions with added freshness. New combination formulations for cleaning windows and stainless steel, as well as bleach free disinfectants and multi-surface cleaners specifically formulated to kill bacteria and viruses have been launched.

In Poland, we worked with a leading customer to develop a competitively priced Private Label range of household cleaners combining excellent cleaning performance with attractive packaging, resulting in excellent consumer buy-in to the new proposition.

We continue to develop products that tackle the most difficult cleaning problems and cut through those problem areas of grease, and limescale in the home.

We aim to build on this success in the specialist cleaners category by extending our category leadership and category development leadership approach to this important growth area for the business, with Middleton in the UK becoming the Centre of Excellence for specialist cleaners.

With over 85 million bottles of specialist cleaners produced annually we believe there are considerable opportunities to further leverage our size and scale in this exciting category.



Skincare progress – building our credentials

The skincare team has focussed on developing a competitively priced range of skincare essentials, to complement the high-performance concept ranges we launched in 2010/11. These value formulations have enabled us to respond quickly to tenders and opportunities across our European markets.

In blind tests, McBride skincare products performed well against the market leaders underscoring our skincare expertise and capability.

In Western Continental Europe we worked closely with our sales and marketing colleagues to develop the right products to win the confidence of their potential customers. We also held training sessions in Brno to familiarise the teams with the new textures, terminology and performance claims of all our skincare developments, so they could demonstrate and talk about the products with assurance. This resulted in Private Label contract wins with a leading French retailer. The first products were facial cleansers and body lotions, followed by anti-ageing creams and opportunities for development of more sophisticated products such as BB creams (Blemish Balms) and performance body care ranges.

In the UK, our teams have been successful with a leading retailer, winning a contract for a new range of skincare formulations including anti-ageing face creams, cleansers, body lotions and sachets.

In Germany we have recently strengthened our skincare expertise in the technical and marketing fields, and are actively embracing this opportunity by developing and adapting our formulations to conform to the rigorous demands of the highly developed Private Label market in Germany.

Developing our category understanding in the UK

The trend for many women to look for accessible and affordable skincare is continuing; according to data from Kantar Worldpanel essential care facial moisturisers grew by 4.8% to over 41% of the UK facial care market in 2011.

Recognising the importance of understanding what the consumer really wants, the McBride UK skincare team commissioned a detailed study into usage and attitudes within the female skincare market. The research was conducted across four sub-categories: facial moisturisers, facial treatments, daily routine/cleansers and hand and body creams and lotions. The survey, with a sample of 2,000 female consumers aged 18-64 including a number of store intercepts, was designed to ensure a robust and valid conclusion. The captured data included product usage, attitudes, purchasing hierarchies, preferred shopping channels and consumer segmentation.

The identification of six consumer segments has been fundamental in developing our insight into this sector and has provided McBride with a rich information base to drive the growth of both Private Label and the total skincare category with our UK customers.

The skincare team are also supporting the development of tertiary brands for those markets where Private Label is still immature. Our Nova skincare range, with regenerating, nourishing and anti-ageing formulas, is a recent example.

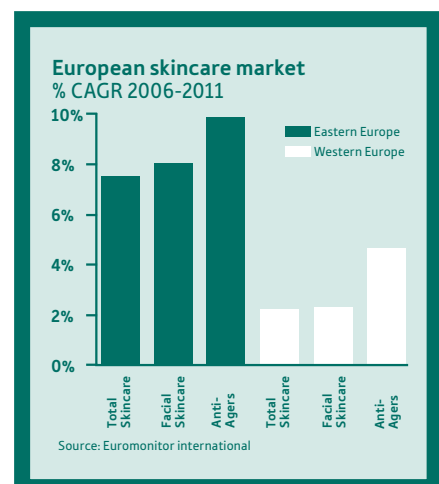
Driving quality and value

Our Brno factory has successfully hosted a number of customer and independent audits throughout the year. We continue to focus on driving product quality and value, with the addition of new in-house testing equipment and strengthening our R&D, purchasing and packaging capabilities by leveraging the McBride Group's scale and expertise.

Future development

Anti-ageing moisturisers and serums have grown almost 5% compound annual growth rate from 2006 to 2011 achieved in Western Europe and almost 10% in Eastern Europe.

With continuing pressure on the family budget, women across Europe are watching their spending and increasingly looking to well-priced, clearly positioned and effective skincare from Private Label suppliers they can trust.



Air Care progress – a fresh start

The last 12 months have been focused on delivering the new air product development concepts identified during our category review. We identified Nature, Simplicity, Home Decor and Hi Tech as the key trends which would underpin our new product development, and directed our development priorities towards filling those trend and product gaps in our existing portfolio.

From new reed diffusers, EVA bead concepts and membrane technology to ongoing expansion of our timed-release aerosols, a number of key product development projects have been delivered.



Key to our overall success has been the more integrated working between the product development team and production. The expanded air care product development team in France, working closely with and building on the manufacturing expertise of McBride Zhongshan in China, has enabled a number of new exciting concepts to be delivered.

Our recent developments include:

- Natural diffusers: A plant-based natural diffuser crafted into the shape of a flower providing excellent fragrance release, while offering a highly decorative format.
- Membranes: In an innovative range of designs and device formats to cover every usage scenario from cars and small spaces to whole-room freshening, our membrane products offer a safe but visible means of fragrance diffusion.
- Trigger sprays: Providing a gentle air freshener in a propellant-free trigger format, offering a safe alternative to aerosols.
- Car air fresheners: A safe but effective car air freshener based on impregnated plastics which provide gentle slow release of fragrance over time to counteract the problems of spillage in the car.
- Timed-release aerosols: These combine the benefits of the regular dosage of an aerosol spray with the convenience of the stylish automatic dispensing system.

We have launched successful new air care ranges in France, Spain, Germany, Poland and the UK, and are now examining the potential to exploit the markets for air care products in Asia Pacific and Australasia. These markets currently represent 20% of the world air care market and are growing much faster than the more mature regions of Europe and North America.

The category is dynamic and with our existing product range and capabilities we are identifying further opportunities for innovation, product design, delivery systems and formulation. The team believes there is further scope to deliver real consumer benefits from technological or design improvements.



Category development in McBride – the next steps

The benefits of the category leader and category development leadership approach are now being extended to the specialist cleaners and general household liquids categories where we believe the approach will provide further opportunities to drive Private Label growth.

Divisional performance

UK business review

	2012	2011	Change
Total reported revenue ⁽¹⁾	£315.2m	£310.7m	+1%
Adjusted operating profit ⁽²⁾	£16.5m	£11.9m	+39%
Average employee numbers	1,986	2,177	-9%

⁽¹⁾ Revenue by origin.

⁽²⁾ Adjusting items include amortisation of intangible assets, exceptional items, changes in estimates of contingent consideration arising on business combinations, and any non-cash financing costs from unwind of discount on initial recognition of contingent consideration and any related tax.

- Revenue increased 1% reflecting selling price increases of 5% offset by lower volumes of 4%.
- Household Private Label volume share up 1ppt to 28.6% for the 52 weeks to June 2012.
- Core and Future Growth product categories sales grew 5%.
- Restructuring programme announced in 2011 completed successfully.
- Adjusted operating profit⁽²⁾ increased by 39%, with return on sales of 5.2% (2011: 3.8%) as a result of the benefits of restructuring.

Business description

The UK business creates, develops and produces Household and Personal Care products for our Private Label customers. It also produces niche brands such as Surcare, Lime Lite and Oven Pride, and provides contract manufacturing for other Household and Personal Care sector participants. Retail customers include Aldi, Asda, Co-op, Marks & Spencer, Morrisons, Sainsbury's, Tesco and Waitrose.

Overview

Sales growth of 1% was achieved by focusing on our core and future growth categories, which grew at 5% as well as higher contract manufacturing sales in the year. Key growth categories in the year have been laundry liquids and specialist cleaners, with some lost contracts leading to declines in Personal Care.

Adjusted operating profit⁽²⁾ increased by 39%, which was driven by leveraging the cost base, focusing on more profitable products and categories and significant operational savings in the year.

As part of Project Refresh, the household liquids manufacturing site at Burnley was closed and production successfully transferred to other manufacturing sites.

The central services structure is being restructured to fit within the new Group functional structures. This has also started to generate savings in overheads.

Markets

The UK Household products market grew by 1% in value terms for the period to June 2012, however the market was down 4% on a volume basis on weaker consumer demand. Laundry liquid sachets, and household and toilet cleaners demonstrated small volume growth with all other categories demonstrating declines of around 5%.

As consumers continued to search for increasing value for money, Private Label Household products volume sales recovered significantly in the last quarter of the financial year, up 3%, resulting in a Private Label volume share of 30%; Private Label value share also reached the highest level for three years in the last quarter at 18%. This performance was underpinned by strong volume demand in the second half of the year for Private Label laundry liquids, washing up liquids, machine dishwashing tablets and household cleaners.

The overall UK Personal Care market grew by 4% in value terms, with volume sales up just 2% for the year to June 2012, reflecting the highly competitive market place and promotional activity in the sector during the year. Female body sprays, bath liquids and liquid soaps were the strongest performing sectors during the year.

Private Label Personal Care sales were again influenced by high promotional activity from the brand manufacturers with sales down slightly in value terms on volumes down almost 4%. Private Label shampoos and conditioners both grew strongly, up 9% and 14% respectively, with Private Label skincare and men's shaving products demand being steady, offset by weaker performances in the bath, shower, deodorants and oral care segments. Private Label held a 28% volume share of the men's shaving products, 30% of the hairspray category and a 33% volume share of the skincare category, with overall Private Label volume share at 18% compared with 19% for the prior year.

Source of market data: McBride estimates based on Kantar Retail retail selling price data.

Key business developments

The competitive environment in the UK remains challenging, with consumers and shoppers becoming 'savvy' shoppers and driving retailers and brands alike to offer keener prices, despite significant commodity cost pressures at points through the year. This has given our Private Label business opportunities in some categories, where we can grow through offering quality benchmarked products at competitive prices.

We continue to seek ways of further improving competitiveness, including ongoing capital investment in our remaining manufacturing sites to increase automation and further investment behind our Lean manufacturing programme. In addition, organisational changes have been announced to simplify management structures, and centralise some activities.

Financial review

Revenue grew by 1% to £315.2 million (2011: £310.7m), although core and future growth product categories increased by 5%, mainly driven by laundry liquids and speciality cleaners. Contract manufacturing revenue grew by 15%. Adjusted operating profit⁽²⁾ was up 39% to £16.5 million (2011: £11.9m). The increase in adjusted operating profit reflects the benefits arising from the restructuring programme and the Refresh project. Capital investment spend in the year was £12.0 million (2011: £9.5m) and included investment for efficiency improvements and capacity expansion.

Future developments

The priority for the business is to maximise the benefits from the Group operational excellence programme to improve the manufacturing cost base and operational efficiency. The business continues to invest in new product development, focused on the Group's core growth categories. Investment in category development continues as does a focus on deepening the relationship with our key account customers with the aim of developing and maximising the potential for Private Label product ranges.

The new group organisation with functional alignment of supply chain and commercial activities across the Group and the management of other functional support services at a group level is expected to reduce costs and improve competitiveness.

Western Continental Europe business review

	2012	2011	Change
Total reported revenue ⁽¹⁾	£405.9m	£405.7m	0%
Adjusted operating profit ⁽²⁾	£15.6m	£15.4m	+1%
Average employee numbers	1,866	1,940	-4%

⁽¹⁾ Revenue by origin.

⁽²⁾ Adjusting items include amortisation of intangible assets, exceptional items, changes in estimates of contingent consideration arising on business combinations, and any non-cash financing costs from unwind of discount on initial recognition of contingent consideration and any related tax.

- Sales in Western Continental Europe on a constant currency basis increased by 2%. There was strong growth in contract manufacturing, partially offset by a reduction in Private Label sales.
- Sales in Italy grew by 14% driven by Private Label growth and in France by 2% on a constant currency basis. Continuing economic problems in Spain reducing consumption resulted in a 20% fall in sales in that country.
- The adjusted operating profit⁽²⁾ rose by 1%. Selling price increases and operational efficiencies were offset by material price increases, particularly in the first half.

Business description

The Western Continental Europe business creates, develops and produces Household and Personal Care products for our Private Label customers in France, Italy, Spain, Portugal, Belgium, the Netherlands and Scandinavia. Retail customers include Aldi, Auchan, Carrefour, Casino, Eurospin, Intermarché, E Leclerc, and Système U.

Overview

The market remained competitive across the whole of Western Continental Europe with sales up 2% year on year on a constant currency basis. Private Label sales fell in some markets, particularly Spain, but this was offset by strong contract manufacturing sales and a moderate success in increasing selling prices.

The business was impacted by a strong uplift in material costs as a result of the pressure on the oil price in the first half. This was partly offset by selling price increases with the key multiples and our operational excellence and Lean programmes produced additional benefits to deliver a 1% increase in adjusted operating profit⁽²⁾.

Further analysis of the manufacturing footprint has led to the transfer of dishwasher production from our site in Moyaux to Foetz. At the same time further rationalisation took place in our manufacturing facilities in Italy, where the smaller site of Alpini was integrated in the larger site of Bagnatica.

The central services structure is being restructured to fit within the new group functional structures. This has also started to generate savings in overheads.

Markets

In the last year the Household and Personal Care markets in Western Continental Europe have been impacted by the economic environment and weak economic activity reported in all markets. France is McBride's largest market in Western Continental Europe and the Group is active in both its Household and Personal Care sectors.

Divisional performance continued

Retail market data shows that, for Household products, the French market grew in value by 5% in the period to end June 2012, whilst volumes were down 4%. Private Label sales in value terms increased 6% on volumes up 1% resulting in Private Label Household products volume share increased to 36% (2011: 34%) with value share broadly stable at 21%.

The laundry liquids sector declined 11% overall in volume terms whilst Private Label sales grew 2% reaching a 27% share by volume. The popularity of Private Label washing up liquid in France remains high with Private Label maintaining over 56% volume share of the category. Air care sales demonstrated continuing recovery in France with a 4% volume growth overall with Private Label outperforming on volumes up 16% year on year.

The Personal Care market in France remained broadly flat with Private Label sales down 2% in value terms and 3% by volume. The best performing Private Label sector was men's shaving products reaching a 29% volume share and 18% value share. Private Label liquid soap continues to perform well, accounting for over 50% of the market in volume terms.

In Italy, McBride's second largest market in Western Continental Europe, where the Group operates predominantly in the Household market, the overall market declined by 6% in volume terms whilst Private Label products demonstrated strong growth of 4% year on year in the period to June 2012. Private Label volume share of the household product sector reached 22% (2011: 20%), its highest value share with a strong performance in laundry liquids growing 12% year on year resulting in a Private Label volume share of 20% (2011: 15%). The machine dishwashing category declined 1% overall whilst Private Label sales demonstrated growth of 1% in the period.

Source: IRI

Key business developments

Across the different geographies, the markets remain very competitive and demand has been slow throughout the second half of the fiscal year. Despite this continued pressure, sales in France grew by 2% at constant currency. Sales in Italy have grown by 14% at constant currency with strong Private Label growth and it has become Western Continental Europe's second biggest market. Trading in Spain remains difficult with sales at constant currency down by 20%.

During the year there was strong growth in contract manufacturing. In the core categories, the division has faced difficult markets with dishwash tablet sales showing flat growth and laundry liquids showing a decline due to the loss of contracts after price increases. The Personal Care business has also seen a 2% year on year decline in sales at constant currency.

Financial review

Revenue was flat at £405.9 million (2011: £405.7m) although on a constant currency basis sales in Western Continental Europe were up 2%. Adjusted operating profit⁽²⁾ increased by 1% to £15.6 million (2011: £15.4m), reflecting selling price increases and operational efficiencies which offset increased material input costs. Capital expenditure was £9.1 million (2011: £11.8m) reflecting investments mainly in capacity expansion and cost-saving projects.

Future developments

The priority for the business is to maximise the benefits from the Group operational excellence programme to improve the manufacturing cost base and operational efficiency. The business continues to invest in new product development, focused on the Group's core growth categories. Investment in category development continues as does a focus on deepening the relationship with our key account customers with the aim of developing and maximising the potential for Private Label product ranges.

The new group organisation with functional alignment of supply chain and commercial activities across the Group and the management of other functional support services at a group level are expected to reduce costs and improve competitiveness.

Central and Eastern Europe business review

	2012	2011	Change
Total reported revenue ⁽¹⁾	£135.6m	£139.7m	-3%
Adjusted operating profit ⁽²⁾	£4.6m	£8.9m	-48%
Average employee numbers	863	883	-2%

⁽¹⁾ Revenue by origin.

⁽²⁾ Adjusting items include amortisation of intangible assets, exceptional items, changes in estimates of contingent consideration arising on business combinations, and any non-cash financing costs from unwind of discount on initial recognition of contingent consideration and any related tax.

- Revenue fell by 3% in value terms reflecting flat volume growth and a 3% fall due to currency translation.
- Sales growth of 23% in Poland at constant currency, driven by Private Label growth, were offset by reduced contract manufacturing activity for Germany.
- Adjusted operating profit⁽²⁾ fell by 48% mostly due to raw material input cost pressures, which impacted the division later than the other parts of the Group.
- Successful launch of new fast dissolving machine dishwashing products.

Business description

The Central and Eastern Europe business creates, develops and produces Household and Personal Care products for major retailers in Germany, Austria, Switzerland, Poland, Hungary, the Czech Republic, Slovakia and Southern and Eastern Europe. Retail customers in the region include Aldi, Biedronka (Jeronimo Martins), Edeka, Schwarz Group (Kaufland and Lidl), Metro (Makro and Real), Carrefour and Tesco.

Overview

The Central and Eastern European business has benefited from strong Private Label growth mainly in the eastern region. During the year we exited a contract manufacturing agreement which allowed us to consolidate our European supply chain footprint for machine dishwashing, creating a Centre of Excellence for the machine dishwash category in Foetz.

Sales in Poland increased by 23% on a constant currency basis driven by Private Label growth which was offset by the lower contract manufacturing activity in Germany. Adjusted operating profit⁽²⁾ fell 48% reflecting the highly competitive Private Label environment which, coupled with increased raw material input costs and currency movements, have lowered operating margins.

The central services structure is being restructured to fit within the new group functional structures. This has also started to generate savings in overheads.

Markets

The rapid expansion of modern retail supermarkets, hypermarkets and discount formats in the region are increasing the popularity of these channels as the preferred choice for Household and Personal Care products and confidence of consumers in Private Label products has increased greatly.

Retail Private Label sales continue to grow strongly in Eastern Europe with retailers such as Biedronka in Poland, the drug store chains DM and Rossmann, and hard discounters Aldi, Lidl and Kaufland all continuing to expand their operations in the region. Euromonitor reported that in Eastern Europe Private Label Household products grew by 14% in 2011 whilst the overall market grew 10%. In Poland Private Label Household products grew well ahead of the market, up 15% in an overall market up just 5%.

In Germany the market remained highly competitive with the overall market in the period to June 2012 down 1% resulting in Private Label volume share slightly down at 42.8% (2011: 43.2%) and Private Label value share unchanged at 32%.

Source: GfK

Key business developments

The Group supply chain restructuring is reducing our cost base. We have established Foetz as our Centre of Excellence for auto dishwash and recently launched our new fast dissolving machine dishwashing tablets which will utilise capacity created by our exit from some of our contract manufacturing business.

The launch of this patent pending new fast dissolving auto dish wash product is a significant innovation in this category which we intend to roll out in all our major markets.

We have been at the forefront of developing new attractive value for money Private Label Household and Personal Care products which are increasingly gaining popularity with consumers in the region. Recent successful product introductions include machine dishwashing tablets and dishwasher cleaners, new air freshener concepts, attractive hair care ranges and specialist cleaners across the region.

Financial review

Reported Central and Eastern Europe revenue fell by 3% to £135.6 million (2011: £139.7m). Private Label delivered organic growth of 2%, which was offset by a 3% fall due to currency translation, and 2% due to reduced contract manufacturing activity. We continued to grow strongly in Poland where sales rose by 23%. Adjusted operating profit⁽²⁾ fell to £4.6 million, (2011: £8.9m), due to higher input costs and the impact of adverse exchange movements. Capital expenditure was £4.1 million (2011: £2.5m) and was mainly focused on capacity expansion and cost-saving investments.

Future developments

The market dynamics in the region remain strong with further planned store openings by both national and multinational retailers. Most of our customers in the region are continuing to expand and develop their Private Label offering within McBride core categories. The market for Private Label Personal care products is growing rapidly in Central and Eastern Europe following the dynamic set by the Household product category. The business believes that it is well placed to take advantage of the increasing demand for Private Label Household and Personal Care products across Central and Eastern Europe.

Further resources in new product development programmes in the region will focus on developing and improving the Private Label offering in those categories which have the greatest growth and margin potential.

Group financial review



Richard Armitage Chief Finance Officer

Results at a glance

	2012 £m	2011 £m
Revenue	813.9	812.4
Revenue (constant currency)	813.9	802.7
Operating profit	18.1	13.8
Adjusted operating profit ⁽¹⁾	29.5	29.0
Diluted earnings per share	5.0p	2.9p
Adjusted diluted earnings per share ⁽¹⁾	9.7p	9.3p
Return on capital employed	14.7%	14.7%
Full year payments to shareholders per share	5.0p	6.8p
Net debt	81.2	83.7

⁽¹⁾ Adjusting items include amortisation of intangible assets, exceptional items, changes in estimates of contingent consideration arising on business combinations, and any non-cash financing costs from unwind of discount on initial recognition of contingent consideration and any related tax.

Group summary

Group revenue was up £1.5 million to £813.9 million (2011: £812.4m), reflecting 1% growth on all constant currency basis with all divisions showing year-on-year constant currency growth. There was a 1% adverse currency impact due to weakening of the Euro against Sterling to 1.18 (2011: 1.17). Adjusted Group profit before tax⁽¹⁾ increased by 5% to £23.7 million (2011: £22.5m). Adjusted diluted earnings per share⁽¹⁾ increased 4% to 9.7 pence (2011: 9.3p). The Board has proposed a rebasing of the final dividend payment to shareholders to 3.0 pence per share (2011: 4.8p) which, if approved, will deliver full year payments to shareholders of 5.0 pence per share (2011: 6.8p), to be remitted through the B share scheme. Cash generated from operations, before exceptional items, was £39.5 million (2011: £42.6m). Net debt decreased by £2.5 million to £81.2 million (2011: £83.7m). Pre-tax return on average capital employed based on the Group's adjusted operating profit⁽¹⁾ for the year was unchanged at 14.7% (2011: 14.7%).

Revenue

Group revenue was up £1.5 million to £813.9 million (2011: £812.4m). The 1% constant currency growth, referred to above, reflects a 1% increase in revenue in the UK division and a 2% increase in Western Continental Europe. In Central and Eastern Europe revenue was up by less than 1% on the same basis, with growth in Private Label offset by reduced contract manufacturing sales. There was 1% constant currency growth in the Group's identified core growth categories.

On the segmental reporting basis (see note 2), UK revenues increased by 1% to £315.2 million (2011: £310.7m) with strong growth in the core categories of laundry liquids and specialist cleaners. Western Continental Europe's revenues remained flat at £405.9 million (2011: £405.7m), with an adverse impact of currency translation offsetting organic sales growth of 2%. Central and Eastern Europe's revenues decreased 3% to £135.6 million (2011: £139.7m), with 2% organic growth in Private Label, more than offset by a reduction in contract manufacturing revenue and an adverse impact of currency translation. Asia revenues were up 11% to £10.3 million (2011: £9.3m).

Operating profit

Adjusted Group operating profit⁽¹⁾ increased slightly to £29.5 million (2011: £29.0m). The adjusted operating margin⁽¹⁾ was maintained at 3.6% with recovery actions driving margin increases in the second half. Group reported operating profit rose by 31% to £18.1 million (2011: £13.8m).

On the segmental reporting basis (see note 2), the adjusted operating profit⁽¹⁾ and margin increased in the UK division. In the Western Continental Europe division the adjusted operating profit⁽¹⁾ was slightly higher and in the Central and Eastern Europe division the operating margin was lower due to delayed impact of material price increases in this division and reduced contract manufacturing activity. UK profit was £16.5 million (2011: £11.9m) with a margin of 5.2% (2011: 3.8%), Western Continental Europe profit was £15.6 million (2011: £15.4m) with a margin of 3.8% (2011: 3.8%) and Central and Eastern Europe profit was £4.6 million (2011: £8.9m) with a margin of 3.4% (2011: 6.4%).

Net finance costs

Reported net finance costs decreased to £6.0 million (2011: £6.7m), driven primarily by lower finance costs related to the defined benefit pension scheme.

Exceptional items

The Group's initiatives to reduce supply chain costs are nearing completion. There was a £9.7 million pre-tax operating exceptional charge to the income statement in the year (2011: £12.3m), of which £3.8 million related to restructuring of the supply chain in the UK (£2.6m) and Western Continental Europe (£1.2m) and £4.6 million was in respect of a proposed restructuring of management and administration in the UK and Continental Europe including the creation of a functional structure with centralised support services. In addition an impairment charge of £2.2 million has been recognised in relation to goodwill and property, plant and equipment acquired with the Dermacol business, which is partly offset by a £1.9 million reduction in the contingent acquisition consideration payable. There was a £1.0 million pre-tax operating exceptional charge to the income statement in the year in relation to the completion of a pre 2012 restructuring programme in the Western Continental Europe division.

The pre-tax operating exceptional charge comprised £8.2 million of redundancy costs, £5.0 million of other incremental items, including production and logistics expenses related to the transfer of production lines between sites and costs related to site clearance, consultancy, legal expenses and storage, partly offset by a £5.1 million contribution received pursuant to an agreement with a customer and £1.6 million of asset write-offs.

Profit before tax and tax charge

Profit before tax increased 70% to £12.1 million (2011: £7.1m) and, on an adjusted basis⁽¹⁾, increased 5% to £23.7 million (2011: £22.5m). The £3.0 million taxation charge (2011: £1.8m) maintains a 25% effective rate (2011: 25%).

Earnings per share and payments to shareholders

Basic earnings per share (EPS) rose 76% to 5.1 pence (2011: 2.9p). Adjusted basic EPS⁽¹⁾ increased 4% to 9.8 pence (2011: 9.4p). On an adjusted basis⁽¹⁾, diluted EPS increased 4% to 9.7 pence (2011: 9.3p). The weighted average issued and diluted number of shares in the year used in calculating these EPS figures were 179.8 million and 180.9 million respectively (2011: 180.4m and 182.4m).

The Board has considered the need to ensure that the Group has the maximum financial resources available to it in order to exploit the opportunities for Private Label growth.

The Group's balance sheet remains strong with very significant headroom in its borrowing facilities, but the Board have decided to recommend a more appropriate cover for payments to shareholders. The Board's policy with regard to payments to shareholders is that they should be sustainable and paid out of earnings, and will, where possible, be progressive given the cyclical nature of the markets in which the Group operates.

Subject to shareholder approval at the Annual General Meeting (AGM), the Board is recommending a rebasing of the final dividend to 3.0 pence (2011: 4.8p), giving a total dividend for the year of 5.0 pence (2011: 6.8p), which is covered 2.0 times by adjusted basic earnings per share⁽¹⁾ (2011: 1.4 times). The total proposed payments to shareholders for the year amount to £9.0 million.

Subject to shareholder approval at the AGM, the Board is intending to continue to utilise the 'B share' scheme as a mechanism for making payments to shareholders. This involves the issue of non-cumulative preference shares (known as 'B shares') in place of income distributions. Shareholders are able to redeem any number of their B shares for cash. Subject to shareholder approval at each Annual General Meeting, it is the Company's intention that, for the foreseeable future, all payments to shareholders will be made in this way.

Cash flow

The Group generated £39.5 million (2011: £42.6m) from operations before exceptional items. This included a £10.5 million net working capital outflow (2011: £8.4m).

Capital expenditure in the year was £26.4 million (2011: £24.8m) which equates to 3% of sales and is broadly in line with depreciation. The main areas of investment were cost-efficiency programmes, new product development, capacity expansion and essential replacement. There was £1.9 million of acquisition spend relating to a stage payment of part of the contingent consideration for the acquisition of Dermacol a.s.

Net interest payments increased to £5.4 million (2011: £4.6m) mainly due to higher average levels of net debt. There was a cash outflow of £6.7 million (2011: £7.4m) relating to exceptional items, primarily redundancy and other costs relating to the 2011 and 2012 restructuring programmes in the UK and Western Continental Europe divisions.

Payments to shareholders were £11.8 million (2011: £12.2m). Net debt decreased by £2.5 million to £81.2 million (2011: £83.7m). The net debt movement for the year resulting from these activities is illustrated in the table below:

	2012 £m	2011 £m
Opening net debt	(83.7)	(60.0)
Cash generated from operations		
before exceptional items	39.5	42.6
Exceptional items	(6.7)	(7.4)
Net interest	(5.4)	(4.6)
Forward contracts used in net investment hedging	2.4	(0.9)
Tax	-	(7.6)
Capital expenditure	(26.4)	(24.8)
Proceeds from sale from non-current assets	4.3	1.2
Acquisitions ⁽²⁾	(1.9)	(3.1)
Payments to shareholders	(11.8)	(12.2)
Proceeds from issue of share capital	2.6	0.1
Repurchase of own shares	(1.1)	(1.3)
Foreign currency translation	7.0	(5.7)
Movement in net debt	2.5	(23.7)
Closing net debt	(81.2)	(83.7)

⁽²⁾ Includes £nil (2011: £0.9m) loans acquired with subsidiaries.

Group financial review continued

Balance sheet

Group net assets at the year-end decreased to £112.4 million (2011: £125.4m). This was primarily due to an increase in the pension liability and the currency translation effect of a weaker Euro on current and non-current assets, offset by a £2.5 million decrease in net debt. The Euro weakened against Sterling from 1.11 at 30 June 2011 to 1.24 at 30 June 2012. Liabilities for pensions and other post-employment benefits increased by £2.6 million from last year to £15.2 million, net of the associated deferred tax asset (2011: £12.6m). This increase was due to a higher deficit in the UK defined benefit pension scheme, increasing from £10.6 million to £13.6 million, driven primarily by a lower discount rate assumption.

The pre-tax return on average capital employed based on the Group's adjusted operating profit⁽⁴⁾ for the year was unchanged at 14.7%. The profit margin and asset turnover were maintained at 3.6% and 4.1 times respectively.

Treasury management

The Group's treasury activities focus on ensuring access to secure and cost-effective credit lines and managing liquidity. The Treasury department is also engaged in mitigating the Group's exposures to foreign currency, interest rate and credit risks. All of these activities are overseen by a Group Treasury Committee, which meets regularly and operates within a framework of treasury policies approved by the Board.

Access to credit lines

The Group aims to maintain a strong balance sheet, with a relatively conservative level of debt-to-equity gearing. The Group has a €175 million revolving credit facility, which is committed until June 2015, and a £25 million invoice discounting facility until September 2012. The Group has an aggregate €30 million invoice discounting facility available in France and Belgium, which has a rolling notice period of six months for the French part and three months for the Belgian part. The Group also has access to working capital facilities amounting to over £50 million, which are generally uncommitted and subject to annual review. We maintain close working relationships with the small number of major banks which provide these credit lines. The Group's credit lines, together with internally-generated cash, provide adequate headroom for bolt on acquisitions and contingencies.

Foreign currency risk

A significant proportion of the Group's net assets are located in Europe and denominated in Euros. The Group is therefore exposed to a translation risk when these net assets are converted into Sterling at each balance sheet date. The Group hedges a substantial part of its foreign net assets with borrowings and swaps denominated in the same currency, in order to mitigate the risk of volatility in reported net assets and key financial ratios as a result of exchange rate fluctuations. The interest on these foreign currency borrowings and swaps provides a natural hedge of the translation exposure on our earnings denominated in the same currencies, and we further reduce that risk by purchasing currency options. The Group's trading activities are generally invoiced in the domestic currency of the relevant operating entity. However, there are some material cross-border activities which create a transaction risk on conversion into domestic currency. The main such transaction exposure arises in the UK division, which incurs costs denominated in Euros on some of its imported goods. This risk provides a natural hedge to our earnings translation exposure, and we also hedge a proportion of the remaining transaction exposures using forward currency deals on a rolling 12-month basis.

Interest rate risk

Most of the Group's debt bears interest at floating rates, and is therefore exposed to a risk of rising interest rates. The Group has a policy of hedging part of this exposure with interest rate swaps, to mitigate interest rate volatility.

Credit risk

The Group is exposed to potential credit-related losses in the event of non-performance by the counterparties to our treasury deals. This risk is mitigated by dealing only with the major banks which provide our credit facilities. We also aim to avoid concentration of those deals with any single counterparty.

Commodity price risk

The Group is exposed to changes in raw material prices, some of which are downstream products such as polymers and surfactants based on oil/petrochemical feedstocks. There is generally no liquid or cost-effective market for direct hedging of such exposures. Where liquid markets do exist, there may not be an acceptable level of correlation with the price of our particular commodities. However, the Group mitigates this risk by entering into certain long-term purchasing contracts, and continues to investigate the practicalities and merits of hedging its remaining exposure to rising commodity prices. The direct exposure of material costs to currency fluctuations is hedged by means of a rolling programme of forward cover.

Richard Armitage
Chief Finance Officer

Corporate social responsibility (CSR)

Introduction

McBride plc is Europe's leading provider of Private Label Household and Personal Care products. We believe that Private Label has an important role to play in the economy, providing consumers with products of exceptional value and performance as well as providing our retail customers with the opportunity to differentiate themselves with their unique range of Household and Personal Care products. In short, we are 'Passionate about Private Label'. Our Mission and Vision are underpinned by a set of Principles (MVP) which commit us to focus on our customers' needs, to engage our people fully and to drive for improved performance at all times.

We are proud of our corporate and social responsibility and the way we do business. We continually strive to ensure our operations are efficient and effective. We are investing in Lean manufacturing techniques to deliver long-term sustainability for our operations to reduce our emissions and continually develop new products aimed at reducing our environmental impact. Our characteristics are teamwork, being open, striving to do better and focusing on the customer, all underpinned by a leaner, smarter and more connected organisation. We are sensitive to the needs of all our stakeholders – the McBride team, customers, consumers, partners, suppliers, investors and the wider community. The quality and commitment of our people enable us to succeed and continue to build and develop a sustainable business model.

McBride recognises its obligations to all those with whom it has dealings. We recognise that our reputation and the trust and confidence of those with whom we deal are key to our long-term success, and the protection of these is of fundamental importance. We believe this approach helps to ensure that we have no material social issues of concern.

Management and governance of the Group's CSR and sustainability activities

The Board has overall responsibility for maintaining and enhancing the Group's CSR policies, guidelines and code of conduct, which are available from the Group's website at www.mcbride.co.uk. The Chief Executive Officer is accountable for ensuring that the Group operates in accordance with these policies. The Group monitors its performance through rigorous management systems and key performance indicators. Detailed reports are prepared by the Chief HR Officer every six months and submitted to the Group's Executive Directors who report any issues of major significance to the Board.

As a minimum, the Group seeks to comply with existing laws, regulations and best practice guidelines governing its activities in each of the markets in which it operates, and in many areas standards exceed minimum compliance requirements. We have senior management representation on various trade associations and we adhere to industry association guidelines. Our policies and principles apply to every Director, manager and employee in all our businesses across our global operations; they also extend to our supply chain. For example, suppliers are selected not only on the basis of specification, quality, service and economic factors but also, where possible, on their own commitments to minimise the impact of their operations on the environment and to CSR more generally.

Our approach to the environment, product safety and health and safety in our operations, to how we treat our people, our customers, our suppliers, our local communities and other key stakeholders is embedded in our culture and values and outlined in the following policies, which are available from the Group's website at www.mcbride.co.uk.

- Policy on Business Sustainability
- Policy on Business Ethics
- Policy on Health and Safety
- Policy on Environmental Sustainability
- Policy on Product Responsibility
- Policy on Animal Testing
- Policy on Product Packaging
- Policy on Enzyme Management



McBride sites actively support local charitable causes. In May 2012, McBride personnel from the Bradford site took part in the Martin House Dragon Boat race in Roundhay Park, Leeds to support the site's nominated charity. McBride Marauders came in a credible 13th place from 38 entries and raised several hundred pounds for Martin House along the way.

CSR principles

Our aim is to build a long-term successful and sustainable business based on strong, positive relationships with all our stakeholders. We recognise the importance of social responsibility in our business and the contribution it makes to our success.

The details of our health and safety and environmental performance can be found in our 9th Sustainability Report, which is available from the Group's website at www.mcbride.co.uk. The report also includes detailed information on our activities, objectives, targets, compliance status and achievements during the year.

In the year ended 30 June 2012, the Group's total energy usage increased by 2% to 692,316 Gjoules (Gj) (2011: 677,094Gj).

Scope 1 emissions from direct energy use was 11% higher, impacted by the protracted cold spell in Continental Europe increasing demand for gas to heat buildings and warehouses. Scope 2 emissions from electricity consumption was down 1%. The combination of these resulted in the Group's overall CO₂e emissions of 61,542 tonnes CO₂e up just 1% (2011: 60,942 tCO₂e).

Corporate social responsibility (CSR) continued

Taking into account the Group's green energy sources, which account for 20% of total demand, the net CO₂ emissions were 51,822 tCO₂e (2011: 50,895 tCO₂e).

The Group's water usage decreased by 8% to 1,024,602m³ (2011: 1,116,434m³) due to the combined impact of more concentrated product in the mix and lower production volumes.

Effluent discharged increased by less than 1% to 217,629m³ (2011: 216,281m³) mainly resulting from changing product mix in the business.

Waste as a percentage of total production increased slightly to 1.6% (2011: 1.3%) due to the impact of two factory closures in the year and the associated decommissioning and recommissioning of filling lines and blow moulding machines. The level of waste reused, recycled and recovered continued to increase and was up 1% to 78% of all waste generated (2011: 77%).

The eco efficiency performance was impacted by the combination of higher concentrated products in the mix and lower product volumes:

- Energy efficiency fell 7% to 1,493kg/Gj (2011: 1,608kg/Gj)
- CO₂ efficiency fell 6% to 16,800kg product/tCO₂ (19,951kg/tCO₂ after green energy impact)
- Water efficiency improved 4% to 1,009kg production/m³ water used (2011: 975kg/m³)
- Effluent efficiency fell by 6% to 4,751kg production/m³ effluent discharged (2011: 5,033kg/m³)

Environment

The Group is committed to making continuing progress in minimising the environmental impact of its operations and building a business which is sustainable in the long term. We endeavour to comply with and surpass all relevant legislative requirements and industry standards and use the best practicable means to continually improve our environmental performance. This is supported by comprehensive internal environmental management systems, the use of KPIs and achieving external environmental accreditation for our operations. Twelve sites now hold the ISO 14001 accreditation and we are working towards accreditation for all our manufacturing sites.

Health and safety

McBride strives to maintain a safe workplace at all locations in which it operates. We continue to ensure that our business activities are carried out in a responsible manner and in accordance with relevant statutory legislation and that all employees participate in the development, promotion and maintenance of a safe and healthy working environment for employees, visitors and the public – further details can be found in our Sustainability Report. All accidents and major incidents are reported internally and are investigated fully to determine appropriate corrective and preventative measures. Incidents that result in more than three days lost time are monitored. In the year ended 30 June 2012, the number of greater than 3 days lost time accidents fell by 2 to 97, the lowest on record and a 2% improvement on last year. Frequency per 100,000 hours worked was unchanged at 1%. However, hours lost through these accidents fell by 4%.

Product responsibility

McBride is committed to understanding safety issues related to its products and for ensuring that all products are suitable and safe for their intended use. Our product responsibility policy is supported by comprehensive management systems that reflect legal and regulatory compliance as a minimum standard and cover raw material use and product assessments, labelling and packaging requirements. McBride contributes to voluntary initiatives on product safety by industry associations such as AISE (European Federation of Soap and Detergent Manufacturers). Product safety evaluations are made in our operations without tests on animals. Our animal testing policy statement is available from the Group's website at www.mcbride.co.uk. We support the development and acceptance of alternative product safety evaluation methods that reduce or replace the use of animals.

Work is currently underway, both internally and at industry level in AISE, to facilitate the transition for classification and labelling of household products from the Dangerous Preparations regime to the new Classification, Labelling and Packaging Regulations which become effective from the start of transition in 2013. McBride is fully involved with the industry projects at AISE to help identify the most appropriate in vitro testing strategies and development of an industry network for sharing data and expertise for accurate and appropriate product classification. The REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) regulations, for the safe use of chemicals, came into force across Europe in 2007. McBride is predominantly a downstream user of chemicals, supplied mostly by companies within the EU. REACH activities are now focused on receipt of extended safety data sheets for our raw materials and checking that the business complies with any advised operational conditions and risk management measures. In addition, we continue to monitor the Candidate Lists of Substances of Very High Concern from the European Chemicals Agency (ECHA), so that we can respond promptly to any related query from a customer or final consumer of McBride products.

Business ethics and relationships

We have in place strong business principles which apply to all employees and set a minimum standard for their behaviour in all their business dealings. Failure to comply with our core business principles is a matter for disciplinary action.

Our policy sets out our approach to matters such as political donations, conflicts of interest and compliance with all relevant laws and regulations, including competition, anti-bribery and dealing with sensitive information.

Community activities

McBride seeks to play an active role in the local communities in which it operates. As well as providing significant employment opportunities, we aim to make positive contributions to these communities, building goodwill and a reputation as a good neighbour and employer.

In addition to other site-based activities, we make donations of laundry and dishwash products to In Kind Direct, which distributes goods to small, local charitable groups throughout the UK. In Kind Direct provides an easy way for manufacturers and retailers to donate surplus stock to voluntary groups, which can help them save money on their running costs and thus provide an enhanced service.

Stakeholder engagement

Customers

Our business is built on our customer relationships and we strive at all times to be the chosen provider of Private Label Household and Personal Care products to the leading grocery retailers around the world. By working closely with our customers at all levels of the business we can understand and meet their needs through consumer focused product and category development, excellent customer service and a joint focus on minimising cost.

Our ability to respond to our customers' needs in a timely and effective way is key to our success and we have continued to work on strengthening the depth and breadth of our relationships with them during the past year. Top-to-top meetings have been held with 25 senior executive teams from major European retailers, and also with a number of the leading retailers in Asia. We are continuing to seek to forge strategic partnerships based on deep category understanding and a responsiveness that is second to none in our Private Label categories of Household and Personal Care. International customer teams have been established for 11 multinational customers and we continue to roll out a leading category management programme to work more closely with retailers to drive the growth of the Private Label business.

Customer service is the Group's main operational priority and is a highly visible benchmark that directly influences our ability to maintain commercial leadership, and supports the Group's overall growth strategy. Success is measured in this area by reference to the ability to deliver products ordered by customers in the correct volumes and within agreed timescales.

We treat our customers' Private Label product offerings as brands in their own right. We support our customers with guidance in product and category development and undertake regular consumer panels. Ongoing product testing ensures our products are delivered to the highest consistent quality.

Employees

Our employees are the lifeblood of our business. We depend on their commitment and we recognise that the effective management of people is critical to achieving our business objectives.

We continue to invest in the resources necessary to maintain a competitive advantage in the markets in which we operate. Our code of ethics aims to promote a culture where all employees behave with honesty, discretion and respect when dealing with all stakeholders.

Employment practices

We endeavour to create a culture whereby employees are recognised as a valuable asset. The Company is continuing to implement initiatives to engage employees with the business and to ensure they feel valued in an environment where they can make a positive contribution. There is a focus on helping employees to give of their best at work and to achieve their full career potential through the provision of training and development opportunities, and to enhance individual performance we have a coaching programme as an element of our training resource.



We recognise that to be successful the business must recruit, retain and develop its people and help them to achieve their full potential. We provide equal opportunities for all in recruitment, selection, promotion, employee development, training and reward policies and procedures. We are committed to adherence to international human rights standards. We have no involvement in the use of child labour or forced labour in our business and check the status of our overseas suppliers in this respect. We do not tolerate unfair discrimination of any kind. We also comply with applicable national laws and industry standards on working hours and insist on high standards of personal behaviour from our employees.

There are a number of initiatives in place to recruit and retain people within the McBride organisation:

- The annual appraisal scheme reviews individuals' performance and assesses development opportunities, which could include secondments to other sites. The review provides a forum where an individual's needs and aspirations can be discussed.
- A talent management and succession planning process allows for the most capable to be identified and considered for appropriate development within the Group. The outcomes are re-assessed every year and the process is used to obtain peer group feedback and draw up tailored personal development plans.

Corporate social responsibility (CSR) continued

- We have a number of McBride accredited coaches in the business whose role is to support and encourage other colleagues to improve their performance and development. Our Shaping Our Coaching Culture programme helps to develop a coaching culture within the business.
- Training (both internally and externally facilitated) is available to all employees and everyone is encouraged to participate and be involved in courses that will maximise their potential. A number of courses are run with participants from across different functions, sites and divisions which helps employees develop an understanding of our global operations, and behaviours and values of colleagues across the Group.

Our own Management Development Programme (MDP) (which extends across the Group) is highly successful and innovative and in the UK we also operate a First-Line Operating Management programme. The UK business has received Investors in People bronze accreditation. Regular opinion surveys are undertaken of all staff to measure and monitor employee satisfaction. These surveys provide an opportunity for employees around the world to express their views and feed back to management their opinions on issues which affect both them and the business. The results are used to develop action plans to improve communication, motivation and engagement. The last employee opinion survey was carried out in March 2012 with the support of an external body, ORC International.

Our Mission Vision Principles (MVP) programme is aimed at building on our cultural strengths, better engaging our people and driving alignment of purpose. The programme is helping to build a workforce that has behaviours and a culture aligned to the Company's strategy and objectives. Communication is central to MVP and this is supported around the Group by site visits by senior management, open discussions and briefings, listening groups and Q&A sessions at each site. Regular information bulletins are cascaded down through the business and management conferences are held to publicise the Group's strategy and performance, and share how functional objectives support the Group objectives.

Suppliers

In the course of its business McBride sources a wide range of raw materials, chemicals and packaging components from suppliers across the globe. To achieve this we strive to employ best practice tendering processes, ensuring that our suppliers understand clearly what our requirements are, and that they are able to make their best offer to McBride in response. In order to achieve this we continually seek to strengthen the strategic capability of our purchasing team, both through personal development and selective recruitment. Our supply agreements aim to set out clearly the basis upon which the supplier/customer interface is conducted ensuring clarity and certainty for both parties. It is key to the continued success of our business that we are able to access raw materials, packaging and services that consistently meet our needs with regard to timely delivery, quality, product safety and performance. To achieve this we place great value on the development and maintenance of appropriate relationships with our suppliers. The Group actively maintains relationships with its suppliers at many levels, commercially through the purchasing team, technically through the R&D team, and operationally through the supply chain team. In this way we continually seek to optimise the value of what we source, through innovation, proposals from its suppliers and evaluation of alternative suppliers and materials. Given the importance of purchasing costs in our cost structure, as well as the quality of materials in our final products, McBride recognises its responsibility in sourcing products and services in the most cost-effective and efficient manner and, to this end, we are constantly searching for suppliers that can meet our evolving demands and can offer alternative sources whilst, at the same time, having regard to environmental, social and ethical aspects of doing business.

Shareholders

The ways in which we engage with our shareholders is reported on pages 53 and 54 in the Governance section of this Report.

Governance

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Chairman's statement on governance compliance

At McBride, we strongly support the importance of upholding good principles of corporate governance, not only for compliance purposes, but recognising that good governance serves to ensure that the business is run properly in the interests of all our stakeholders.

As a Board, my fellow Directors and I are committed to high standards of corporate governance. During the year, we have assessed our level of compliance with the Financial Reporting Council's (FRC) UK Corporate Governance Code ('the Code') and disclosures in this year's Annual Report describe how the Code's main principles are applied. We continue to monitor closely developments in relevant legislation, regulation and voluntary codes of practice and institutional guidelines. We also seek to embed governance into our routine Board and sub-committee processes through regular reviews and updates of our corporate policies. Our sub-committees take account of the latest guidance in their respective areas: we seek to align our remuneration policies with the interests of shareholders; we regularly review our financial position with particular focus on liquidity and net debt; and we are conscious of the recent debate about ensuring there is appropriate diversity on Boards. The work of the Nomination Committee seeks to ensure that we look at diversity in a broad sense seeking to engage the right balance of independence, skills, knowledge and experience, including gender. McBride has an excellent record of appointing women at Board level based on merit.

We continue to take all appropriate measures to ensure there is no conflict of interest between the Board, its individual members and other stakeholder groups. Recognising the Code's principles, we have introduced external facilitation to evaluate the Board's performance during the year ended 30 June 2012. This exercise has revealed a positive picture of a Board that is working well together and has enabled us to identify priorities to improve further our effectiveness over coming years. Details of the key findings are reported on pages 48 and 49 of the Governance section of this Report.

Iain Napier
Chairman

Board of Directors



1. Iain J G Napier – Chairman
Chairman of the Nomination and member of the Remuneration sub-committees

Appointed: July 2007

Skills and experience: Group Chief Executive of Taylor Woodrow plc from 2002 to 2006. Chief Executive of Bass Leisure and then Chief Executive of Bass Brewers and Bass International Brewers. Following the sale of the Bass beer business in 2000, Vice President UK and Ireland for Interbrew SA until August 2001.

External appointments: Chairman of Imperial Tobacco Group plc and John Menzies plc, and a non-executive director of William Grant & Sons Holdings Limited and Molson Coors Brewing Company (a US quoted company).



2. Bob A Lee – Senior Independent Non-Executive Director
Chairman of the Remuneration and member of the Nomination and Audit sub-committees

Appointed: September 2003

Skills and experience: Over 35 years' experience in the petrochemical and allied industries; being employed by Dow Chemicals for 28 years in various international senior management roles. In 1997 joined the management team that led the demerger of Octel Corp (now Innospec Inc) to become an independent NYSE-listed petroleum additive company. Since 2000 running a private packaging technology company, Advanced Plastics Technologies Luxembourg S.A.

External appointments: Director of Plastic Packaging & Training Consulting Company of Amman, Jordan.

3. Chris D Bull – Chief Executive Officer
Member of the Nomination sub-committee

Appointed: May 2010

Skills and experience: Chief Customer Officer of Unilever Plc. An extensive international career with Unilever covering 25 years and between 2003 and 2007 CEO of Unilever Poland and Baltics. CEO of sizeable divisions in Unilever, and managed manufacturing operations, building on his qualification as a graduate engineer.

4. Richard J Armitage – Chief Finance Officer

Appointed: November 2009

Skills and experience: Finance Director of Premier Foods' Grocery Division. 16 years in the chemical industry working for ICI and Courtaulds in a number of senior financial management positions. Chartered accountant.



5. Neil S Harrington – Independent Non-Executive Director
Chairman of the Audit and member of the Nomination and Remuneration sub-committees

Appointed: January 2012

Skills and experience: Senior finance roles at Asda Stores Limited, Barclays Bank plc and French Connection Group plc. Most recently Group Finance Director at Mothercare plc for 7 years. Chartered accountant.

External appointments: CFO, Cath Kidston Ltd.

6. Sandra Turner – Independent Non-Executive Director
Member of the Audit, Remuneration and Nomination sub-committees

Appointed: August 2011

Skills and experience: Member of the Tesco senior management team for over 20 years, holding commercial and operational roles in the UK and Ireland. Commercial Director of Tesco Ireland between 2003 and 2009. Previously a non-executive director of Northern Foods plc.

External appointments: Non-executive director of Carpetright plc and Huhtamäki Oyj.



Corporate governance report

Code compliance

The Board recognises that it is accountable to shareholders for the Group's activities and is responsible for the effectiveness of its corporate governance practices. We remain committed to maintaining high standards of corporate governance and endorse the provisions set out in the Code. We have assessed our level of compliance with the Code and disclosures in this year's Report describe how the main principles are applied. The Board considers that, throughout the year under review, the Company has complied with the Code's provisions.

Effectiveness

Composition

At 30 June 2012 the Board comprised six members: two Executive Directors, the Chairman and three Non-Executive Directors. The Directors' biographies appear on page 47. The Executive Directors are supported by the senior executives within the Group and, in particular, by the Executive Management Team (EMT), whose composition and role are outlined on pages 52 and 53.

The size of the Board allows individuals to communicate openly and freely and to make a personal contribution through the exercise of their individual skills and experience. Three Directors resigned during the year. Colin Smith had served nine years on the Board and Christine Bindert was approaching the end of her nine-year term. The third Director, Jeff Carr, resigned having accepted an executive role that presented a conflict of interest with McBride. Following the appointment of Neil Harrington on 3 January 2012 as a Non-Executive Director we believe we have retained a complementary range of financial, commercial, operational and entrepreneurial experience, and that there is a good balance of skills, diversity, independence and knowledge of both the Company and the retail sector. The Non-Executive Directors have been appointed on merit and for their specific areas of expertise and knowledge, and their wide ranging experience and backgrounds ensure that they can debate matters constructively in relation to both the development of strategy and performance against the objectives set by the Board. This serves to ensure an effective Board which is able to lead and control the Group. No single Director is dominant in the decision-making process.

Conflicts of interest

Procedures are in place to capture the disclosure by Directors of any situations which may conflict with the Company's interests and also for the consideration and authorisation of any such conflicts by the Board, in accordance with the Company's Articles of Association ('Articles'). All such disclosures are recorded and compliance is reviewed at each Board meeting. Our procedures allow for the imposition of limits or conditions by the Board when authorising any conflict, if they think this is appropriate. These procedures have been applied during the year and are included as a regular item for consideration by the Board at its meetings.

Independence

We consider that all the Non-Executive Directors are independent of management, in both character and judgement. No Director has any relationship or circumstance that could affect their judgement and the Board has satisfied itself that there is no compromise to the independence of those Directors who have appointments in external entities. We believe that the balance between non-executive and executive representation encourages healthy independent challenge to the Executive Directors and senior management.

Bob Lee succeeded Colin Smith as Senior Independent Director following the AGM on 24 October 2011.

Bob has served on the Board for nine years, having first been appointed in September 2003, and the Board has taken this into account in determining whether he remains independent. Having carefully reviewed the situation, the Board has determined that Bob continues to fulfil all the relevant criteria relating to independence. Furthermore, his presence on the Board serves to ensure a degree of continuity and to provide support for the recently appointed Non-Executive Directors.

Bob Lee has indicated his desire to resign from the Board later this year, pending the appointment of a new Non-Executive Director. This is not expected to be prior to the AGM.

Board performance evaluation

For the first time, the Board commissioned an externally facilitated evaluation exercise during the year. The exercise was undertaken by David Mensley of EquityCommunications Ltd which is a firm of independent consultants with no other connection to the Company. EquityCommunications Ltd were appointed following a tender process involving four other consultancy firms.

The process involved close liaison with the Company Secretary who worked with EquityCommunications Ltd to specify the remit, scope and detail of the exercise. These were subsequently reviewed and approved by the Chairman. The exercise was wide-ranging, covering aspects of Board behaviour, membership and function, Board training and skills' analysis, Group strategy, business planning, risk, succession planning and the Board's sub-committees. The principal objective was to test the effectiveness, leadership and accountability of the Board in line with best governance practice.

The key findings identified that:

- there is a strong sense of unity with the Board working as a group;
- the Chairman demonstrates effective leadership;
- there is respect for each Board member's respective strengths;
- the relatively small Board brings positive aspects of fast decision-making and a tightly constructed team;
- there has been considerable and positive focus on Board agendas of the Group's strategic direction including its restructuring and organisational change programme;

- the Non-Executive Directors are comfortable about their knowledge and skills and their ability to challenge the Executive Directors;
- the Directors are satisfied that they are kept up-to-date with legislative and regulatory changes and that they receive timely and adequate information relating to the business and its trading performance and developments;
- the Board and its sub-committees perform well and the recent non-executive appointments have been warmly received;
- the induction processes and training opportunities for new Directors appear to work well.

Of the areas for improvement identified for last year, considerable progress has been made in terms of succession planning for senior management. This work will continue to be developed during the course of the 2012/2013 year. In addition, processes have been put in place to ensure that timeframes are sufficient to allow the Board to consider external announcements appropriately prior to their release.

Areas for improvement to be addressed during 2012/2013 include:

- continuing to develop succession planning for senior management to strengthen this group; this will continue to be led by the Chief Executive Officer and overseen by the Remuneration and Nomination sub-committees of the Board;
- improving exposure for the Board to the senior management teams; this will be achieved by inviting relevant members of the executive and senior management teams to present at Board meetings;
- providing better visibility of the Board throughout the Company; members of the Board either individually or collectively aim to undertake a programme of visits to the Group's operational sites during the year;

From the exercise, there emerges a very positive picture of a Board that is working well together, with Equity Communications Ltd concluding that the Board is well placed to continue to be successful.

Following completion of the exercise, the Chairman met with individual Directors to discuss the findings and to provide feedback on the effectiveness and performance of the Board and its sub-committees. The Non-Executive Directors, led by the Senior Independent Director and in the absence of the Chairman, convened a separate meeting to discuss the performance of the Chairman.

Director election and re-elections

In accordance with the Articles, Neil Harrington, having been appointed by the Board since the last AGM, will resign at the forthcoming AGM and, being eligible, will offer himself for election by the shareholders. In line with the Code, the Articles require the Directors to submit themselves for re-election at every third AGM. However, for a number of years, all the Directors have agreed to submit themselves for annual re-election.

Accordingly, Iain Napier, Chris Bull, Richard Armitage, Bob Lee and Sandra Turner will retire at the AGM and offer themselves for re-election.

The Board is satisfied that, following this year's evaluation process, all the Directors standing for election or re-election continue to perform effectively and demonstrate commitment to their roles, including commitment of time for Board and sub-committee meetings as well as any other duties which may be undertaken by them from time to time. Any changes to the commitments of any Director are always considered in advance by the Board to ensure they are still able to fulfil their duties to the Company's satisfaction.

All Directors proposed to shareholders for election or re-election are accompanied by a biography and a description of the skills and experience that the Company considers are relevant. Voting at the 2011 AGM demonstrated continued support for all Directors who held office at that time.

Induction, development and support

All new Directors undergo formal and in-depth induction programmes involving site visits, face-to-face meetings with senior executives and the issue of an induction manual containing key documents relating to the new appointee's role on the Board. Independent external training is also provided by the Group's legal advisers, Addleshaw Goddard. Addleshaw Goddard have no other connection with the Company. During the year, Neil Harrington has completed the internal induction programme and has also undertaken training with Addleshaw Goddard.

The Company places importance on ongoing training and development to ensure Directors have the skills and knowledge to discharge their duties effectively. Training and development take the form of regular briefing papers on regulatory/legislative developments and on other topics of specific relevance to them, including their duties and obligations as directors of a listed company. Additionally, all Directors are entitled to undertake external training relevant to their particular duties. During the year, Bob Lee has attended various forums on common emerging governance issues in the remuneration area which have benefited him in his role as Chairman of the Remuneration Committee and the Executive Directors have also attended industry briefings relevant to their roles to ensure they are up-to-date on developing themes. This programme serves to ensure that the Directors are appropriately trained both individually and collectively so that the Board can be truly effective.

All Directors have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed and that the Company complies with all applicable rules, regulations and obligations governing its operations.

Corporate governance report continued

Leadership

Operation of the Board

In carrying out its work, the Board focuses on key tasks, which include active reviews of the Group's Corporate Plan and its long-term strategy, monitoring the decisions and actions of the Chief Executive Officer and the EMT, the Group's trading performance and reviews of Group health and safety and business risks.

The Executive Directors are obliged to review and discuss with the Board all strategic projects or developments and all material matters currently or prospectively affecting the Company and its performance. The Board delegates its authority for executive management of the Company to the Chief Executive Officer, subject to monitoring by the Board.

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer. The Chairman is responsible for leading the Board and ensuring it operates effectively. Supported by the Company Secretary, the Chairman is responsible for setting the agenda for Board meetings and ensures that Board and shareholder meetings are properly conducted. The Chief Executive Officer, supported by the EMT, has day-to-day responsibility for all business of the Group and for implementing the agreed strategy and policies of the Board. A strong feature of the Board's effectiveness is an open style of management and a free flow of information between the Executive and Non-Executive Directors. This is encouraged by the Chairman and supported by the Chief Executive Officer. All Directors communicate with each other on a regular basis and contact with senior executives within the Company is encouraged. In this regard, members of the EMT and/or other senior executives are frequently invited to attend Board meetings to make presentations on matters of strategic importance. This also serves to facilitate a clearer understanding of business issues.

Board papers are prepared and issued one week prior to each Board meeting to enable Directors to give due consideration to all matters in advance of the meeting. Directors are able to take independent professional advice, if necessary, at the Company's expense.

The Board holds at least six meetings a year at approximately two-monthly intervals. Additional meetings are held as necessary to consider specific matters where a decision is required before the next meeting. During the year six formal Board meetings were held. At least one formal and several informal Non-Executive Director meetings have been held during the year without the Executive Directors being present. The Senior Independent Director and the Non-Executive Directors have also met without the presence of the Chairman as part of the Board performance evaluation exercise.

Attendance at meetings during the year ended 30 June 2012

		Date appointed to Board:	AGM
Number of meetings held:	6		
Number of meetings attended:			
Iain Napier Chairman	6	1 July 2007	1
Chris Bull Chief Executive Officer	6	4 May 2010	1
Richard Armitage Chief Finance Officer	6	1 November 2009	1
Christine Bogdanowicz-Bindert ⁽²⁾ Independent Non-Executive Director	3		1
Jeff Carr ⁽²⁾⁽³⁾	1		-
Neil Harrington ⁽¹⁾ Independent Non-Executive Director	3	3 January 2012	n/a
Bob Lee Senior Independent Director	6	1 September 2003	1
Colin Smith ⁽²⁾	2		1
Sandra Turner ⁽³⁾ Independent Non-Executive Director	5	1 August 2011	1

⁽¹⁾ Neil Harrington's attendance is shown following his appointment.

⁽²⁾ Christine Bogdanowicz-Bindert's, Jeff Carr's and Colin Smith's attendance is shown up to the date of their respective resignations.

⁽³⁾ Sandra Turner and Jeff Carr were each unable to attend one meeting due to prior business commitments. They received relevant supporting information and had the opportunity to communicate their views and comments on the matters to be discussed in advance of the meetings.

Business model and strategy

Details of the Company's business model, how it is working to generate and sustain long-term value and details of the Board's strategy for ensuring the Company meets its objectives are set out in the Business Review section on pages 8 to 44.

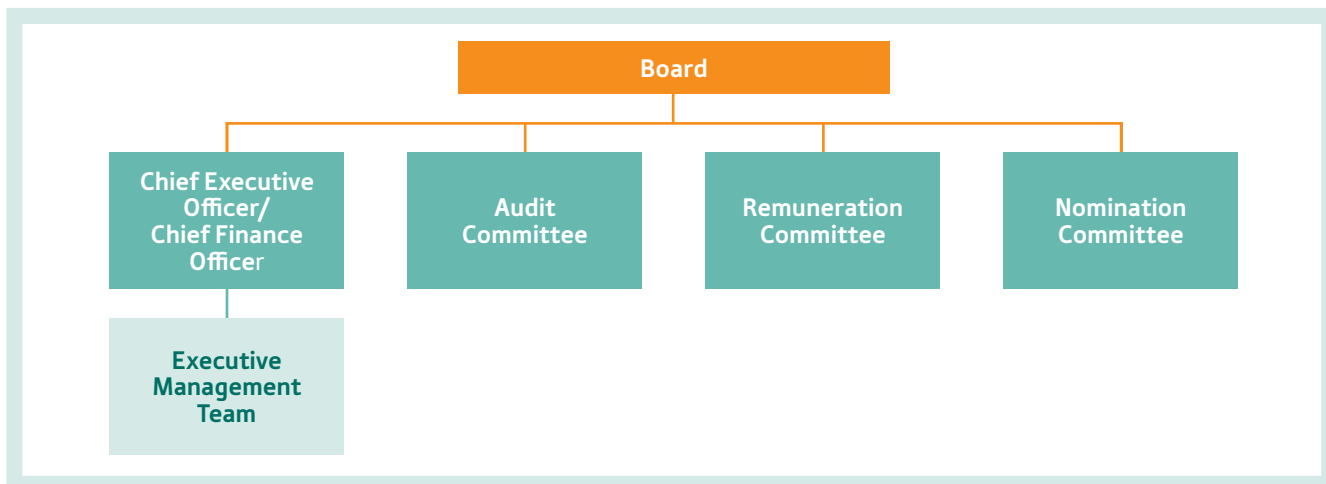
Items reserved for the Board

The schedule of matters specifically reserved for decision by the Board is displayed on the Group's website at www.mcbride.co.uk. This document has been updated during the year principally to incorporate minor changes to reflect latest governance guidance.

In summary, the matters reserved for the Board include:

- Strategy and management
- Corporate structure
- Financial reporting and controls
- Directors' appointments and remuneration
- Internal control and risk management
- Corporate social responsibility
- Corporate governance
- Succession planning

Operational management of the Group



Matters considered by the Board

Principal matters considered during the year included:

- Close monitoring of the strategic business plans for the Group including reviews of the footprint, category development and restructuring plans
- Evaluation of potential new corporate development proposals and growth opportunities for the Group
- Approval and monitoring of major projects and corporate plans
- Regular reviews of the trading performance of and prospects for the Group including operational and procurement matters
- Approval of the Group annual and medium-term budget plans
- Approval of major capital expenditure investments and the full year and interim results statements
- Approval of changes to the Group's banking facilities
- Approval of new appointments to the Board and of new auditors
- Review of internal succession plans
- Receipt of reports from sub-committees of the Board including reviews of the activities of the Internal Audit function
- Reviews of risks facing the Group and the mitigating factors and approval of the insurance programme
- Reviews of relevant health, safety and environmental matters, of relevant governance matters and legislative developments and key corporate policies
- Review of feedback from presentations to institutional shareholders

The relationship between the Board and the Chief Executive Officer is governed by the Non-Executive Directors, particularly through the work of the Board sub-committees under which the Non-Executive Directors take active roles to influence and challenge the work, performance and recommendations of the Chief Executive Officer and his executive management.

Board sub-committees

The Board has an Audit Committee, a Nomination Committee and a Remuneration Committee. Each sub-committee has been established under its own Charter which sets out its terms of reference, authority, composition, activities and duties. The Charters are reviewed and updated as necessary to ensure ongoing compliance with the provisions of the Code and other best practice guidelines. The Charters were last updated in June 2011 and subsequently reviewed in June 2012 – copies are available from the Group's website at www.mcbride.co.uk.

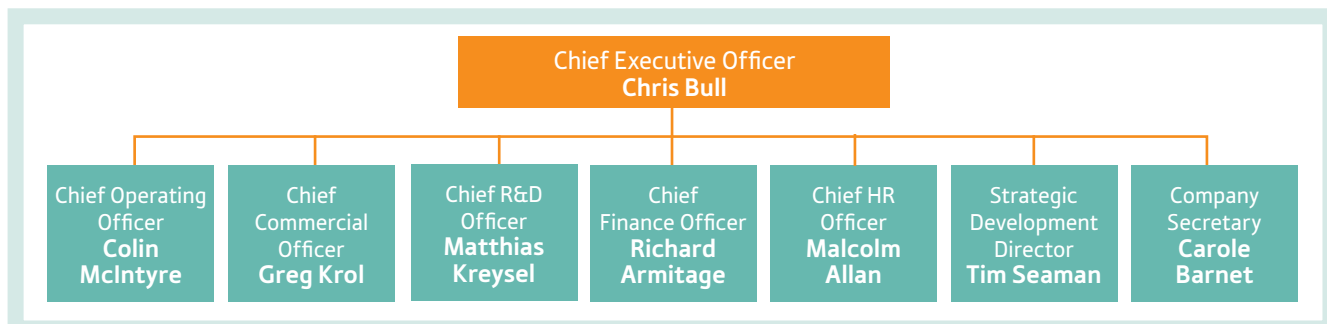
Each sub-committee is properly authorised to take decisions and act on behalf of the Board within the guidelines and delegations laid down in its Charter. The Board is kept fully informed of the work of the sub-committees with reports being tabled from time to time by the relevant committee chairmen. Each sub-committee may access independent advice as required and is supported by the Company Secretary.

Reports for each of the sub-committees follow, detailing their membership, roles and activities.

The report of the Audit Committee is set out on pages 60 and 61. The report of the Nomination Committee is set out on page 62.

Corporate governance report continued

Executive Management Team (EMT)



The report of the Remuneration Committee is set out on pages 63 to 70.

1. Chris Bull
Chief Executive Officer
 (see Board of Directors on page 47)

2. Richard Armitage
Chief Finance Officer
 (see Board of Directors on page 47)

3. Carole Barnet
Company Secretary
 Carole joined McBride in 1981. She has held the role of Company Secretary of the UK subsidiary companies since 1988 and became Company Secretary of Robert McBride Ltd in 1996. She was appointed Company Secretary of McBride plc in 2010, having held the position of Deputy Company Secretary since 2002. Carole has a degree in German and is a Fellow of the Institute of Chartered Secretaries and Administrators.

4. Colin McIntyre
Chief Operating Officer
 Colin joined McBride in 1990 and has progressed through the Company, being appointed Divisional Managing Director of the UK Division in July 2008 and assuming the role of Chief Operating Officer with effect from 1 July 2012. He was formerly General Manager of the Burnley factory, UK Logistics Director and Operations Director of the Western Continental European Division. Colin is chairman of the UK Cleaning Products Industry Association (UKCPI). He previously worked for Milliken Industries and he has a degree in Chemistry.

5. Grzegorz (Greg) Krol
Chief Commercial Officer
 Greg joined McBride in February 2009 as the Divisional Managing Director for the Central and Eastern European Division. He was appointed Chief Commercial Officer with effect from 1 July 2012. Previously, he was Managing Director of Nestlé UK Chilled Foods. He has extensive international experience including assignments in Austria and Germany. Greg is a Polish citizen and has a PhD from the London School of Economics.

6. Tim Seaman

Strategic Development Director

Tim joined McBride in 1985 and has responsibility for developing business outside our core markets, including the expanding operations in the Far East. Prior to this he was Managing Director of our UK Division for seven years and he is Chairman of the Pension Fund Trustees. Tim is a Chartered Management Accountant (ACMA) and has a degree in Business Studies.

7. Malcolm Allan

Chief HR Officer

Malcolm joined McBride in 1987 and has worked in purchasing, distribution and Total Quality Management and HR. He was Group HR Director from 1993 and was appointed Chief HR Officer on 1 July 2012. He is also responsible for health, safety and environmental issues worldwide. Prior to joining McBride Malcolm held HR positions in Central Government, RHM and Fosco Minsep and he has a degree in Mathematics.

8. Matthias Kreysel

Chief R&D Officer

Matthias joined McBride in September 2012 from Ecolab Europe, where most recently he was VP R&D Global Laundry and acting VP Marketing for EMEA. He has worked for Henkel/Ecolab in a number of senior R&D leadership positions with extensive international experience throughout Europe and Central and Eastern Europe, as well as broader global experience including the Middle East and Asia. He brings 20 years experience of Laundry and Household Cleaning Product Development and has a PhD in Organic Chemistry from Bonn University.

Execution of management responsibilities

The management of the Group's business activities is delegated to the Chief Executive Officer who is ultimately responsible for establishing objectives and monitoring executive actions and performance through the EMT. The Chief Executive Officer chairs a monthly meeting of the EMT whose role is to rigorously assess the Group's performance against its corporate plan and to focus on consideration of and implementation of large-scale cross-Group projects to deliver the Group's strategy. The meetings are rotated around the operational sites to ensure visibility of the EMT and to provide the opportunity for site-based colleagues to interact with members of the EMT through Q&A sessions and site tours.

Operational, supply chain, commercial, finance and development and technical issues are delegated via the EMT to senior executive management on a structured functional basis. Employee and social and community responsibilities are delegated to the Chief HR Officer who reports directly to the Chief Executive Officer. The Chief Executive Officer is also ultimately responsible for health, safety and environmental matters as well as for customer service and quality matters, although day-to-day management is delegated to relevant members of the EMT.

Under the new organisational structure, and in order to promote cross-functional working between the commercial and operations functions, weekly meetings (chaired by the Chief Executive Officer) are convened for the purposes of reviewing business performance with the following objectives:

- To facilitate communication of business performance and allow discussion of opportunities and risks arising;
- To allow major decisions to be discussed and decisions taken in a manner that maximises shareholder value;
- To allow the executive team to exercise due diligence by giving them the opportunity to test the thoroughness with which functional management operate.

Whilst the Board takes overall responsibility for approving Group policies, including those relating to social responsibility and business ethics, health and safety, sustainability and environmental matters and anti-bribery and corruption, copies of which are available on the Group's website at www.mcbride.co.uk, the implementation of these policies is delegated to the Chief Executive Officer and then cascaded throughout the organisation via the EMT and the various functional teams.

Accountability

Relations with shareholders

The Board places considerable importance on the maintenance of effective, balanced communications with all shareholders. The Group's investor relations programme includes:

- Formal presentations of full year and half-year results, and interim management statements;
- Briefing meetings with major institutional shareholders after the half-year results and preliminary announcements. These provide the opportunity for shareholders to assess the Group's performance and prospects and to explore the Group's approach to corporate governance matters;
- Regular face-to-face meetings between analysts, brokers and fund managers and the Chief Executive Officer and Chief Finance Officer to further promote a better understanding of the business and its strategic development. During the year 52 meetings were held in the UK and 18 in the USA;
- Responding to enquiries from individual shareholders and analysts through our Investor Relations team on a wide range of issues, and participating in surveys and questionnaires submitted by investor research bodies.

The principal communication with private investors is via our website at www.mcbride.co.uk/investor which is a section dedicated to shareholders, the Annual Report and through the AGM which is attended by all the Directors and at which all shareholders present are given the opportunity to question the Chairman, the chairmen of the sub-committees and the rest of the Board. After the AGM, shareholders can meet informally with the Directors. A summary presentation of the Group's trading position is given at the AGM before the Chairman deals with the formal business of the meeting. The proxy votes cast in relation to all resolutions, including details of votes withheld, are disclosed to those in attendance at the meeting and the results are published on our website and announced via the Regulatory News Service.

Corporate governance report continued

The Board is kept informed of investors' views through distribution and regular discussion of analysts' and brokers' briefings and summaries of investor opinion feedback. The Board also receives reports on the output from surveys carried out by various investor research bodies. The Chairman and the Senior Independent Director are available to discuss governance and strategy with major shareholders should such a request be made and both are prepared to contact individual shareholders should any specific areas of concern or enquiry be raised. Where applicable, the views of major shareholders are sought on certain issues.

Information on share capital and other matters

The information about share capital required to be included in this Corporate Governance Report can be found in the Statutory Information section on pages 71 to 74 of the Directors' Report.

Internal control and risk management

The Group has a clear internal control system, the purpose of which is to safeguard investment and the Group's assets. The system, which accords with the Turnbull Guidance, embraces all material controls and business risks, including financial, operational and strategic risks, and incorporates a full review of compliance controls and risk management across the Group. This system is operated as an integral part of the organisation of executive responsibilities and accountabilities and has been reviewed by the Board.

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. This control system is designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide reasonable but not absolute assurance that assets are safeguarded against unauthorised use or material loss, and that its transactions are properly authorised and recorded. The Board delegates responsibility to members of the EMT to consider and reassess the effectiveness of the existing controls and to identify whether any new risks have arisen as a result of any control weaknesses.

Business risk review

The Group's internal control and risk management activities are managed through business risk reviews and a supporting detailed set of internal control procedures. The Internal Audit function serves to provide assurances to the Audit Committee that relevant controls and actions are in place and its work is guided by the Group's risk assessment process and agreed with the Audit Committee at the start of the year. Whistleblowing procedures are in place for individuals to report suspected breaches of law or regulations or other serious malpractices. Following the introduction of the Bribery Act the Group implemented an anti-bribery and corruption policy which extends to all the Group's business dealings and transactions in all countries in which it or its subsidiaries and associates operate.

Internal self-assessment programmes are undertaken each year with specific focus on strategic risks together with any key operational risks.

The business risks are rated according to their impact and actions and are assessed both at functional and at corporate level in terms of their potential impact on the business, and any specific mitigating controls and actions are ultimately reviewed by the Audit Committee. The principal risks and uncertainties faced by the Group are reported on pages 56 to 59.

Key control procedures

Management responsibility and accountability. The Group has clearly defined management responsibility and reporting lines. The Chief Executive Officer and Chief Finance Officer meet regularly with members of the EMT to review progress on financial, commercial, operational, supply chain, HR, health, safety and environmental issues as well as regulatory and legal compliance matters.

Corporate planning process. The Group updates its three-year Corporate Plan each year and this is approved by the Board. It focuses on the market environment, Group strategy and objectives, actions to achieve them and implementation through the divisions. Strengths, weaknesses, risks and opportunities are highlighted on a functional and Group level. The implementation of the Plan is monitored via the progress of key project plans in the monthly EMT meetings, and through a system of measurement that aims to give early warning of any failure to meet Plan targets.

Budgeting and reporting. There is a comprehensive annual budgeting process that is ultimately approved by the Board. Financial performance of divisions against budget is monitored and challenged centrally, and full year forecasts are updated each quarter. The Board is regularly updated on the Group's financial performance and position against targets.

Financial reporting. Detailed management accounts are prepared each month, consolidated and reviewed in detail with the EMT. The analysis provided includes commercial, operational, environmental, cash and financial and people KPIs, and is reviewed against targets.

Key performance indicators (KPIs). A comprehensive set of commercial, operational, financial and non-financial KPIs are reported each month up to Group level. Performance against targets and sharing of best practice are discussed regularly at meetings at both functional and Group levels. The adequacy and suitability of existing KPIs are reviewed regularly.

Expenditure approval. Authorisation and control procedures are in place for capital expenditure and other major projects. There is also a process to review capital expenditure projects post-completion to highlight issues, motivate management to achieve forecast benefits and improve future projects. Authorisation procedures for operating costs and contractual commitments are reviewed regularly.

Documented policies. There are documented policies for a range of areas including HR matters, expenditure, treasury and financial reporting. The Group Finance Manual is updated annually and incorporates accounting, tax and treasury policies as well as reporting responsibilities and capital expenditure approval procedures. In addition, a detailed Internal Control Questionnaire (ICQ) has been completed and signed by divisional directors to confirm their compliance with core control procedures in operation across the Group. The Group Finance Manual also includes a Group Authority Levels document which details matters reserved for the Board, its sub-committees, members of the EMT and other senior management across the Group.

Finance function independence. The Finance function is encouraged to act independently of general management in the course of its preparation of monthly accounts and exercising of control procedures.

Site property surveys. Regular meetings are held with insurance and risk advisers to assess the risks throughout the Group. Risk assessments, safety audits and a review of progress against objectives established by each site are regularly carried out.

Internal audit. The Internal Audit function periodically reviews individual businesses, processes and procedures, makes recommendations to improve controls and follows up to ensure that management implement the recommendations made. The Internal Audit function's work is determined on a risk assessment basis and its findings are reported to Group and functional management as well as to the Audit Committee.

Cash. The cash and debt position at Group and operational level is monitored daily and variances from forecast levels are investigated thoroughly. Working capital balances are reviewed on a monthly basis at Group level, and significant variances are analysed and investigated.

External auditors. The auditors add a further independent perspective on certain aspects of the internal financial control system as a result of their work. The external auditor is engaged to express an opinion on the financial statements. The audit includes the review and test of the system of internal financial control and the data contained in the financial statements to the extent necessary for expressing an audit opinion on the truth and fairness of the financial statements.

Effectiveness

The Board has reviewed the effectiveness of the systems of internal control and risk management procedures during the year and is satisfied that there is an ongoing process for identifying, evaluating and managing risks faced by the Group. The process has been in place for the year under review and up to the date of approval of this Directors' Report.

Principal risks and uncertainties

Risk is inherent to business activities. The system of risk management used to identify the principal risks facing the Group is described on page 54.

As with most businesses, McBride is subject to both internal and external risk factors. Generic external risks include political and economic conditions, market and competitive developments, supply interruption, regulatory changes, foreign exchange, raw material, packaging and energy prices, pensions funding, environmental risks and litigation. Internal risks include risks related to systems reliance, legislative and regulatory compliance, human resources, production capability, asset resilience, industrial relations and failure of internal controls.

We operate in a fast-moving dynamic environment and it is recognised that the risks facing the Group will increase or decrease in potential severity or importance dependent on the market and economic climate at any particular time.

As with the principal risks and uncertainties identified last year, this year's exercise has confirmed that the competitive nature of the market in which we operate has continued as have the risks of unrecovered cost inflation, serious loss of volume and supplier failure. As we execute our corporate strategy, we recognise that new strategic risks facing the Group include the degree of organisational change, human resource and employee retention risks. Similarly, we accept that organisational change at senior and plant management levels could divert attention from managing day-to-day controls including environmental matters and we recognise that IT systems failure could represent significant threats to the Group should such risks materialise. We have also assessed our exposure to the economic climate/financial risks associated with Eurozone concerns.

Having reviewed the organisation's risk profile, the strategic risks and uncertainties that currently face the Group are discussed below. The matters described are not intended to be an exhaustive list of possible risks and uncertainties.

Type of risk	Context	Risk to McBride	Potential impact	Mitigating controls
Market competitiveness	<p>Weaker consumer demand in difficult economic climate</p> <p>Retailers competing to maintain market share</p> <p>Branded promotional activity</p> <p>Re-tenders/ e-auctions</p> <p>Speed of competitor innovation</p> <p>Retailer demand for control of intellectual property</p>	<p>General inability to compete if inadequate focus on strategy or failure to address the cost profile of the business</p> <p>Inability to grow market share as a result of lack of focus on category growth and product development</p> <p>Loss of control over specifications, designs and intellectual property developed by the Group</p>	<p>Significant loss of contracts</p> <p>Potential slow-down in demand for Private Label products</p> <p>Potential adverse impact on profitability</p> <p>Inability to deliver long-term shareholder value</p>	<p>→ We continue to drive a multitude of initiatives to ensure we are able to compete in the current environment</p> <p>→ 'Project Refresh' is the foundation of our future strategy which will strengthen the Group's business model and ultimately improve our market positioning and operational efficiency through improved:</p> <ul style="list-style-type: none"> - cost base - complexity management - standardised ways of working - better understanding and visibility of both our customer expectations and the markets in which we operate <p>→ We have a policy of resisting demands to release our intellectual property whilst ensuring we continue to comply with our legal and contractual obligations</p>
Unrecovered cost inflation	<p>Oil and commodity markets subject to volatility</p> <p>Large proportion of Group spend is on materials, packaging and other consumables</p>	<p>Prices may rise at a rate and speed which cannot immediately be fully recovered by the Group</p> <p>Pressure on margins would be difficult to recover through selling price increases</p> <p>Many retailer contracts preclude price changes without six months' prior notice</p>	<p>Rapid increase in base costs could lead to reduced profitability</p> <p>Negative impact on volume due to loss of customers when price increases are unavoidable</p>	<p>→ Continue to focus on improving operating efficiencies through an embedded programme of Lean initiatives including increased asset utilisation, reduced waste, and improved yields and re-formulations</p> <p>→ Numerous sustainability initiatives to reduce energy costs, to work with customers to reduce packaging, and to optimise material costs</p> <p>→ Invest considerable effort in building relationships with the retailers at the highest possible level to explain the business imperative behind the need for price increases</p> <p>→ Continued investment to identify alternative procurement sources and strategies to mitigate significant price fluctuations</p>

Type of risk	Context	Risk to McBride	Potential impact	Mitigating controls
Serious Loss of Volume	The Group is exposed to various external market factors including competitor activity as well as customer base rationalisation. Furthermore, retailers are fighting aggressively to retain market share and resist the Group's efforts to seek selling price increases	The combination of competitor activity and the inability to obtain selling price increases could have a significant impact on our growth agenda Customers may seek to source from alternative suppliers Branded activity could affect retailer loyalty leading to more regular e-tenders Any move away from Private Label could lead to increased dependency on sub-contract business	Loss of any part of the Group's customer base could lead to serious loss of volume with the resultant impact on the sustainability of the Group's revenue and reduced profitability Loss of volume could occur if consumers are enticed away from the Private Label offering Sub-contract business tends to be more opportunistic and could be removed at short notice	<ul style="list-style-type: none"> → High level strategy to drive specific category plans → Investment in new product development to enable us to offer differentiated products → Continued focus on delivery, superior customer service, deepen relationships and seek out new channels of supply → Develop our understanding of our customers' expectations at an international level → Policy of limiting sub-contract business to 25% of Group's total turnover
Degree of Business Change	The Group is going through a significant change programme as we strive to improve our competitiveness and seek to deliver a successful strategy in the long-term interests of all our stakeholders This involves restructuring, alignment of ways of working, reduction of complexity and optimisation of business processes It may also involve large-scale capital expenditure investments	Lack of robust, integrated and performing information systems could lead to duplication, overlap, the need for off-line processing, and information inconsistencies Failure to integrate plans to transfer assets in a timely way due to insufficient knowledge or planning could disrupt customer supply The risk of under-performance associated with a major capital expenditure project could be significant from a cost perspective	Without adequate systems support, the business could fail to deliver its promises both economically and socially Delays in transferring assets and/or under-performing capex projects could lead to loss of customer satisfaction and uncontrolled costs Cumulative effect of several strategic projects being implemented simultaneously could lead to loss of control	<ul style="list-style-type: none"> → IT project specialists are translating the business requirements into detailed systems plans → Gaps in systems functionality have been identified and the sequence of business priorities has been developed → A fully costed systems roadmap is in place including timescales and resourcing options to meet the business needs → Detailed transfer plans are documented and overseen by dedicated project teams → Individual project steering groups carry out risk analyses of implementation risks to ensure sufficient resource is identified and mitigation plans are in place

Principal risks and uncertainties continued

Type of risk	Context	Risk to McBride	Potential impact	Mitigating controls
Human Resource and Employee Retention	As an fmcg Private Label business, we are dependent on specific core competencies and/or experience We are also faced with a significant degree of change in the business Key employees could be lost to competitors	Difficulties can be experienced in certain countries in recruiting people with the right skill sets and knowledge base Change can lead to uncertainty and possibly adversely affect employee morale There can be considerable over-reliance on key staff leading to undue pressure on a number of individuals	Uncertainty and poor morale could lead to people leaving the business Inability to recruit for certain key roles could potentially lead to the business being unable to keep pace with market developments Overload on certain individuals could lead to stress Loss of sensitive Company information	<ul style="list-style-type: none"> → We have a developed package of management tools including recruitment policies, talent reviews, management development and coaching programmes as well as performance monitoring and feedback and regular Group-wide opinion surveys → We are engaged in a programme of better aligning HR tools and methodologies across the Group → Employee contracts contain strict confidentiality clauses and prevent colleagues disclosing sensitive information to third parties
Economic Climate/ Financial Risks (including Eurozone Risks)	The current global financial uncertainty and in particular the Eurozone concerns can increase risks associated with exchange rate exposures and possible constraints in the liquidity of the debt markets Payment terms in a number of European countries have changed to a standard 60 days from invoice date	Failure to operate within our financial framework could lead to the Group becoming financially distressed A credit crisis affecting banks and other sectors of the economy could impact the ability of counterparts to meet their financial obligations to the Group Creditor payment terms will reduce from the current 90 days Risk of margin fluctuations due to weakening currencies	Inability to support our long term investment programme Inability to raise capital to fund growth Loss of shareholder value and confidence Change in payment terms could lead to a cash drain and an uplift in working capital	<ul style="list-style-type: none"> → We have an established financial framework to ensure an appropriate level of liquidity and maintenance of financial capacity, and to constrain the level of assessed capital at risk for the purposes of positions taken in financial instruments → Commercial credit risk is measured and controlled to determine the Group's total credit risk and our banking facilities were successfully renegotiated last year → Monthly divisional and Treasury Committee reviews take place → Debtor payment terms will also change → A Eurozone risk analysis exercise has been completed and mitigating crisis action plans documented
Supplier Failure	The Group depends on close trading relationships with a number of key suppliers	Loss of, or failure of, a key supplier, the inability to source critical materials or poor supplier performance in terms of quality or delivery could seriously disrupt the Group's supply capability	Significant detrimental effect on the supply chain of the business Potential cost implications from having to source from higher cost suppliers leading to reduced profitability	<ul style="list-style-type: none"> → Established procedures for identifying possible risks for each key material including possible supply shortages → Suppliers are checked for creditworthiness → Pre-qualified alternative suppliers are identified wherever possible → Suppliers' own contingency plans are reviewed. Where necessary, we retain higher levels of safety stocks or identify options for alternative materials → Development of alternative formulation bases that ensure flexibility in sourcing

Type of risk	Context	Risk to McBride	Potential impact	Mitigating controls
IT Systems Failure	<p>Damage to IT systems could be caused by accident, by software or hardware failure, or by sabotage</p> <p>In order to support our organisational structures, operational and supporting business processes need to be streamlined and optimised</p>	<p>A failure of the Group's SAP information systems platform would rapidly impact all sites after a few hours, which in turn would damage business and customer relationships</p> <p>The lack of robust, integrated and reliable systems could lead to duplication, overlap, off-line processing, information inconsistencies and delays in realising the benefits of the new organisational structure</p>	<p>Lack of systems support could lead to significant downtime and operational disruption potentially impacting production and transactional capability and customer service</p> <p>The business may fail to deliver its projected economic and social improvements</p> <p>Unnecessary time, cost and effort could be involved as a result of the need to process data manually</p>	<ul style="list-style-type: none"> → We have in place real time disaster recovery capability at off-site locations → Introduction of a new Group-wide organisation structure backed up by planned IT investment to secure a more resilient Group-wide network → In-built network alternative routings with no single point of failure together with clustered servers provide resilience → Project teams have been formed to develop clear and detailed business requirements to ensure alignment of processes and to streamline system configuration and maintenance
Environmental Risks	<p>Failure to comply with environmental regulation</p> <p>Increasingly complex legislative demands</p>	<p>The Group is exposed to risks of liabilities inherent in the context of the long-established nature of its operations, including the cost of required remedial action</p> <p>These include the potential cost of complying with increasing complexity of legislation and regulation including changes in production practices and the risk of being subject to claims for personal injury as a result of alleged exposure to hazardous materials or other environmental conditions</p>	<p>Non-compliance with legislative requirements could give rise to significant costs associated with either fines and/or remedial action</p> <p>Exposure to hazardous materials or other environmental conditions could lead to claims from third parties for personal injury and/or damage to property</p>	<ul style="list-style-type: none"> → We are committed to minimising the environmental impact of our operations. To support our performance in these areas, we maintain appropriate robust performance management systems and key performance indicators → We focus on achieving exacting external accreditation for our operations → Independent environmental audits have been undertaken for all key locations. Any issues have been identified and appropriate actions are taken in accordance with local legislative and regulatory guidelines. These include consideration of any potential impact on employees, neighbouring properties and any potential public health issues → We have in place appropriate environmental permits → Changes in legislation are monitored by external advisers

Audit Committee report



Neil Harrington Committee Chairman

“We recognise the importance of the role of the Audit Committee in monitoring the integrity of the Group’s financial affairs on behalf of our shareholders; to this end we work closely with both our external and internal auditors to ensure that our controls, systems and processes are aligned with best practice.”

Attendance at meetings during the year ended 30 June 2012

		Date appointed to Committee:
Number of meetings held:	3	
Number of meetings attended:		
Neil Harrington (Chairman) ⁽¹⁾ Independent Non-Executive Director	2	3 January 2012
Christine Bogdanowicz-Bindert ⁽²⁾	1	
Jeff Carr ⁽²⁾	1	
Bob Lee Senior Independent Director	3	27 May 2004
Colin Smith ⁽²⁾	1	
Sandra Turner Independent Non-Executive Director	3	1 August 2011

⁽¹⁾ Neil Harrington’s attendance is shown following his appointment.

⁽²⁾ Christine Bogdanowicz-Bindert’s, Jeff Carr’s and Colin Smith’s attendance is shown up to the date of their respective resignations.

The composition of the Committee fully reflects the provisions of the Code. The Board is satisfied that the Committee members are sufficiently competent in financial matters. Neil Harrington is a member of the Institute of Chartered Accountants and has relevant financial experience and up-to-date knowledge of financial matters. A quorum of the Committee is two members.

The Committee’s responsibilities include:

- Monitoring the integrity of the financial and regulatory reporting process of the Group and reviewing the Group’s accounting policies, financial reporting standards and disclosure practices;
- Reviewing and recommending the Board to approve all financial statements and announcements;
- Reviewing the effectiveness of the Group’s internal controls and risk management systems;
- Overseeing the Company’s relations with the external auditors, actively considering the objectivity and effectiveness of the external audit process and making recommendations to the Board in relation to the appointment and remuneration of the external auditors;
- Monitoring the effectiveness of the Company’s Internal Audit function;
- Monitoring compliance with legal and regulatory requirements;
- Monitoring the performance and independence of the external auditors.

The Committee’s Terms of Reference were reviewed during the year and amendments have been made to reflect the latest recommendations made by the FRC and other relevant guidelines. A copy of the Committee’s Charter is available from the Group’s website at www.mcbride.co.uk.

Principal activities

The principal activities of the Committee during the year were as follows:

Financial statements

The Committee received regular reports on the Group’s trading performance and considered reports from the external auditors and the Group Finance function on both the interim and full year financial statements. Any critical reporting issues were discussed and the going concern assumptions and the Group’s compliance with accounting standards and with Stock Exchange and legal requirements were considered.

Finance strategies

The Committee received regular reports on audit-related, treasury and taxation matters including consideration of the Group’s funding strategy, its foreign currency management policy and banking facilities. An economic environment risk assessment was also undertaken with particular reference to any exposure of the Group to the Eurozone.

Accounting policies

The Committee received regular updates on technical reporting issues and on critical accounting policies. It reviewed the Group’s finance policies and procedures for consistency, particularly in areas where different approaches would have been possible. The Committee satisfied itself that the financial statements give a true and fair view of the profits, assets, liabilities and financial position of the Group.

External auditors

During the year, the Committee undertook a full tender in relation to the appointment of the external audit firm. As a result the appointment of PricewaterhouseCoopers LLP (PwC) was announced on 14 November 2011.

The Committee received reports from both the retiring and the newly appointed external auditors including proposals on the audit strategy for the year and reviews on the scope and outcome of the interim and year-end audits and on control and accounting developments. The Committee monitored the external audit firm's compliance with applicable ethical guidance and, in addition, considered their independence and objectivity taking due account of all appropriate guidelines.

The risk of PwC leaving the market is considered remote since they are one of the top accounting firms in the UK.

The Committee considered and approved the external auditors' fees for the year ended 30 June 2012. Independent meetings were held between the Committee members and the external auditors in the absence of the Executive Directors and between the Chairman of the Committee and the external auditors.

The Committee recommends to the Board the appointment of PwC for the year ending 30 June 2013.

Internal audit

The Head of Internal Audit attended meetings of the Committee to explain the activities of the Internal Audit function. This entailed detailed reviews of the audit work undertaken and its findings and, where appropriate, corrective actions were recommended.

Risk management and internal control

The Committee received reports relating to the Company's approach to internal control and risk management activities and has concluded that the self-assessment programme has continued to be effective with regular reviews of any risk areas taking place. More information is reported on pages 56 to 59.

Policies

The Committee reviewed the updated corporate policies on anti-bribery and corruption, whistleblowing and the provision of non-audit services. The Committee deemed appropriate key policies to be in place to ensure that reasonable steps have been taken to prevent fraud and to allow any improprieties to be reported. Copies of the policies are available on the Group's website at www.mcbride.co.uk.

Non-audit fees

During the year £0.4 million was payable to the auditors in respect of audit services for the Group. There were no fees payable to the auditors for non-audit services.

We have in place a detailed policy on the engagement of external auditors for non-audit services. This has been designed to preserve the independence of the incumbent auditors in performing the statutory audit and it aims to avoid any conflict of interest by specifying the type of non-audit work:

- for which the auditors can be engaged without referral to the Audit Committee
- for which a case-by-case decision is necessary
- from which the auditors are excluded.

In accordance with this policy, other providers are considered for non-audit work and such work is awarded on the basis of service and cost. This policy has recently been reviewed and a copy is available from the Group's website at www.mcbride.co.uk.

Non-audit work was awarded during the year to other professional services firms for projects relating to operational and restructuring exercises, shared services and tax advice. A total of £1.1 million was incurred in relation to these services.

Overview

As a result of its work during the year, the Committee has concluded that it has acted in accordance with its Terms of Reference and has ensured the independence and objectivity of its external auditors.

Neil Harrington

Chairman of the Audit Committee

Nomination Committee report



Iain Napier Committee Chairman

“Achieving diversity of perspective is a key objective in appointing Board members. For this reason, we look at diversity in a broad sense, seeking to engage the right balance of independence, skills, knowledge and experience, including gender.”

Attendance at meetings during the year ended 30 June 2012

		Date appointed to Committee:
Number of meetings held:	3	
Number of meetings attended:		
Iain Napier (Chairman) Chairman	3	19 July 2007
Chris Bull Chief Executive Officer	3	4 May 2010
Christine Bogdanowicz-Bindert ⁽²⁾	2	
Jeff Carr ⁽²⁾	1	
Neil Harrington ⁽¹⁾ Independent Non-Executive Director	1	3 January 2012
Bob Lee Senior Independent Director	3	27 May 2004
Colin Smith ⁽²⁾	1	
Sandra Turner ⁽³⁾ Independent Non-Executive Director	2	1 August 2011

⁽¹⁾ Neil Harrington's attendance is shown following his appointment.

⁽²⁾ Christine Bogdanowicz-Bindert's, Jeff Carr's and Colin Smith's attendance is shown up to the date of their respective resignations.

⁽³⁾ Sandra Turner was unable to attend one meeting due to prior business commitments. She had received relevant supporting information and had the opportunity to communicate her views and comments on the matters to be discussed in advance of the meeting.

The Committee's responsibilities include:

- Reviewing the structure, size and composition of the Board;
- Considering and recommending the nomination of candidates for appointment as Directors to the Board;
- Considering the roles and capabilities required for each new appointment based on an evaluation of the skills and experience of the existing Directors; and
- Ensuring that new appointees are provided with detailed and appropriate induction training.

The Committee's Terms of Reference were reviewed during the year and minor changes made to reflect the actual operation of the Committee. It was concluded that the Committee's Charter complies with all relevant guidelines and operates satisfactorily and a copy is available from the Group's website at www.mcbride.co.uk. A quorum of the Committee is three members.

During the year, the activities of the Committee included:

- Considering the contributions made by the individual Directors prior to recommending their re-election to the Board and after taking account of the results of the internal Board performance evaluation exercise carried out in 2011;
- Considering the appointment of a new Senior Independent Director and the proposed re-election of the Chairman;
- Reviewing the composition and chairmen of the Board sub-committees;
- Reviewing the non-executive director representation on the Board with a view to appointing new Non-Executive Directors following the departure of three Non-Executive Directors during the year;
- Discussion of the appropriate role specification and skills required for the appointment of new Non-Executive Directors and the appointment and briefing of suitable independent consultants to conduct the searches;
- Overseeing the search process of the appointment of Neil Harrington as a new Non-Executive Director and ensuring in particular that he had the relevant financial expertise suitable for Audit Committee chairmanship;
- Discussion of the Committee's approach to diversity;
- Commissioning the services of Korn/Ferry Whitehead Mann to consider the non-executive director composition of the Board. This work will include consideration of overall Board diversity (including gender) and may lead to the search for a further Non-Executive Director. Korn/Ferry Whitehead Mann have no other connection with the Company.

No Committee member participated in any discussion relating to their personal position.

Iain Napier

Chairman of the Nomination Committee

Remuneration Committee report



Bob Lee Committee Chairman

“The area of executive pay remains high profile. During the year we have taken independent advice to ensure that our policy reflects as far as practicable latest trends and good practice in the UK. We are confident that our rewards support the Group’s strategy and are aligned with our industry sector.”

This report, prepared on behalf of the Board, sets out the policy and disclosures on remuneration for the Executive and Non-Executive Directors of the Board. It takes account of the Code and the latest ABI/NAPF guidelines and has been prepared in accordance with the provisions of section 421 of the Companies Act 2006 (‘the Act’). A resolution will be put to shareholders at the Company’s AGM inviting them to approve this report. (At the 2011 AGM shareholders voted on the Remuneration Report which included the Committee’s proposals to align the potential bonus and long-term incentives more closely with the market. 79.5% voted in favour of the report and 9.2% abstained. The Chairman of the Committee engaged interactively with various institutional investors to explain the Committee’s rationale behind its policy and to help inform voting recommendations for shareholders). No significant changes are being made to the remuneration policy structure for 2012/13.

Terms of Reference and activities in the year

Both the constitution and operation of the Remuneration Committee comply with the principles incorporated in the Code.

The Committee is responsible for determining the remuneration policy for the Executive Directors and for key senior executives. The main duties of the Committee are:

- To review the ongoing appropriateness and relevance of the remuneration policy;
- To apply formal and transparent procedures regarding executive remuneration and remuneration packages;

- To consider and make recommendations to the Board on remuneration issues for the Executive Directors and other senior executives taking into account the interests of relevant stakeholders;
- To review the implementation and operation of the Company’s share option schemes, bonus schemes and Long-Term Incentive Plan (LTIP); and
- To review the Company’s management development plans.

The Committee is authorised by the Board to investigate any matters within its Terms of Reference. It meets as frequently as needed, but at least twice a year, to consider remuneration packages for Directors and senior executives including reviews of basic salary, pension rights, bonus and share based awards. In the financial year ended 30 June 2012 the Committee met four times, in August 2011, February, March and June 2012.

Subsequent to the year end, one further meeting of the Committee has taken place in August 2012.

The Committee’s Terms of Reference are reviewed regularly to ensure continuing compliance with evolving best practice guidelines. This year’s review has incorporated minor amendments to update the duties of the Committee. The Charter setting out the constitution and Terms of Reference of the Remuneration Committee is available from the Group’s website at www.mcbride.co.uk.

The principal activities of the Committee during the period were:

- to review the performance and related pay award proposals of the Chief Executive Officer and the Chief Finance Officer;
- to agree objectives for the Executive Directors;
- to consider senior executive salary reviews and bonus scheme payments;
- to review share schemes’ conditions and terms;
- to deal with the allocation of LTIP awards; and
- to review the plans for management development and talent management.

The Committee also considered the latest proposed changes to corporate governance guidelines relating to remuneration matters and, with the assistance of independent consultants, continued to develop its remuneration policy for Executive Directors and other senior executives.

Composition of the Remuneration Committee

The composition of the Committee and attendance at meetings held during the year are set out in the table below. A quorum of the Committee is two members. Meetings may be attended by the Chief Executive Officer on all matters except those relating to his own remuneration. Support is provided by the Chief HR Officer who also serves as Secretary to the Committee. During the year we continued to engage the services of the independent consultants, Aon Hewitt Limited (operating through the brand New Bridge Street (NBS)), for the purposes of providing professional advice to guide the Committee in its decision-making. NBS received £17,000 in respect of the services provided for the 2011/12 year. Neither NBS nor any other part of the Aon Corporation Group provided any other services to the Company during the year.

Remuneration Committee report continued

Attendance at meetings during the year ended 30 June 2012

		Date appointed to Committee:
Number of meetings held:	4	
Number of meetings attended:		
Bob Lee (Chairman) Senior Independent Director	4	27 May 2004
Christine Bogdanowicz-Bindert ⁽²⁾	1	
Jeff Carr ⁽²⁾	1	
Neil Harrington ⁽¹⁾ Independent Non-Executive Director	3	3 January 2012
Iain Napier Chairman	4	19 July 2007
Colin Smith ⁽²⁾	1	
Sandra Turner Independent Non-Executive Director	4	1 August 2011

⁽¹⁾ Neil Harrington's attendance is shown following his appointment.

⁽²⁾ Christine Bogdanowicz-Bindert's, Jeff Carr's and Colin Smith's attendance is shown up to the date of their respective resignations.

Remuneration policy

The basic principles that guide remuneration policy for executives, including the Executive Directors, are as follows:

- Salaries are reviewed annually taking into account both internal and prevailing market conditions. The Committee seeks to set basic salaries around the median of the Group's comparator benchmarks namely, UK listed manufacturing companies supplying goods to supermarkets and UK listed companies of similar size and complexity from all sectors. This can rise to between median and upper quartile for consistently strong or outstanding individual performance, or start at below median for new appointees developing into a role. This approach applies to all other elements of executive reward.
- The Group's approach for all employees, including executives, is to set remuneration that takes account of market practice, economic conditions, the performance of the Group and of teams or individuals recognising any collective agreements that may apply as well as any legal or regulatory requirements in jurisdictions where it operates. Our policy aims to attract, motivate and retain suitably able employees.
- In accordance with the core principles of the Code, general pay and employment conditions across the Group are taken into account when setting executive remuneration. The Committee is kept abreast of such matters via regular interaction with the Company's HR function.
- For all senior executives, basic salaries are combined with both long-term (three years) and short-term (one year) performance-related variable elements.
- Performance conditions for variable pay are set independently by the Committee at the outset of each year and assessed by the Committee both quantitatively and qualitatively at the end of each performance period.

→ Both short- and long-term rewards are linked to performance as well as to Company strategy to maximise long-term shareholder value. The annual bonus targets are split between Company financial performance and personal objectives which align with key strategic actions in a given year. Long-term incentives are targeted against metrics which align with shareholder interests.

→ The personal objectives for executives are reviewed by the Committee to ensure they adequately reflect the strategic aims of the Group. Bonus awards are only paid on achievement of objectives which are clear, measurable and targeted to align with the Group's strategic plans. The performance criteria include the financial targets of the Company as agreed by the Board and specific annual targets based on objectives that underpin and are key to achievement of the Corporate Plan.

→ Executives are encouraged to maintain a shareholding as this represents the best way to align their interests with those of shareholders.

→ The Committee consults with the Chief Executive Officer and pays due regard to his recommendations for other senior executives. Individual Directors are not involved in decisions concerning their own remuneration.

The Committee believes that its policy provides an appropriate balance between fixed remuneration, short-term bonus and long-term incentives. The Committee is committed to keeping its policy under regular review, taking into account changes in the competitive environment, remuneration practices and guidelines set by the key institutional shareholder bodies. In particular, the Committee recognises the importance of being guided by the following principles:

- Any significant pay awards or incentive payments should take due account of the economic background and the external environment. The Committee will provide a justification for any awards that may not appear appropriate in the prevailing climate.
- The Committee should consider the extent to which payment of bonuses can be justified if the Company suffers a material negative effect. Again, justifications will be provided should such circumstances arise.
- In general, environmental, safety, sustainability, social and governance issues should also be taken into account and the remuneration policy should neither encourage nor reward irresponsible behaviour in this regard.

Composition of packages

Basic salary, pension and benefits-in-kind are the elements of non-performance-related remuneration. Variable remuneration, which comprises a significant portion of the overall package, consists of two elements: annual cash bonus and long-term share-based awards. The remuneration of the Chairman and the Non-Executive Directors is payable solely in cash fees and is not performance-related. Further details of the constituent elements of the packages are described below together with details of payments made to the Executive Directors for the 2011/12 year.

Remuneration for 2011/12

Basic salaries

The basic salaries of Executive Directors and senior executives are reviewed annually taking into account individual experience, performance and responsibilities as well as pay awards made to other employees and pay practices of relevant comparator companies as described in the policy section above. Taking this into account, base salaries effective from 1 August 2011 for the Executive Directors were frozen at the levels set in the previous financial year:

→ Chris Bull £400,000; and

→ Richard Armitage £260,000.

Salaries are paid monthly in arrears by bank transfer.

Annual bonus

The objective of the annual bonus is to:

- (i) incentivise delivery of the Group's objectives,
- (ii) enhance performance against key financial and non-financial targets, and
- (iii) ensure that Executive Directors and senior executives are fairly rewarded for their contribution to the success of the Group.

The bonus structure is subject to regular review.

For the 2011/12 year, the maximum bonus opportunity for both the Chief Executive Officer and the Chief Finance Officer was 100% of salary. This comprised a bonus of up to 50% of salary which could be earned by reference to performance against a sliding scale of challenging profit before tax targets. In addition, a further 20% of salary could be earned for performance against specific, measurable personal targets directly linked to key strategic business deliverables. Both these elements of the bonus would be payable in cash. In addition, a further 30% of salary could be earned depending upon performance exceeding targeted profit. This element of the bonus would be payable in shares to be retained by the Company for three years and only payable if the Executive Director remained employed by the Group at the end of that period. Clawback provisions apply to this element of the package.

The Chief Executive Officer and the Chief Finance Officer have earned bonuses in the 2011/12 year based on adjusted profit before tax exceeding certain targets. These targets were partially met and a proportion of the bonuses was payable amounting to 30%, £120,000 and £78,000 respectively. They also earned bonuses in the year against personal objectives set by the Board linked directly to Company strategy. These payments amounted to £72,000 and £46,800 respectively (18% of basic salary in each case). Each Executive Director had five personal targets, some of which coincided and others which were different. In both cases, there was full achievement of four personal objectives and partial achievement of one. These targets included objectives relating to Project Refresh (which was successfully delivered during the year), debt (where the targets were achieved), and the remainder related to competitiveness, succession planning and complexity reduction (where the action plans drawn up have provided the Group with the intended

platform for further development of the business over the course of the 2012/13 year).

LTIP

Shareholders approved the 2005 LTIP at the 2005 AGM and, since that date, the LTIP has been the sole long-term incentive arrangement operated for the Executive Directors. It is the Committee's current intention that long-term incentives will continue to be provided under the LTIP and that phased awards will be made on an annual basis, but subject always to individual performance and at the discretion of the Committee.

The LTIP's objectives are to:

- (i) align the long-term interests of shareholders and management,
- (ii) reward achievement of long-term stretching targets, and
- (iii) recruit, retain and motivate management of the required calibre.

Awards are made to Executive Directors and to senior executives who are not Board members but who have a significant influence over the Group's ability to meet its strategic objectives. Whilst it is not a requirement of the LTIP, executives are encouraged to use the scheme to increase their share ownership in the Company. The maximum award level under the LTIP is 100% of salary for executives and at lower levels for others.

In the year under review, no LTIPs vested for the Executive Directors or senior executives. Details of LTIP awards to the Executive Directors are disclosed on page 69. The fair value of the year's LTIP awards to Executive Directors and senior executives at the date of grant was £1.4 million or 24% of their aggregate basic salaries. Detailed assumptions used in calculating the fair value of the awards are outlined in note 23 to the consolidated financial statements on page 117. In the 2011/12 year, £316,000 (2010/11: credit of £54,000) was charged to the income statement in respect of the LTIP.

The LTIP operates over a rolling three-year period with vesting of shares dependent on achievement of relative total shareholder return (TSR) and earnings per share (EPS) measures. For awards made during the 2011/12 year, the vesting schedule set out below applies:

Relative TSR condition

FTSE 250 companies excluding Investment Companies comprise the comparator group for TSR. Performance is measured over three financial years. The TSR measure is based upon the average of three months' share prices immediately preceding the relevant performance date and is independently calculated for the Committee.

TSR performance of the Company relative to the Group	% of award vesting (max 50%)
Below the median	0%
Equal to the median	0%
Upper quartile	50%
Intermediate performance	Straight-line vesting

Remuneration Committee report continued

EPS condition

EPS growth is measured over a period of three financial years. The EPS figure used will be adjusted to exclude the effects of amortisation of intangible assets and exceptional items and as necessary to recognise any share buy-backs undertaken by the Company. The figure used will be independently audited and disclosed in the Annual Report.

EPS growth	% of award vesting (max 50%)
Less than RPI+4% pa	0%
RPI+4% pa	10%
RPI+10% pa	50%
Intermediate performance	Straight-line vesting

The Committee considers that this approach aligns with the key long-term measures of the Group's performance.

The relevant three-year period relating to the 2009/10 LTIP grant concluded on 30 June 2012 (although no current Executive Director holds such an award). The performance conditions were not achieved and the awards lapsed.

Remuneration for 2012/13

The Committee has carefully considered the remuneration of all executives for whose remuneration it is responsible against the most recent and relevant market data available. When conducting its most recent review the Committee took account of the current economic climate as well as the trading position of the Company. In consideration of this situation, the following revisions have been made for executive pay in 2012/13:

Basic salaries

- The Chief Executive Officer informed the Committee he wished to forgo his review, leaving his salary at the 2010/11 level (£400,000), which is unchanged since his appointment in April 2010.
- Salary levels of senior executives in the Company have been frozen for five months until 1 January 2013. This applies to the Chief Finance Officer, when his salary will be increased by 2% (£265,200) in line with the increase awarded to other employees in the Company.

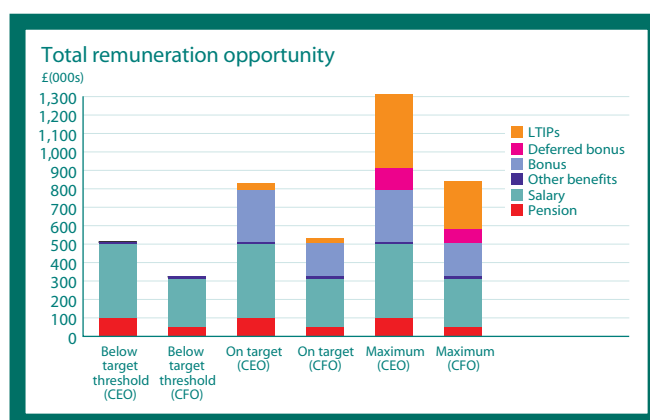
Annual bonus

For the 2012/13 year, the maximum bonus opportunity for the Chief Executive Officer and the Chief Finance Officer will be 100% of salary. A bonus of up to 50% of salary can be earned by reference to performance against a sliding scale of challenging profit before tax targets. The targets for this year's bonus scheme are significantly above last year's performance. In addition, a further 20% of salary can be earned for performance against demanding specific, measurable personal targets (such as net debt and achieving restructuring savings). Both these elements of the bonus are payable in cash. In addition, the Executive Directors can earn up to a further 30% of salary depending upon performance (based on profit before tax targets exceeding those which earned the first 50%). This element of the bonus is payable in shares to be retained by the Company for three years and is only payable if the Executive Director remains employed by the Group at the end of that period.

LTIP

- A challenging vesting schedule will continue to apply to LTIP awards granted in 2012/13 with limited vesting at threshold performance levels for both TSR and EPS performance measures, with 50% of each award being based on each target.
- The TSR schedule and comparator group is unchanged using the FTSE 250 Ex. Investment Companies as the most appropriate in the opinion of the Committee. There will be zero vesting at median performance, maximum 50% vesting at upper quartile performance and straight line vesting for intermediate performance between these two points.
- The EPS targets have been considerably strengthened to reflect the 3 year business targets, and to align reward with our plans for EPS growth.

EPS growth	% of award vesting (max 50%)
Less than RPI+17% pa	0%
RPI+17% pa	10%
RPI+29% pa	50%
Intermediate performance	Straight-line vesting



Directors' service contracts

Executive Directors

Service contracts provide for the Executive Directors to provide services to the Company on a full-time basis. The contracts contain, in addition to remuneration terms, details of holiday and sick pay entitlement, restrictions and disciplinary matters. The contract for the Chief Executive Officer was entered into on 14 April 2010 and for the Chief Finance Officer on 31 July 2009.

The contracts contain restrictive covenants for periods of up to six months post employment relating to non-competition, non-solicitation of the Group's customers, suppliers and employees and indefinitely with respect to confidential information. In addition, they provide for the Group to own any intellectual property rights created by the Directors in the course of their employment.

The contracts for both the Chief Executive Officer and the Chief Finance Officer stipulate six months' notice by both the Company and the Director. All Directors' contracts are available for inspection at the AGM. The Committee recognises the provisions of the Code for compensation commitments to be stipulated in

Directors' service contracts with regard to early termination. It is not our policy to include liquidated damages clauses. Instead, the Committee places emphasis on mitigation. Directors' contracts confirm that the Company has the option to pay notice month by month; it would cease if the dismissed Director obtained other employment. There are no excessive severance arrangements or pension benefits in place for the Executive Directors.

There are no agreements between the Company and its Directors or employees providing for additional compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that may occur in the event of a takeover bid.

Other benefits

The Company pays a cash sum in lieu of a pension contribution for Chris Bull at 25% of basic salary and on behalf of Richard Armitage pays into a defined contribution pension scheme at 20% of basic salary. Chris Bull has agreed in writing that this payment relieves the Company of any liability for pension provision on his behalf. In addition, the Executive Directors enjoy similar benefits to many other employees of the Group including private medical insurance, a fully expensed car or equivalent cash allowance and life assurance cover.

Non-Executive Directors and Chairman

The Non-Executive Directors and Chairman serve on the basis of renewable letters of appointment which are terminable at the discretion of either party generally on three months' notice. Updated letters for the Chairman and the Non-Executive Directors were issued on 1 July 2012.

The Chairman and all the Non-Executive Directors remain subject to voluntary re-election by shareholders on an annual basis. Their appointments may be terminated without compensation in the event of them not being re-elected by shareholders or otherwise in accordance with the Articles. Any appointment for more than nine years in total will be subject to annual shareholder approval but, in addition, will be considered taking into account the importance of refreshing the membership of the Board and avoiding any undue reliance on any particular individual whilst assessing the contribution made by that individual together with the ongoing commitment to the role.

The fees for the Chairman and the Non-Executive Directors are set by the full Board and are determined by reference to fees paid by other companies of similar size and complexity and reflect the amount of time they are expected to devote to the Group's activities during the year. These fees were last reviewed in July 2009 and will be kept under review during the course of the 2012/13 year.

The Chairman receives a fee of £150,000 and Non-Executive Directors receive a basic fee of £40,000 per annum. A supplementary fee of £4,000 is paid to Committee chairmen and to the Senior Independent Director to reflect their additional responsibilities. No element of their fees is performance-related and they are not eligible to participate in bonus or share incentive schemes. Their services do not qualify for pension or other benefits.

Set out below is information regarding the dates of the letters of appointment and notice periods for the Chairman and the Non-Executive Directors.

Director	Date first appointed to the Board	Date of last election at AGM in	Re-election no later than AGM in	Notice period	Compensation upon early termination	Latest letter of appointment
Iain Napier	1 Jul 2007	2011	2012	3 months	None	1 July 2012
Neil Harrington	3 Jan 2012	n/a	2012	3 months	None	1 July 2012
Bob Lee	1 Sep 2003	2011	2012	30 days ⁽¹⁾	None	1 July 2012
Sandra Turner	1 Aug 2011	2011	2012	3 months	None	1 July 2012

⁽¹⁾ Shorter notice period for Bob Lee to allow him to step down once a new Non-Executive Director is appointed.

Shareholdings

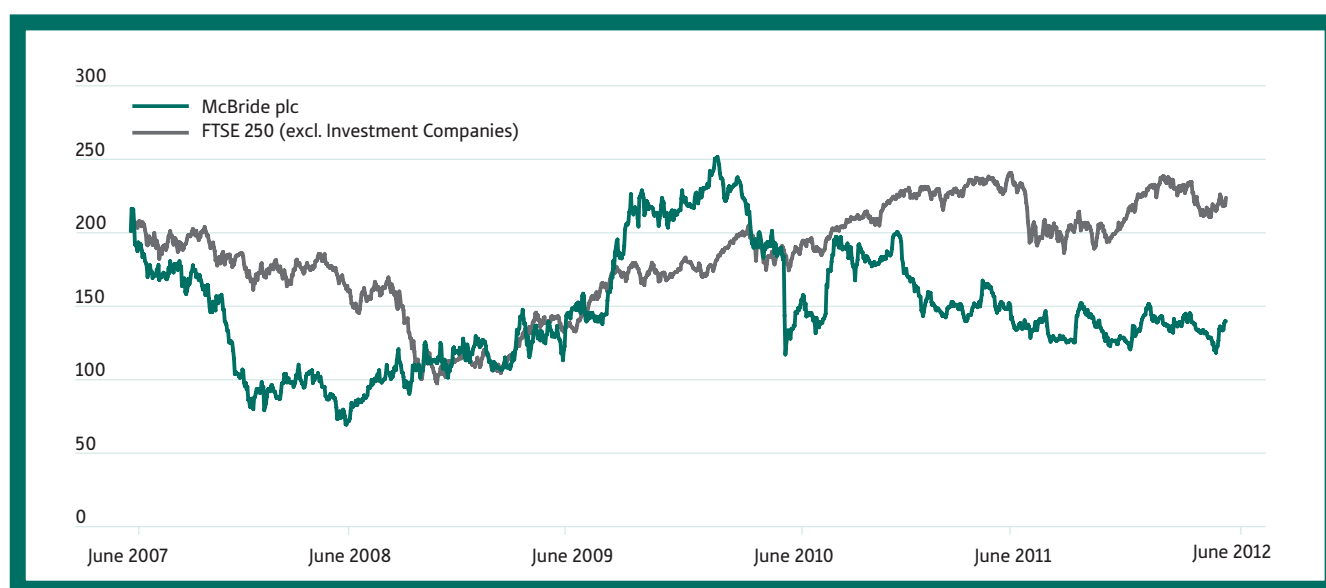
The Committee believes that share ownership by management serves to strengthen the link between their personal interests and those of shareholders. A scheme for the Executive Directors, Non-Executive Directors and other senior executives to achieve a minimum shareholding is in place which serves to encourage the acquisition of shares in the Company. Levels are set in relation to earnings and according to the post held in the Company. This is at 150% of salary for Executive Directors, 33% for Non-Executive Directors and 50% for other senior roles. The expectation for new appointees is that they will build up to these levels over the course of a three year period but the Committee retains discretion to extend this period dependent on the personal circumstances of the individual concerned. Details of the Directors' shareholdings are disclosed on page 69.

Remuneration Committee report continued

Performance graph

The graph below charts the TSR (share value movement plus reinvested dividends) over the five years to 30 June 2012 of shares in McBride plc compared with that of a hypothetical holding in the FTSE 250 Ex. Investment Companies Index. The Directors consider this index to be an appropriate comparator group for assessing the Company's TSR because it provides a well defined, understood and accessible benchmark and the TSR of the Company's shares relative to that of this index is one of the key performance measurements used to determine the extent of vesting of awards under the Company's LTIP.

TSR of McBride plc shares relative to the FTSE 250 Ex. Investment Companies between 30 June 2007 and 30 June 2012.



External appointments

Executive Directors are permitted, where appropriate and with Board approval, to assume non-executive directorships of other organisations. It is generally accepted that the holding of a non-executive directorship with another company should not adversely affect the ability of an Executive Director to perform his/her role and responsibilities properly. In fact, the holding of such an external position may enhance the individual Director's experience which could serve to strengthen his/her performance and contribution to the Company. Where the Company releases Executive Directors to carry out non-executive duties, they will be required to disclose the fact that they retain any earnings and, if so, the amount of such remuneration.

Neither of the Executive Directors hold any external directorships currently.

Directors' emoluments (audited)

The fixed and performance-related elements of Directors' remuneration for the year ended 30 June 2012 are set out below:

Director	Executive pension contributions ⁽¹⁾ /fees £000	Basic salary £000	Cash bonus £000	Deferred shares bonus £000	Benefits ⁽²⁾ £000	Sub-total	Pension contributions		Total remuneration		
						Year ended 30 June 2012 £000	Year ended 30 June 2011 £000	Year ended 30 June 2012 £000	Year ended 30 June 2011 £000	Year ended 30 June 2012 £000	Year ended 30 June 2011 £000
Executive											
Chris Bull	100	400	192	–	12	704	531	–	–	704	531
Richard Armitage	–	260	125	–	11	396	288	52	52	448	340
Non-Executive											
Iain Napier	150	–	–	–	–	150	150	–	–	150	150
Christine Bogdanowicz-Bindert ⁽³⁾	20	–	–	–	–	20	40	–	–	20	40
Jeff Carr ⁽⁴⁾	13	–	–	–	–	13	17	–	–	13	17
Neil Harrington ⁽⁵⁾	22	–	–	–	–	22	–	–	–	22	–
Bob Lee	47	–	–	–	–	47	44	–	–	47	44
Colin Smith ⁽⁶⁾	16	–	–	–	–	16	48	–	–	16	48
Sandra Turner ⁽⁷⁾	37	–	–	–	–	37	–	–	–	37	–
Total	405	660	317	–	23	1,405	1,118	52	52	1,457	1,170

⁽¹⁾ Fees in respect of Chris Bull relate to a cash payment of £100,000 which was made in lieu of pension contributions.

⁽²⁾ The benefits consist of the provision of a company car and fuel, private healthcare insurance and life cover.

⁽³⁾ The figures for Christine Bogdanowicz-Bindert are for the period until 31 December 2011.

⁽⁴⁾ The figures for Jeff Carr are for the period until 24 October 2011 and in the prior year are from his date of appointment to the Board on 1 February 2011.

⁽⁵⁾ The figures for Neil Harrington are for the period since his date of appointment to the Board on 4 January 2012.

⁽⁶⁾ The figures for Colin Smith are for the period until 24 October 2011.

⁽⁷⁾ The figures for Sandra Turner are for the period since her date of appointment to the Board on 1 August 2011.

Directors' interests

The beneficial interests of the Directors in the ordinary shares of the Company at 1 July 2011 and 30 June 2012 are set out below.

	At 30 June 2012		At 1 July 2011	
	Shares	Conditional share awards*	Shares	Conditional share awards*
Iain Napier	54,807	–	54,807	–
Chris Bull	280,000	512,654	250,000	174,387
Richard Armitage	40,000	388,063	20,000	168,189
Christine Bogdanowicz-Bindert	n/a	n/a	20,000	–
Jeff Carr	n/a	n/a	–	–
Neil Harrington	15,000	–	n/a	n/a
Bob Lee	5,000	–	5,000	–
Colin Smith	n/a	n/a	100,000	–
Sandra Turner	–	–	–	–

* The conditional share awards have been made under the McBride Long-Term Incentive Plan.

There have been no changes in the Directors' interests in the shares of the Company from those detailed above between 30 June 2012 and the date of this report. None of the Directors had any interest in the shares of any subsidiary company.

LTIP (audited)

Interests of Directors under the McBride plc 2005 Long-Term Incentive Plan at 1 July 2011 and 30 June 2012 are set out below:

Director	Date of award	Number of awards at 1 July 2011	Allocated in year	Awards vested in year	Allocations lapsed in year	Number of awards at 30 June 2012	Market price at date of award (£)	Vesting date
Chris Bull	16 Sep 2010	174,387	–	–	–	174,387	1.8350	17 Sep 2013
	20 Sep 2011	–	338,267	–	–	338,267	1.1825	21 Sep 2014
Richard Armitage	18 Feb 2010	61,922	–	–	–	61,922	2.2700	19 Feb 2013
	16 Sep 2010	106,267	–	–	–	106,267	1.8350	17 Sep 2013
	20 Sep 2011	–	219,874	–	–	219,874	1.1825	21 Sep 2014

Remuneration Committee report continued

The performance conditions attaching to awards under the LTIP are:

- a. 50% of the award is subject to a TSR performance condition measured against the FTSE 250 Ex. Investment Companies Index as the comparator group. If the Company's TSR performance is lower than the median of the comparator group, awards subject to the TSR condition will lapse. The awards start to vest on a sliding scale if TSR performance is above the median (nil at median) of the comparator group, with full vesting only if the Company's TSR performance is in the upper quartile of the comparator group.
- This performance measure has been selected as it is consistent with the majority of LTIPs in the same sector and the Remuneration Committee wishes to encourage senior executives to give attention to medium-term as well as short-term returns to shareholders.
- b. 50% of the award is subject to an EPS performance condition. For the 2011 LTIPs, awards subject to the EPS condition will lapse unless the Company's growth in EPS (adjusted to exclude the effects of amortisation of intangible assets and exceptional items) is in excess of four percentage points per annum above the increase in the UK Retail Prices Index (RPI). For performance above this level, awards will vest on a rising scale, with full vesting only if growth in EPS exceeds the increase in RPI by at least ten percentage points per annum.

This performance measure has been selected because EPS is one of the KPIs used in the business and is a measure well understood by the senior executive team. It is also something which they can influence directly.

- c. For the 2012 LTIPs, awards subject to the EPS condition will lapse unless the Company's growth in EPS (adjusted to exclude the effects of amortisation of intangible assets and exceptional items) is in excess of 17 percentage points per annum above the increase in RPI. For performance above this level, awards will vest on a rising scale, with full vesting only if growth in EPS exceeds the increase in RPI by at least 29 percentage points per annum.

TSR and EPS performance are measured over the period of three consecutive financial years of the Company beginning with the year of grant of the award. There will be no re-setting of the performance conditions.

Pensions (audited)

The following table shows details of pension payments into money purchase schemes for the Executive Directors:

Director	2012 £000	2011 £000
Richard Armitage	52	52

Payments to third parties

There have been no payments made to third parties for making available the services of the Directors.

Approved by the Board on 3 September 2012
Signed on behalf of the Board by

Bob Lee

Chairman of the Remuneration Committee

Statutory information

Principal activity

The Group's principal activity is the production, distribution and sale of Private Label Household and Personal Care products to leading retailers mainly in the UK and Continental Europe. The Board expects the Group to continue to focus on the current core business and main product categories in which it currently operates.

Post balance sheet events

On 1 August 2012, following the exercise of its put/call option, the Group acquired the remaining 15% shareholding in Fortlab Holdings Sdn Bhd for consideration of £0.5 million (RM2.7 million).

Business review

The Group is required to produce a business review complying with the requirements of section 417 of the Act. The Group has complied with this requirement in the Business Review, which is presented on pages 8 to 44 of this Directors' Report. This incorporates a detailed review of the Group's activities, its business performance and developments during the year and an indication of likely future developments.

Corporate governance statement

The corporate governance statement, as required by Rule 7.2.1 of the Financial Services Authority (FSA) Disclosure and Transparency Rules, is set out on pages 46 to 76 of this Directors' Report.

FSA Disclosure and Transparency Rules

For the purposes of DTR 4.1.5R(2) and DTR 4.1.8R this Directors' Report is the management report.

Group results

The results for the year are set out in the consolidated income statement on page 78 and a discussion of the Group's financial performance and progress are set out in the Business Review on pages 8 to 44. A summary of the results for the year, together with financial key performance indicators, is set out below.

Figures in £m unless otherwise stated	2012	2011
Revenue	813.9	812.4
Organic revenue growth ⁽¹⁾⁽²⁾	+1%	+0%
Operating profit	18.1	13.8
Adjusted operating profit ⁽³⁾	29.5	29.0
Diluted earnings per share	5.0p	2.9p
Adjusted diluted earnings per share ⁽¹⁾⁽³⁾	9.7p	9.3p
Payments to shareholders per share	5.0p	6.8p
Return on capital employed ⁽¹⁾⁽²⁾⁽³⁾	14.7%	14.7%

⁽¹⁾ Indicates Group key performance indicator.

⁽²⁾ The calculation of organic revenue growth and return on capital employed is explained on page 3.

⁽³⁾ Adjusting items include amortisation of intangible assets, exceptional items, changes in estimates of contingent consideration arising on business combinations and any non-cash financing costs from unwind of discount on initial recognition of contingency consideration and any related tax. Details of exceptional items are set out in note 3 to the consolidated financial statements on pages 93 and 94.

Payments to shareholders

The Company intends that, for the foreseeable future, all payments to shareholders will be made by the issue of non-cumulative redeemable preference shares ('B shares').

Subject to shareholder approval to renew the B share scheme at the AGM, the Board is recommending the allotment of 30 B shares (equating to a final dividend of 3.0 pence) per ordinary share held (2011: 4.8 pence), giving a total allotment for the year of 50 B shares (equating to 5.0 pence) per ordinary share (2011: 6.8 pence). Further details of payments to shareholders are shown in note 10 to the consolidated financial statements on page 99.

Directors

The Directors who held office during the year were:

Iain J G Napier	Chairman
Chris D Bull	Chief Executive Officer
Richard J Armitage	Chief Finance Officer
Christine A Bogdanowicz-Bindert	Independent Non-Executive Director (resigned 31 December 2011)
Jeff Carr	Independent Non-Executive Director (resigned 24 October 2011)
Neil S Harrington	Independent Non-Executive Director (appointed 3 January 2012)
Bob A Lee	Senior Independent Non-Executive Director (with effect from 24 October 2011)
Colin D Smith	Senior Independent Non-Executive Director (resigned 24 October 2011)
Sandra Turner	Independent Non-Executive Director (appointed 1 August 2011)

Biographical details of the Directors appear on page 47. Information on directors' remuneration and service contracts is given in the Remuneration Report on pages 63 to 70.

Directors and their interests

The beneficial interests of the directors in the share capital of the Company are shown in the Remuneration Report on page 69.

Related party transactions

Except for Directors' service contracts, the Company did not have any material transactions or transactions of an unusual nature with, and did not make loans to, related parties in the periods in which any Director is or was materially interested.

Indemnification of Directors

In accordance with the Articles, the Company has the power (at its discretion) to grant an indemnity to the Directors in respect of liabilities incurred as a result of their office. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the period. Although their defence costs may be met, neither the Company's indemnity nor the insurance policy provides cover in the event that the Director is proved to have acted fraudulently or dishonestly. The Company is also permitted to advance costs to Directors for their defence in investigations or legal actions.

Statutory information continued

There have been no qualifying indemnity provisions or qualifying pension scheme indemnity provisions in force either during the year or up to the date of approval of this Directors' Report.

Employment policies/employees

The Group employed an average of 5,112 people during the year ended 30 June 2012.

Involvement of employees

Employees are key to the Company's success and we rely on a committed workforce to help us achieve our business objectives.

Employees are encouraged to operate in an open environment, embracing teamwork and aligning personal development with the strategy of the business, through MVP (see page 44). We are keen to engage our employees by providing an environment where they can contribute their own ideas and challenge those of others. This is supported by an Employee Opinion Survey exercise which is conducted at all locations across the Group at regular intervals, and serves to provide colleagues with an opportunity to air their concerns and to contribute to the development of any necessary corrective action plans. We are committed to involving employees and we consider that good communication helps to achieve this. All sites have regular briefings, partnership councils, listening groups and newsletters, which are designed to keep colleagues informed, amongst other things, of the financial and economic factors that affect the Company's performance. Members of the senior management teams regularly visit the sites and attend Q&A sessions.

Many functions also hold regular conferences which provide the opportunity for a cross-section of colleagues to contribute to the development and realisation of business plans for their areas of responsibility. Members of the EMT regularly visit sites and the Chief Executive Officer also attends our Management Development Programmes for open questioning from employees and to encourage two-way dialogue. Most sites are actively engaged in involvement initiatives to allow all employees to understand and relate to our business goals. Many sites also hold open days to allow employees' families to see the environment in which their family members work.

More information relating to employee engagement can be found in the CSR Report on page 43 and 44.

Reward and recognition. Eligible employees participate in performance-related bonus schemes and some senior management participate in an LTIP. Local incentive schemes relating to site performance are available to most site-based employees and in 2009 the Company offered a three-year Save As You Earn scheme to eligible employees based in the UK, which matured on 1 May 2012.

We respect the right of employees to join trade unions and appropriate representative bodies where they choose to do so. We have in place formal arrangements with recognised national unions where this is deemed appropriate and Partnerships or Works Councils (joint management/employee consultation groups) operate at all UK and Western Continental Europe

facilities. Where these arrangements include nomination of employee representatives, they are not discriminated against and they are allowed reasonable time and facilities to carry out their representative duties.

Employment of disabled persons. We aim to provide a supportive working environment and to offer terms and conditions of service which allow disabled people with the necessary skills and qualifications to obtain employment with the Group. If employees become disabled during the course of their employment, they will continue to be employed, wherever practicable in the same job. If this is not practicable, every effort is made to find and provide appropriate retraining and redeployment. Disabled people are afforded equal opportunities in recruitment and promotion and full and fair consideration is given to providing opportunities for training and development of people with disabilities according to their skills and capabilities.

Equal opportunities. It is our policy to ensure equal opportunity in recruitment, selection, promotion, employee development, training and reward policies and we have an Equal Opportunities and Diversity policy in place which is monitored through the HR function. It is a key objective to ensure that successful candidates for appointment and promotion are selected taking account of individual ability, skills and competencies without regard to age, gender, race, religion, disability or sexual orientation. We place great emphasis on establishing and maintaining a safe working environment for our employees. If an employee is injured during the course of his employment, the incident is thoroughly investigated and, where appropriate, rehabilitation support is provided to help the employee to return to work as soon as possible. Wherever a restructuring programme is undertaken, great care is taken to ensure that all relevant communications, consultations and support and guidance are provided and every effort is made to ensure that compulsory redundancies are minimised.

Charitable and political donations

The Group made monetary donations to charities of £23,000 (2011: £11,000) during the year, including £9,000 to UNICEF, £6,000 to Macmillan Cancer Research and £5,000 to Christie's Hospital in Manchester. We also made donations to In Kind Direct and a number of small local community charities in Poland of laundry and cleaning products with a value of approximately £160,000, of which £152,000 was to In Kind Direct. It is the Group's policy not to make political donations and, accordingly, there were no payments to political organisations during the year (2011: £nil).

Environment

The Group recognises the importance of responsible environmental management and its obligations to protect the environment. The Group therefore gives high priority to all environmental matters relevant to its business. Further information appears in the CSR Report on page 42 and in the separate Sustainability Report available from the Group's website at www.mcbride.co.uk.

Research and development

The Group recognises the importance of investing in research and development which brings new product development support for its customers, research into new products and materials and further development of existing products. Research and development expenditure in the year was £9.9 million (2011: £10.1 million).

Supplier payment policy and practice

Group companies comply with all legislative requirements relating to payment terms. They do not comply with any particular payment code but agree terms and conditions under which business transactions with their suppliers are conducted. Payments are then made in accordance with those terms, provided that suppliers also comply with all relevant terms and conditions. At 30 June 2012, the amount the Group owed its suppliers represented 80 days' purchases (2011: 86 days). The Company is a holding company and therefore does not have any trade creditors.

Financial instruments

Information on the Group's financial risk management objectives, policies and activities and on the exposure of the Group to relevant risks in respect of financial instruments is set out on page 40 and in note 21 to the consolidated financial statements on pages 111 to 116.

Share capital

Details of the Company's share capital are shown in note 22 to the consolidated financial statements on page 116.

The ordinary shares of the Company carry equal rights to dividends, voting and return of capital on the winding-up of the Company. There are no restrictions on the transfer of securities in the Company other than following service of a notice under section 792 of the Act and there are no restrictions on any voting rights or deadlines, other than those prescribed by law, nor is the Company aware of any arrangements between holders of its shares which may result in restrictions on the transfer of securities or on voting rights. Participants in employee share schemes have no voting or other rights in respect of the shares subject to those awards until the allocations are exercised, at which time the shares rank *pari passu* in all respects with shares already in issue. No such schemes have any rights with regard to control of the Company.

The holders of B shares have equal rights to a preferential dividend and return of capital on the winding-up of the Company and are entitled to redeem such B shares if the Directors believe it is appropriate. They are not entitled to attend, speak or vote at general meetings, except on a resolution relating to the winding up of the Company. The B shares are not admitted to the Official List nor are they traded on the London Stock Exchange or any other recognised trading exchange.

Share repurchases

At the 2011 AGM, shareholder approval was granted to allow the Company to repurchase up to 17,985,000 ordinary shares. The existing authority will expire on the date of the 2012 AGM when

the Directors will be seeking authority from shareholders to buy back shares which will be cancelled or may be held as treasury shares for the purpose of meeting obligations under LTIP and employee share schemes.

At the beginning of the financial year the Company held 1,190,878 ordinary shares as treasury shares. During the financial year 900,000 ordinary shares, representing 0.5% of called up and fully paid share capital, were repurchased for a paid consideration of £1,111,534 and 1,157,663 shares were transferred; at the end of the year 933,215 shares remained held in Treasury. In order to satisfy options under the SAYE scheme, which matured on 1 May 2012, 998,717 treasury shares were transferred and 1,800,000 shares were issued by a block listing.

Substantial shareholdings

The Company had been notified of the following interests amounting to 3% or more of its issued share capital as at the end of the financial year and at 2 September 2012 (being the last practical date prior to the date of this Report).

Shareholder	As at 2 September 2012		As at 30 June 2012	
	Number of Shares	%	Number of Shares	%
Invesco Perpetual	29,143,875	16.0	29,143,875	16.0
Franklin Templeton	28,713,225	15.8	28,713,225	15.8
Delta Lloyd Asset Management	27,127,671	14.9	27,000,000	14.8
Allianz Global Investors	9,473,359	5.2	9,473,359	5.2
Brandes Investment Partners	8,282,668	4.6	8,103,668	4.5
Legal & General Investment Management	6,467,620	3.6	6,491,889	3.6

All the above are institutional holders.

Significant agreements/takeovers directive

There are a number of agreements that take effect, alter or terminate upon a change of control of the Group such as commercial contracts, bank loan agreements and employee share schemes. None of these are deemed to be significant in terms of their potential impact on the business of the Group as a whole.

Articles of Association

The Articles give power to the Board to appoint directors, but also require directors to retire and submit themselves for election at the first AGM following their appointment. Specific information regarding the re-election of directors is contained in the Corporate Governance Report on page 49.

The Articles place a general prohibition on a director voting in respect of any contract or arrangement in which they have a material interest other than by virtue of their interest in shares in the Company.

In addition, the Act requires a director of a company who is in any way interested in a contract or proposed contract with the Company to declare the nature of their interest at a meeting of the directors of the company. The definition of 'interest' includes the interests of spouses, children, companies and trusts. The Act also requires that a director must avoid a situation where a director has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests.

Statutory information continued

The Act allows directors of public companies to authorise such conflicts, where appropriate, if a Company's Articles so permit; the Company's Articles do permit such authorisation.

The Board may exercise all the powers of the Company subject to the provisions of relevant statutes and the Articles. The Articles, for instance, contain specific provisions and restrictions regarding the Company's power to borrow money and to the issuing of shares. A copy of the Articles is available from the Group's website at www.mcbride.co.uk.

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 on pages 8 to 44. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 38 to 40. In addition, note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risks.

The Group meets its funding requirements through internal cash generation and bank credit facilities, most of which are committed until June 2015 as described in note 21 to the financial statements. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate comfortably within its current bank facilities. The Directors are confident that the Group will be able to extend or refinance these facilities as and when required.

The Group has a robust business model with a relatively conservative level of debt-to-equity gearing. As a result, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. 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 financial statements.

Directors' statement regarding disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information (that is, information needed by the auditors in connection with preparing their report) and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The notice convening the Company's 2012 AGM at Centre Point, 103 New Oxford Street, London, WC1A 1DD on 15 October 2012 at 2.30 pm is set out in a separate document issued to shareholders.

The Annual Report and Accounts for the year ended 30 June 2012 are available from the Group's website at www.mcbride.co.uk or can be obtained free of charge from the Company's registered office.

Independent auditors

At the 2011 AGM, shareholders appointed KPMG Audit Plc as auditors for the Group. During the year the appointment of auditors was the subject of a tender, as a result of which the appointment of PricewaterhouseCoopers LLP was announced on 14 November 2011. On the recommendation of the Audit Committee, in accordance with section 489 of the Act, resolutions are to be proposed at the AGM for the appointment of PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Board to fix their remuneration. The remuneration of the auditors for the year ended 30 June 2012 is fully disclosed in note 7 to the consolidated financial statements on page 96.

Signed on behalf of the Board

Carole Barnet

Company Secretary

3 September 2012

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and 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 which enable the Directors to ensure that the Company's financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website www.mcbride.co.uk. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Each of the Directors, the names and roles of whom are set out on page 47, confirms that to the best of his or her knowledge and belief:

→ the financial statements in this document, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and of the Group as a whole; and

→ the Directors' Report, including the Business Review, includes a fair view of the development and performance of the business and the position of the Company and of the Group as a whole, including a description of the principal risks and uncertainties that they face.

Each Director in office at the date the Directors' Report is approved, confirms to the best of his or her knowledge and belief:

→ so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

→ he or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Signed on behalf of the Board

Chris Bull
Chief Executive

3 September 2012

Independent Auditors' report to the members of McBride plc

We have audited the group financial statements of McBride plc for the year ended 30 June 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of changes in equity, the Reconciliation of net cash flow to movement in net debt 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 75, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 30 June 2012 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report 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 pages 53 to 54 in Annual Report and Accounts with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; 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 75, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of McBride plc for the year ended 30 June 2012 and on the information in the Remuneration Committee Report that is described as having been audited.

John Minards (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

3 September 2012

Financial statements

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Consolidated income statement for the year ended 30 June 2012

	Note	Pre exceptional items 2012 £m	Exceptional items (see note 3) 2012 £m	Post exceptional items 2012 £m	Pre exceptional items 2011 £m	Exceptional items (see note 3) 2011 £m	Post exceptional items 2011 £m
Revenue	2	813.9	–	813.9	812.4	–	812.4
Cost of sales		(558.3)	–	(558.3)	(547.6)	–	(547.6)
Gross profit		255.6	–	255.6	264.8	–	264.8
Distribution costs		(52.4)	–	(52.4)	(54.3)	–	(54.3)
Administrative costs							
Before adjusting items		(173.7)	–	(173.7)	(181.5)	–	(181.5)
Amortisation of intangible assets		(1.7)	–	(1.7)	(2.9)	–	(2.9)
Exceptional items		–	(11.6)	(11.6)	–	(12.3)	(12.3)
Changes in estimates of contingent consideration arising on business combinations	17	–	1.9	1.9	–	–	–
Administrative costs including adjusting items		(175.4)	(9.7)	(185.1)	(184.4)	(12.3)	(196.7)
Operating profit	2	27.8	(9.7)	18.1	26.1	(12.3)	13.8
Adjusted operating profit				29.5			29.0
Financial income		4.9	–	4.9	4.3	–	4.3
Financial costs							
Before unwind of discount on contingent consideration		(10.7)	–	(10.7)	(10.8)	–	(10.8)
Unwind of discount on contingent consideration		(0.2)	–	(0.2)	(0.2)	–	(0.2)
Net financing costs including unwind of discount on contingent consideration	6	(6.0)	–	(6.0)	(6.7)	–	(6.7)
Profit before tax	7	21.8	(9.7)	12.1	19.4	(12.3)	7.1
Taxation	8	(5.7)	2.7	(3.0)	(4.9)	3.1	(1.8)
Profit for the year attributable to owners of the parent		16.1	(7.0)	9.1	14.5	(9.2)	5.3
Earnings per ordinary share (pence)	9						
Basic				5.1			2.9
Diluted				5.0			2.9

Consolidated statement of comprehensive income for the year ended 30 June 2012

	Note	2012 £m	2011 £m
Profit for the year		9.1	5.3
Other comprehensive (expense)/income			
Foreign exchange translation differences		(14.3)	11.0
Net gain/(loss) on hedge of net investment in foreign subsidiaries		10.0	(8.5)
Effective portion of (loss)/gain in fair value of cash flow hedges		(4.4)	1.8
Net changes in fair value of cash flow hedges transferred to income statement		0.8	2.1
Actuarial (loss)/gain on defined benefit pension schemes	19	(5.8)	4.5
Taxation relating to components of other comprehensive income	8	1.9	(2.3)
Total other comprehensive (expense)/income		(11.8)	8.6
Total comprehensive (expense)/income for the year		(2.7)	13.9

Consolidated balance sheet for the year ended 30 June 2012

Company name: McBride plc
Registered number: 2798634

	Note	2012 €m	2011 €m
Non-current assets			
Intangible assets	11, 12	35.7	38.6
Property, plant and equipment	13	175.6	190.9
Other non-current assets	14	0.6	0.6
Derivative financial instruments	21	0.2	–
Deferred tax	8	2.1	2.5
		214.2	232.6
Current assets			
Inventories	15	72.1	81.6
Trade and other receivables	16	143.1	154.6
Derivative financial instruments	21	0.6	1.5
Cash and cash equivalents	25	12.4	9.6
Assets classified as held for sale	13	1.6	4.8
		229.8	252.1
Total assets		444.0	484.7
Current liabilities			
Interest bearing loans and borrowings	20	48.9	47.3
Trade and other payables	17	190.8	221.6
Derivative financial instruments	21	2.4	3.0
Current tax payable		3.8	0.9
Provisions	18	7.0	6.1
		252.9	278.9
Non-current liabilities			
Interest bearing loans and borrowings	20	44.7	46.0
Pensions and other post-employment benefits	19	19.5	16.2
Trade and other payables	17	3.6	6.3
Derivative financial instruments	21	2.2	–
Provisions	18	0.4	0.5
Deferred tax	8	8.3	11.4
		78.7	80.4
Total liabilities		331.6	359.3
Net assets		112.4	125.4
Equity			
Issued share capital	22	18.3	18.1
Share premium account		129.2	139.9
Other reserves		10.0	6.1
Retained earnings		(45.7)	(39.3)
Equity attributable to owners of the Company		111.8	124.8
Non-controlling interests		0.6	0.6
Total equity		112.4	125.4

The financial statements on pages 78 to 119 were approved by the Board of Directors on 3 September 2012 and were signed on its behalf by:

Chris Bull
Director

Consolidated cash flow statement

for the year ended 30 June 2012

	Note	2012 £m	2011 £m
Profit before tax		12.1	7.1
Net financing costs	6	6.0	6.7
Pre-tax exceptional charge in the year	3	11.6	12.3
Changes in estimate of contingent consideration	17	(1.9)	-
Share-based payments	23	0.3	0.3
Profit on sale of non-current assets	7	(1.0)	(0.5)
Depreciation	13	23.5	24.8
Amortisation of intangible assets	12	1.7	2.9
Operating cash flow before changes in working capital		52.3	53.6
Decrease/(increase) in receivables		0.2	(7.9)
Decrease/(increase) in inventories		3.0	(5.9)
(Decrease)/increase in payables		(13.7)	5.4
Operating cash flow after changes in working capital		41.8	45.2
Additional cash funding of pension scheme		(2.3)	(2.6)
Cash outflow in respect of exceptional items		(6.7)	(7.4)
Cash generated from operations		32.8	35.2
Interest paid		(5.5)	(4.6)
Taxation paid		-	(7.6)
Net cash from operating activities		27.3	23.0
Cash flows from investing activities			
Proceeds from sale of non-current assets		4.3	1.2
Acquisition of property, plant and equipment		(25.2)	(24.1)
Acquisition of intangible assets		(1.2)	(0.7)
Acquisition of businesses, net of cash acquired	4, 17	(1.9)	(2.2)
Interest received		0.1	-
Settlement of forward contracts used in net investment hedging		2.4	(0.9)
Net cash used in investing activities		(21.5)	(26.7)
Cash flows from financing activities			
Proceeds from issue of share capital		2.6	0.1
Repurchase of own shares		(1.1)	(1.3)
Redemption of B shares	10	(11.8)	(3.5)
Increase in borrowings		17.5	55.3
Repayment of borrowings		(7.2)	(33.6)
Payment of finance lease liabilities		(0.4)	(0.6)
Dividends paid	10	-	(8.7)
Net cash used in financing activities		(0.4)	7.7
Net increase in cash and cash equivalents		5.4	4.0
Cash and cash equivalents at start of year		2.6	(1.1)
Effect of exchange rate fluctuations on cash held		(0.4)	(0.3)
Cash and cash equivalents at end of year	25	7.6	2.6
Reconciliation of cash and cash equivalents per the balance sheet and cash flow statement			
Cash and cash equivalents per the balance sheet		12.4	9.6
Overdrafts		(4.8)	(7.0)
Cash and cash equivalents per the cash flow statement	25	7.6	2.6

Reconciliation of net cash flow to

movement in net debt

for the year ended 30 June 2012

	Note	2012 £m	2011 £m
Increase in cash and cash equivalents in the year		5.4	4.0
Movement in debt		(10.3)	(21.7)
Movement on finance leases		0.4	0.6
Change in net debt resulting from cash flows		(4.5)	(17.1)
Debt acquired with subsidiaries		-	(0.9)
Exchange movements		7.0	(5.7)
Movement in net debt in the year		2.5	(23.7)
Net debt at the beginning of the year		(83.7)	(60.0)
Net debt at the end of the year	25	(81.2)	(83.7)

Consolidated statement of changes in equity for the year ended 30 June 2012

	Issued share capital £m	Share premium account £m	Cash flow hedge reserve £m	Translation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity and reserves £m
At 1 July 2010	18.1	143.5	(4.6)	0.3	0.5	(33.7)	124.1	0.6	124.7
Profit for the year	-	-	-	-	-	5.3	5.3	-	5.3
Other comprehensive income/(expense):									
Foreign exchange translation differences	-	-	-	11.0	-	-	11.0	-	11.0
Net loss on hedge of net investment in foreign subsidiaries	-	-	-	(8.5)	-	-	(8.5)	-	(8.5)
Effective portion of changes in fair value of cash flow hedges	-	-	1.8	-	-	-	1.8	-	1.8
Net changes in fair value of cash flow hedges transferred to profit or loss	-	-	2.1	-	-	-	2.1	-	2.1
Actuarial gain on defined benefit pension schemes	-	-	-	-	-	4.5	4.5	-	4.5
Taxation relating to components of other comprehensive income	-	-	-	-	-	(2.3)	(2.3)	-	(2.3)
Total comprehensive income/(expense):	-	-	3.9	2.5	-	7.5	13.9	-	13.9
Transactions with owners of the Company:									
Share-based payments	-	-	-	-	-	0.6	0.6	-	0.6
Issue of B shares	-	(3.6)	-	-	-	-	(3.6)	-	(3.6)
Redemption of B shares	-	-	-	-	3.5	(3.5)	-	-	-
Equity dividends	-	-	-	-	-	(8.7)	(8.7)	-	(8.7)
Own shares acquired and held as treasury shares	-	-	-	-	-	(1.3)	(1.3)	-	(1.3)
Shares issued to satisfy share option exercises	-	-	-	-	-	0.1	0.1	-	0.1
Related tax movements	-	-	-	-	-	(0.3)	(0.3)	-	(0.3)
At 30 June 2011	18.1	139.9	(0.7)	2.8	4.0	(39.3)	124.8	0.6	125.4
Profit for the year	-	-	-	-	-	9.1	9.1	-	9.1
Other comprehensive (expense)/income:									
Foreign exchange translation differences	-	-	-	(14.3)	-	-	(14.3)	-	(14.3)
Net gain on hedge of net investment in foreign subsidiaries	-	-	-	10.0	-	-	10.0	-	10.0
Effective portion of changes in fair value of cash flow hedges	-	-	(4.4)	-	-	-	(4.4)	-	(4.4)
Net changes in fair value of cash flow hedges transferred to profit or loss	-	-	0.8	-	-	-	0.8	-	0.8
Actuarial loss on defined benefit pension schemes	-	-	-	-	-	(5.8)	(5.8)	-	(5.8)
Taxation relating to components of other comprehensive income	-	-	-	-	-	1.9	1.9	-	1.9
Total comprehensive (expense)/income:	-	-	(3.6)	(4.3)	-	5.2	(2.7)	-	(2.7)
Transactions with owners of the Company:									
Share-based payments	-	-	-	-	-	0.5	0.5	-	0.5
Issue of B shares	-	(12.2)	-	-	-	-	(12.2)	-	(12.2)
Redemption of B shares	-	-	-	-	11.8	(11.8)	-	-	-
Own shares acquired and held as treasury shares	-	-	-	-	-	(1.1)	(1.1)	-	(1.1)
Shares issued to satisfy share option exercises	0.2	1.5	-	-	-	0.9	2.6	-	2.6
Related tax movements	-	-	-	-	-	(0.1)	(0.1)	-	(0.1)
At 30 June 2012	18.3	129.2	(4.3)	(1.5)	15.8	(45.7)	111.8	0.6	112.4

The number of treasury shares held at 30 June 2012 was 933,215 (2011: 1,190,878).

Cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to transactions that have not occurred.

Translation reserve includes cumulative exchange differences arising from the translation of foreign subsidiaries into Sterling.

Notes to the Group financial statements

1. Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU) ('adopted IFRS') in accordance with EU law (IAS Regulation EC 1606/2002) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare the parent company's financial statements in accordance with UK GAAP. These are presented on pages 121 to 127.

McBride plc is the Group's ultimate parent company. McBride plc is a limited liability company incorporated and domiciled in England. The address of McBride plc's registered office is 28th Floor, Centre Point, 103 New Oxford Street, London, WC1A 1DD. Copies of the Annual Report are available at this address.

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 on pages 8 to 44. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 38 to 40. In addition note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risks.

The Group meets its funding requirements through internal cash generation and bank credit facilities, most of which are committed until June 2015 as described in note 21 to the financial statements. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate comfortably within its current bank facilities.

The Group has a robust business model with a relatively conservative level of debt-to-equity gearing. As a result, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. 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, the consolidated financial statements are prepared on the going concern basis and on the historical cost basis except where adopted IFRS require an alternative treatment. The principal variations to historical cost relate to pensions (IAS 19), certain financial instruments (IAS 39) and non-current assets held for sale (IFRS 5).

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year; or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of adopted IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed on page 90.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements with the following exceptions:

The IASB's annual improvements project was published in May 2010 and most of its changes are effective for annual periods beginning on or after 1 January 2011 and have been adopted by the Group including minor amendments to a number of standards in areas including consolidation, business combinations and financial instruments.

The following accounting standards and interpretations, issued by the International Accounting Standards Board or IFRIC (as endorsed by the EU), are effective for the first time in the current financial year and have been adopted by the Group:

Amendment to IAS 24 'Related party disclosures' which clarifies the definition of a related party.

Amendment to IFRS 7 'Disclosures – Transfers of financial assets' which requires additional disclosures regarding the risk exposures relating to transfers of financial assets.

Amendment to IFRIC 14 'Prepayments of a minimum funding requirement' provides guidance on assessing the recoverable amount of a pension asset and permits an entity to treat the prepayment of a minimum funding requirement as an asset.

1. Significant accounting policies continued

Basis of preparation continued

IFRIC 19 'Extinguishing financial liabilities with equity instruments' which addresses the accounting by an entity that issues equity instruments in order to settle, in full or in part, a financial liability.

The adoption of these amendments and interpretations has not had a material effect on the net assets, results and disclosures of the Group.

Adjusted results

The Group believes that adjusted operating profit and adjusted earnings per share (see note 9) provide additional useful information to shareholders on the underlying performance achieved by the Group. These measures are used for internal performance analysis and short and long term incentive arrangements for employees. Adjusting items include amortisation of intangible assets, exceptional items, changes in estimates of contingent consideration arising on business combinations, any non-cash financing costs from unwind of discount on initial recognition of contingent consideration and any related tax.

Exceptional items are presented separately as, due to their nature or the infrequency of the events giving rise to them, this allows users of the financial statements to understand better the elements of financial performance for the year, to facilitate comparison with prior periods, and to assess better the trends of financial performance. Further details are given in note 3.

Contingent consideration that is deferred and subject to performance targets is required to be re-measured at the balance sheet date during the deferral period. Should the post acquisition performance, which is reflected in underlying earnings, fall short of expectations the contingent consideration may be decreased with a corresponding credit to the income statement. This credit offsets to an extent the shortfall in post acquisition performance. Likewise should the post acquisition profit exceed expectations the deferred consideration liability may increase and this results in a charge to the income statement, this time offsetting the higher underlying post acquisition performance. Management consider that such movements in the deferred consideration distort the underlying post acquisition performance of the acquired business and therefore do not include these in adjusted operating profit or adjusted earnings per share.

Basis of consolidation

The Group financial statements consist of the financial statements of McBride plc ('the Company') and all its subsidiary undertakings (collectively referred to as 'the Group').

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, contracts or agreements with non-controlling interests and potential voting rights that presently are exercisable or convertible are taken into account.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. Total comprehensive income is attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Non-controlling interests are not recognised when the Group is contractually committed to purchase the remaining shares in the consolidated subsidiary that it does not already legally own. In these situations the non-controlling shareholder is not considered to have present access to the economic benefits associated with the underlying ownership interests in the subsidiary.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Accounting policies of subsidiaries acquired have been changed where necessary to ensure consistency with the policies adopted by the Group.

A list of principal subsidiaries is included in note 4 to the parent company financial statements.

Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains and losses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred or assumed and equity

Notes to the Group financial statements continued

1. Significant accounting policies continued

Basis of consolidation continued

instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in the income statement as incurred.

Where applicable, the consideration for the acquisition includes contingent consideration, measured at its acquisition date fair value. Subsequent changes in the fair value of contingent consideration are adjusted against the cost of acquisition when they qualify as measurement period adjustments or otherwise are accounted for as fair value changes in the income statement. Such contingent consideration liabilities are discounted and the discount on initial recognition is unwound and recognised in the income statement.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair value at the acquisition date. If the initial accounting for a business combination is incomplete by the end of a reporting period in which the combination occurs, the Group reports provisional amounts. Provisional amounts are adjusted during the measurement period or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date. The measurement period is the period from the date of the acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

The Group has adopted the exemption permitted in Revised IFRS 3 'Business Combinations' to apply the standard only to business combinations after 1 July 2009. The accounting for business combinations transacted prior to this date has not been restated and the following principal elements were different:

- directly attributable costs were included as part of the cost of an acquisition;
- subsequent adjustments to the contingent consideration affected the recorded goodwill.

Foreign currencies

In line with the exemption permitted under IFRS 1, the Group elected to reset the foreign currency translation reserve to zero at 1 July 2004, the date of transition.

Transactions in foreign currencies are translated to the respective functional currency of Group entities at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. The income and expenses of subsidiaries whose functional currency is not Sterling are translated at the average rates of exchange for the year.

The assets and liabilities of overseas subsidiaries are translated at the closing rates of exchange ruling at the balance sheet date. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the acquired company and recorded initially at the transaction date exchange rate and thereafter at the closing rate of exchange ruling at the balance sheet date.

Differences arising on retranslation are taken directly to a separate component of equity. Exchange differences arising from the retranslation of a net investment in a foreign operation less exchange differences on foreign currency borrowings and foreign currency forward contracts which effectively hedge that operation are taken to equity. On disposal of a foreign operation, accumulated exchange differences are recognised in the income statement as a component of the gain or loss on disposal.

Revenue

Revenue comprises the invoiced value for the sale of goods net of sales rebates, discounts, value added tax and other taxes directly attributable to revenue and after eliminating sales within the Group. Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following basis:

Sale of goods

Sales of goods are recognised as revenue on transfer of risks and rewards of ownership, which generally coincides with the time of delivery to customers.

Sales rebates and discounts

Accruals in relation to sales rebates and discounts are established at the time of sale based on management's best estimate of the amounts payable under contractual arrangements with the Group's customers.

1. Significant accounting policies continued

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current income tax

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax

Deferred tax is recognised using the balance sheet liability method on taxable temporary differences between the tax base and the accounting base of items included in the balance sheet of the Group. Certain temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences related to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. No deferred tax liability has been recognised in respect of investments as it is not probable that any taxable gains will arise in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates prevailing at the year end unless future tax rates have been enacted or at least substantively enacted.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Net financing costs

Net financing costs are measured using the effective interest rate method and comprise interest payable on bank loans, overdrafts and finance leases, fair value gains and interest on differentials on derivatives, interest receivable on funds invested, the unwinding of discounts on initial recognition of contingent consideration arising on business combinations, expected return on pension assets and the interest cost on pension scheme liabilities.

Segments

In accordance with IFRS 8 'Operating Segments', the identification of the Group's operating segments is based on internal management reporting as reviewed by the chief operating decision maker in order to assess performance and allocate resources.

The Group is managed on a geographical basis. Transfer prices between segments are set on an arm's length basis. Segment revenue includes transfers between segments, which are eliminated on consolidation. Segment profit is shown net of adjustments to eliminate profit on such transfers.

Segment operating profit is determined on an underlying basis, excluding adjusting items and unallocated corporate expenses, as this is believed to be more representative of the underlying performance of each operating segment.

Payments to shareholders

On 24 March 2011, the shareholders of the Company passed a resolution to make payments to shareholders via the issue and subsequent redemption of B shares. Subject to shareholder approval at each AGM, it is the Company's intention that, for the foreseeable future, all payments to shareholders will be made in this way. B shares are recognised as liabilities when they are issued and are held at amortised cost from the date of issue until redeemed. Prior to this shareholder resolution, payments to shareholders were made by payment of dividends which were recognised in the Group's financial statements in the period in which they were paid.

Intangible assets

Patents, brands and trade marks

Patents, brands and trade marks obtained on acquisition of businesses are shown at fair value. They have a finite useful life and are carried at fair value at the date of acquisition less accumulated amortisation or any impairment loss. Amortisation is calculated on a straight line basis up to three years.

Customer relationships

Customer relationships obtained on acquisition of businesses are shown at fair value. They have a finite useful life and are carried at fair value at the date of acquisition less accumulated amortisation or any impairment loss. Amortisation is calculated on a straight line basis over their economic life, typically of up to five years.

Notes to the Group financial statements continued

1. Significant accounting policies continued

Intangible assets continued

Computer software

Computer software is carried at cost less any accumulated amortisation or any impairment loss. Externally acquired computer software and software licences are capitalised and amortised on a straight line basis over their useful economic lives of three to five years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria are met. When the software is available for its intended use, these costs are amortised over the estimated useful life of the software.

Goodwill

In line with the exemption permitted under IFRS 1, the Group elected to apply IFRS 3 'Business Combinations' prospectively from 1 July 2004 ('the transition date') rather than restate previous business combinations. As a result the carrying amount of goodwill in the Group balance sheet at 1 July 2004 has been brought forward without adjustment. In respect of acquisitions prior to 1 July 2004, goodwill represents the amount recognised under the Group's previous accounting framework.

Goodwill represents the excess of cost of an acquisition over the Group's interest in the net fair value of identifiable net assets and contingent liabilities of a business at the date of acquisition. Goodwill on acquisitions is included in intangible assets. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Goodwill is carried at cost less accumulated impairment losses.

The Group assesses the carrying value of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that such carrying value may not be recoverable. Goodwill is allocated to cash generating units, these being the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and for impairment testing. Further details are given in note 11.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight line basis and charged to the income statement through administrative costs over the estimated useful life of the asset as follows:

Freehold buildings	– over 50 years
Leasehold buildings	– life of the lease
Plant and machinery	– 8 to 10 years
Computer equipment	– 3 to 5 years
Motor vehicles	– 4 years
Moulding equipment	– 3 to 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and revised if necessary.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the income statement.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount as determined by the Group's policy for impairment of non-financial assets below.

Assets that are being constructed for future use are classified as assets in the course of construction until such time as they are brought into use by the Group. Assets in the course of construction includes all directly attributable expenditure including borrowing costs. Upon completion the assets are transferred to the appropriate category within property, plant and equipment. No depreciation is charged on these items until after they have been transferred.

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. The carrying amount of the asset is reduced through the use of an allowances account and the amount of the loss is recognised in the income statement within revenue. When a trade receivable is uncollectible it is written off against the allowances account for trade receivables. Subsequent recoveries of amounts previously written off are credited against revenue in the income statement.

1. Significant accounting policies continued

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the payment is due within one year or less. If not they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

Research and development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the income statement as an expense as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Impairment

Non-financial assets

For the purposes of assessing impairment, non-financial assets (e.g. goodwill, intangible assets and property, plant and equipment) are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). At each balance sheet date, the Group reviews the carrying amounts of its non-financial assets excluding goodwill which is tested for impairment annually to determine whether there are any indications of impairment. If any such indication exists, the asset's recoverable amount is estimated and if this is found to be less than the carrying amount, then the carrying amount is reduced to its recoverable amount. An impairment charge is recognised in the income statement in the year in which it occurs and is applied first against the goodwill attributable to the relevant cash generating unit. The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate reflecting the risks inherent in the asset.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

Financial assets

For financial assets such as trade receivables, provisions for impairment are made when there is evidence of a risk of non-payment, taking into account ageing, previous experience and general economic conditions. When a trade receivable is determined to be uncollectable it is written off, firstly against any provision available and then to the income statement. Subsequent recoveries of amounts previously provided for are credited to the income statement.

Leased assets

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term unless there is reasonable certainty that the Group will obtain ownership of the leased asset at the end of the

Notes to the Group financial statements continued

1. Significant accounting policies continued

Leased assets continued

lease term. In such cases, the leased asset is depreciated over its useful economic life. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease is recognised as deferred income and is released over the life of the lease.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis.

Finished goods and work in progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, if these are repayable on demand and part of the Group's cash management policy.

Employee benefits

In respect of defined benefit pension schemes, the pension surplus/deficit recognised in the balance sheet represents the difference between the fair value of plan assets and the present value of the defined benefit obligation at the balance sheet date. The net defined benefit obligation is determined using assumptions determined by the Group by qualified actuaries using the projected unit credit actuarial valuation method. The income statement charge is split between an operating service cost and financing income and charge. Actuarial gains and losses are recognised immediately in the consolidated statement of comprehensive income. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions from the plan.

Payments to defined contribution schemes are recognised as an expense as they fall due. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense. Further details are given in note 18.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of directly attributable issue costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any directly attributable issue costs, and any discount or premium on settlement. Costs capitalised on initial recognition are amortised on the finance expense line in the income statement, and are written off on derecognition of the liability.

Derivative financial instruments

The Group does not enter into speculative derivative contracts. The Group uses derivative financial instruments such as foreign currency forward contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations relating to certain firm commitments and highly probable forecasted transactions. Foreign currency forward contracts are also used to hedge net investment in foreign operations. Such derivative financial instruments are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments and is the amount that the Group would receive or pay to terminate the swap at the balance sheet date. Changes in fair value are immediately recognised in the income statement except where hedge accounting is applicable (see below).

1. Significant accounting policies continued

Hedge accounting

Cash flow hedge

For the purposes of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction.

In relation to cash flow hedges where forward foreign currency contracts are used to hedge firm commitments or highly probable forecast transaction which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged firm commitment or highly probable forecast transaction affects the income statement, for example when the future cash flow actually occurs.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Hedging of net investment

Foreign currency differences arising on the retranslation of a financial instrument designated as a hedge of a net investment in a foreign operation are recognised directly in equity to the extent that the hedge is effective. To the extent the hedge is ineffective, such differences are recognised in the income statement. On the disposal of a foreign operation the cumulative amount in equity is transferred to the income statement as an adjustment to the gain or loss on disposal.

Hedge effectiveness

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

Share capital

Ordinary shares are classified as equity. Where the Company purchases its own shares, the consideration paid including any directly attributable incremental costs is deducted from the equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments. Proceeds from the sale of treasury shares are recognised in equity.

Share-based payments

The Group operates both equity-settled and cash-settled share-based compensation plans under which the Group receives services from employees as consideration for options or awards of equity instruments or cash payments in lieu of equity instruments of the Company. The fair value of the employee services received in exchange for the options or awards granted is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the awards granted:

- including any market performance conditions, such as the total shareholder return from the Company's shares relative to their peer group;
- excluding the impact of any service or non-market performance vesting conditions, such as earnings per share targets and remaining employees of the Group over a specified time period;
- including the impact of any non-vesting conditions, such as the requirement for employees to save.

Non-market performance and service conditions are included in the assumptions about the number of options or awards that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

Notes to the Group financial statements continued

1. Significant accounting policies continued

Share-based payments continued

At the end of each reporting period, the Group revises its estimates of the number of options awards that are expected to vest based on the non-market conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with corresponding adjustments to equity for equity-settled awards and payables for cash-settled awards. Cancellations of options are treated as an acceleration of the vesting period and any outstanding charge is recognised as an expense immediately.

Accounting judgements and estimates

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and judgements and their application.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 30 June 2012 was £32.6 million (2011: £34.9m). Further details including sensitivities are given in note 11.

Intangible assets

Intangible assets acquired in relation to business combinations are recognised at fair value. Such intangible assets are valued using discounted cash flow models which use the weighted average cost of capital adjusted to reflect the risk that a particular acquisition would have for a market participant. Typically, cash flows are prepared for five years. These cash flows are then adjusted to reflect a market participant's judgement for risk. Where a brand is identified as having future value then the value is ascertained by use of a post-tax royalty cash flow over the five years.

Impairment reviews in respect of intangible assets are performed when an event indicates that an impairment review is necessary. Examples of such triggering events include a significant planned restructuring, a major change in market conditions or technology, expectations of future operating losses or a significant reduction in cash flows.

Contingent consideration on acquisitions

Contingent consideration relating to acquisitions has been included based on management estimates of the most likely outcome of performance criteria including the level of future revenue and profitability of the acquiree business. Further details on the movements in contingent consideration related to acquisitions are given in note 17.

Pension and other post employment benefits

The Group's defined benefit pension schemes and similar arrangements are assessed at least annually in accordance with IAS 19. The accounting valuation, which is based on assumptions taking into account independent actuarial advice, resulted in a pre-tax deficit of £17.9 million (2011: £14.2m) being recognised in the balance sheet at 30 June 2012. The size of the deficit is sensitive to the market value of the assets held by the schemes, the discount rate used, actuarial liabilities, mortality and other demographic assumptions and the level of contributions. Further details including sensitivities are disclosed in note 19.

Revenue recognition

As described in the policy above, the Group establishes accruals at the time of the sale in relation to sales rebates and discounts and these costs are accrued based on best estimates.

Provisions

As described in the policy above, the Group measures provisions at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Estimates are made taking account of information available and different possible outcomes. Further details are disclosed in note 18.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are disclosed in note 8.

1. Significant accounting policies continued

Accounting standards issued but not adopted

The following amendments have been issued by the IASB and have been endorsed by the EU but have not been early adopted this year:

- Amendment to IAS 1 'Presentation of financial statements' requires companies to group together items with other comprehensive income that may be reclassified to the profit and loss section of the income statement. The amendments reaffirm existing requirements that items in other comprehensive income and profit and loss should be presented as either a single statement or as two separate statements. This amendment will become mandatory for the Group's 2013 financial statements.
- Amendments to IAS 19 'Employee benefits' eliminates the corridor approach and requires the calculation of finance costs on a net funding basis and extends disclosure requirements. This standard will become mandatory for the Group's 2014 financial statements.

The following standards and amendments have been issued by the IASB, but are yet to be endorsed by the EU and have not been early adopted this year:

- The IASB published 'Improvements to IFRSs (2009-2011)' in May 2012 which clarifies or removes unintended inconsistencies between IFRSs. These amendments become mandatory for the Group's 2014 financial statements.
- Amendment to IAS 12 'Deferred tax: recovery of underlying assets' which requires that deferred tax on non-depreciable assets measured using the valuation model should be calculated on a sale basis. This amendment will become mandatory for the Group's 2013 financial statements.
- IAS 27 'Separate financial statements' requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 'Financial instruments'. This standard will become mandatory for the Group's 2014 financial statements.
- IAS 28 'Investments in associates and joint ventures' supersedes IAS 28 'Investments in associates' and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will become mandatory for the Group's 2014 financial statements.
- Amendment to IAS 32 'Financial instruments: presentation' clarifies requirements in relation to offsetting of financial assets and liabilities. This standard will become mandatory for the Group's 2015 financial statements.
- Amendment to IFRS 7 'Financial instruments: disclosures' which requires enhanced disclosures in relation to offsetting of financial assets and liabilities. This standard will become mandatory for the Group's 2014 financial statements.
- IFRS 9 'Financial instruments' is being issued in stages and the IASB intends for the standard to eventually replace IAS 39 'Financial instruments: recognition and measurement'. The standard covers the classification, measurement and derecognition of financial assets and financial liabilities. For financial assets it requires classification and measurement in either the amortised cost or fair value category. For a company's own debt held at fair value, the standard requires the movement in the fair value as a result of changes in the company's own credit risk to be included in other comprehensive income. The IASB intends to expand IFRS 9 to add new requirements for impairment and hedge accounting so that it will become a complete replacement of IAS 39 by the end of 2013. The standard will become mandatory for the Group's 2016 financial statements.
- IFRS 10 'Consolidated financial statements' which replaces parts of IAS 27 'Consolidated and separate financial statements' and all of SIC-12 'Consolidation – special purpose entities', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The remainder of IAS 27 now contains accounting and disclosure requirements for investment in subsidiaries, joint ventures and associates only when an entity prepares separate financial statements and is therefore not applicable to the Group's consolidated financial statements. The standard will become mandatory for the Group's 2014 financial statements.
- IFRS 11 'Joint arrangements' which replaces IAS 31 'Interests in joint ventures' and SIC 13 'Jointly controlled entities – non-monetary contributions by venturers', requires a single method, known as the equity method, to account for interests in jointly controlled entities which is consistent with the accounting treatment currently applied to investments in associates. The standard will become mandatory for the Group's 2014 financial statements.
- IFRS 12 'Disclosure of interest in other entities' which sets out disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard includes disclosure requirements for entities covered under IFRS 10 and IFRS 11. The standard will become mandatory for the Group's 2014 financial statements.
- IFRS 13 'Fair value measurement' which provides guidance on how fair value should be applied where its use is already required or permitted by other standards within IFRS, including a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard will become mandatory for the Group's 2014 financial statements.

It is not expected that any of the new standards will have a material impact on the results or net assets of the Group other than the amendment to IAS 19. This changes the basis on which the financing charge is calculated by applying the discount rate to the net defined benefit obligation. It is expected that when the amended standard is adopted it will increase the Group's annual pension financing charge by approximately £0.6 million.

Notes to the Group financial statements continued

1. Significant accounting policies continued

Exchange rates

The exchange rates against Sterling used for the periods were as follows:

	Average rate		Closing rate	
	2012	2011	2012	2011
Euro	1.18	1.17	1.24	1.11
Polish Zloty	5.05	4.63	5.23	4.41
Czech Koruna	29.63	28.73	31.56	26.94
Hungarian Forint	346.47	320.32	353.17	294.01
Malaysian Ringgit	4.89	4.90	4.98	4.85

2. Segment information

In accordance with IFRS 8 'Operating Segments', the identification of the Group's operating segments is based on internal management reporting as reviewed by the Executive Management Team in order to assess performance and allocate resources. Transfer prices between segments are set on an arm's length basis. Segment revenue and profit include transfers between segments, which are eliminated on consolidation.

Segment operating profit is determined on an adjusted basis excluding adjusting items set out in note 1 and unallocated corporate expenses, as this is believed to be more representative of the underlying performance of each operating segment.

Geographic segments

	United Kingdom		Western Continental Europe		Central and Eastern Europe		Elimination/Asia ⁽¹⁾		Total
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2011 £m
External revenue	309.0	304.6	368.7	366.2	127.9	133.9	8.3	7.7	812.4
Inter-segment revenue	6.2	6.1	37.2	39.5	7.7	5.8	(51.1)	(51.4)	-
Total segment revenue	315.2	310.7	405.9	405.7	135.6	139.7	(42.8)	(43.7)	812.4
Segment profit	16.5	11.9	15.6	15.4	4.6	8.9	0.2	-	36.2
Corporate costs									(7.2)
Adjusted operating profit									29.0
Amortisation of intangible assets									(2.9)
Changes in contingent consideration (see note 3)									-
Exceptional items (see note 3)									(12.3)
Reported operating profit									13.8
Net financing costs									(6.7)
Reported profit before tax									7.1

⁽¹⁾ Includes Asia £10.3 million sales (2011: £9.3m) of which £2.0 million are intergroup (2011: £1.6m) and Asia operating profit of £0.2 million (2011: £nil).

	United Kingdom		Western Continental Europe		Central and Eastern Europe		Corporate ⁽²⁾		Total
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2011 £m
Segment assets ⁽³⁾	159.0	164.7	206.3	226.3	64.2	76.6	14.5	17.1	484.7
Segment liabilities	(107.2)	(113.3)	(127.8)	(143.2)	(31.5)	(37.3)	(65.1)	(65.5)	(359.3)
Capital expenditure ⁽⁴⁾	12.0	9.5	9.1	11.8	4.1	11.8	0.1	0.3	33.4
Amortisation and depreciation	9.6	9.8	11.5	12.4	3.8	5.1	0.3	0.4	27.7

⁽²⁾ Corporate liabilities include external debt and tax liabilities.

⁽³⁾ The carrying amount of assets held for sale is included within segment assets as follows: United Kingdom £0.4 million (2011: £nil), Western Continental Europe £1.2 million (2011: £1.3m) and Central and Eastern Europe £nil (2011: £3.5m).

⁽⁴⁾ Capital expenditure includes property, plant and equipment and intangible assets. For the year ended 30 June 2011 the amounts payable in respect of the acquisition of Dermacol a.s. (including contingent consideration) are shown in Central and Eastern Europe.

2. Segment information continued

Geographical information

The Group's revenue from external customers by country of destination and information about its non-current assets (non-current assets excluding deferred tax assets) by geographical location are presented below:

Revenue from external customers by country of destination

	2012 £m	2011 £m
United Kingdom	296.5	284.8
France	221.8	220.2
Italy	82.2	73.3
Other Western Continental Europe	65.2	79.5
Central and Eastern Europe and Rest of World	148.2	154.6
Total revenue	813.9	812.4

Non-current assets by geographical location

	2012 £m	2011 £m
United Kingdom	87.7	87.3
Belgium	46.0	52.9
Italy	22.5	26.3
France	13.4	14.9
Other Western Continental Europe	8.4	10.1
Central and Eastern Europe and Rest of World	33.9	38.6
Total non-current assets	211.9	230.1

Revenue by major customer

The Group has one (2011: none) customer from which revenues represent over 10% of total revenue. This revenue is included within the following geographic segments:

	2012 £m	2011 £m
United Kingdom	80.8	75.6
Central and Eastern Europe	5.6	5.1
Total	86.4	80.7

3. Exceptional items

Exceptional items are presented separately as, due to their nature or the infrequency of the events giving rise to them, this allows users of the financial statements to understand better the elements of financial performance for the year, to facilitate comparison with prior periods, and to assess better the trends of financial performance.

	2012 £m	2011 £m
Charged to operating profit		
Reorganisation and restructuring costs		
– Redundancy	(8.2)	(4.5)
– Restructuring and business reorganisation costs	(5.0)	(2.8)
– Contribution received from customer	5.1	–
	(8.1)	(7.3)
Impairment of goodwill (see note 11)	(1.2)	–
Impairment of property, plant and equipment (see note 13)	(1.3)	(3.4)
Impairment of inventories	(0.8)	–
Impairment of asset held for sale (see note 13)	(0.2)	(1.6)
Reduction in contingent consideration (see note 11)	1.9	–
Total charged to operating profit	(9.7)	(12.3)
Taxation related to exceptional items	2.7	3.1
Total credited to taxation	2.7	3.1
Total charged to profit for the year	(7.0)	(9.2)

Year ended 30 June 2012

The Group incurred further costs in relation to its supply chain restructuring announced in the previous year. As part of the UK divisional supply chain restructuring programme the Burnley site was closed with production transferring to other sites in the UK. In Continental Europe, the Group rationalised its auto dishwasher production through the transfer of production lines from its factory at Moyaux in France to its factory at Foetz in Luxembourg. This re-organisation in Continental Europe involved redundancies at both sites after the completion of the necessary consultation with local employee representative bodies. There was a £3.8 million pre-tax exceptional charge to the income statement in the year related to this supply chain

Notes to the Group financial statements continued

3. Exceptional items continued

Year ended 30 June 2012 continued

restructuring. Included in this charge were £3.9 million for redundancy, £0.8 million for inventory write offs, £4.2 million of other charges, mainly production and logistics expenses related to the transfer of production lines between sites and costs related to site clearance, consultancy, legal and storage. These were partly offset by a £5.1 million contribution received pursuant to an agreement with a customer.

During 2012, the Group initiated a reorganisation to remove the existing divisional management structures and move to organisation by function that would better utilise the Group's scale. These changes include a streamlining of commercial and operating functions and the reorganisation of certain back office functions into a shared service centre in Manchester. There was a £4.6 million pre-tax exceptional charge to the income statement in the year related to these initiatives. Included in this charge were £4.3 million for redundancy and £0.3 million for consultancy costs.

As disclosed in note 11, there was a £2.2 million pre-tax exceptional charge to the income statement in the year in relation to impairment charges of £1.2 million for goodwill and £1.0 million for property, plant and equipment related to the CEE Skincare business, partly offset by a £1.9 million reduction in contingent consideration for that acquisition.

There was a £1.0 million pre-tax exceptional charge to the income statement in relation to the 2010 restructuring programme in Continental Europe. Included in this charge were £0.5 million for impairments of property, plant and equipment (£0.3 million) and assets held for sale (£0.2 million) and £0.5 million of other charges, mainly consultancy and site clean up costs.

Year ended 30 June 2011

In the year ended 30 June 2011, there was a £12.3 million pre-tax operating exceptional charge to the income statement, of which £9.2 million related to the restructuring of the supply chain in the UK, £0.3 million arose in connection with the restructuring of the supply chain in Continental Europe and £1.2 million of additional costs were incurred in relation to the 2010 redundancy programme in Western Continental Europe, in addition to which there was an associated £1.6 million asset write-off. In total, the pre-tax operating exceptional charge comprised £4.5 million of redundancy costs, £3.4 million of asset write-offs and £2.8 million of other incremental items, including external consultancy costs, legal fees and site clean up costs. The £1.6 million pre-tax operating charge was in relation to an impairment of an asset held for sale, being the former production site of Solaro.

Segment information

In terms of the segment analysis in note 2, the exceptional charge relates to the UK £3.6 million (2011: £9.2m), Western Continental Europe £5.5 million (2011: £3.1m) and Central and Eastern Europe £0.6 million (2011: £nil). The impairment charges relate to the UK £0.5 million (2011: £3.2m), Western Continental Europe £0.6 million (2011: £1.8m) and Central and Eastern Europe £2.4 million (2011: £nil).

4. Acquisitions

Acquisitions in 2011

On 1 September 2010, the Group acquired 70% of the share capital of Dermacol a.s., a manufacturer of Skincare products based in the Czech Republic, for an expected consideration of £6.1 million (CZK 183 million), of which £2.3 million (CZK 70 million) was paid on completion, £2.0 million (CZK 60 million) is payable within one year and a further five payments are payable from 2013 to 2017 inclusive, based on Dermacol's sales during the period. The Group has also agreed to purchase the remaining 30% of the shares in late 2017 for a consideration based on the operating profit of Dermacol a.s. in the 2017 financial year. The total consideration cannot exceed a maximum of £21.7 million (CZK 650 million). At the acquisition date, the amount accrued by the Group which discounts future contingent cash payments to their fair value at the date of acquisition was £7.0 million (CZK 208 million).

As noted above, the Group has committed to the purchase of the 30% of shares in Dermacol a.s. that it did not legally acquire at the acquisition date and has recognised a financial liability in relation to the contingent consideration payable for the purchase of the remaining shares. The Directors have elected to account for the non-controlling interests in Dermacol a.s. under the anticipated acquisition method. Under the anticipated acquisition method the interests of the non-controlling shareholder are derecognised when the Group's liability relating to the purchase of its shares is recognised. The recognition of the financial liability implies that the interests subject to the forward purchase are deemed to have been acquired already. Therefore the corresponding interests are presented as already owned by the Group even though legally they are still non-controlling interests. The £3.6 million (CZK 107 million) financial liability recognised by the Group forms part of the contingent consideration for the acquisition. All components of contingent consideration will be carried at fair value in future accounting periods and any adjustments arising will be reflected in the income statement.

All incremental transaction costs related to the acquisition have been recognised in the income statement. The goodwill arising on the acquisition of Dermacol a.s. is mainly attributable to the workforce in place, a base for future growth of the

4. Acquisitions continued

Acquisitions in 2011 continued

Group's Skincare business and access to a low cost location for production. Intangible assets acquired with Dermacol a.s. mainly relate to the fair value placed on customer relationships and software.

Dermacol a.s. contributed £7.0 million revenue and operating profit of less than £0.1 million for the period between the date of acquisition and 30 June 2011.

If the acquisition had been completed on the first day of the 2011 financial year, it would have contributed approximately £8.3 million of revenue and £0.1 million of operating profit to the Group.

	Dermacol a.s.		
	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired:			
Property, plant and equipment	9.2	(1.7)	7.5
Intangible assets	0.2	0.3	0.5
Working capital	1.0	(0.2)	0.8
Cash and cash equivalents	0.2	-	0.2
Debt	(0.9)	-	(0.9)
	9.7	(1.6)	8.1
Fair value of assets acquired			8.1
Goodwill on acquisition			1.2
Total			9.3
Satisfied by:			
Cash paid			2.3
Contingent consideration			7.0
Cash consideration			9.3

5. Related party transactions

In the course of normal operations, related party transactions entered into by the Group have been contracted on an arm's length basis.

(i) Transactions with key management personnel

Key management personnel include individuals who are not Executive Directors of the Group but do have authority and responsibility for planning, directing and controlling activities of the key operating divisions as disclosed in the segmental analysis. They are members of the Executive Management Team as described on page 52.

Remuneration of key management personnel, including Executive Directors is as follows:

	2012 £m	2011 £m
Short-term employee benefits	2.5	2.0
Post-employment benefits	0.2	0.2
Termination benefits	0.2	0.6
Share-based payments	0.2	-
Total	3.1	2.8

During the year ended 30 June 2012, there were no other material transactions or balances between the Group and its key management personnel or members of their close families.

(ii) Transactions with pension and post-employment schemes

Transactions between the Group and its pension and post-employment schemes are disclosed in note 19.

Notes to the Group financial statements continued

6. Financing costs

Finance income	2012 £m	2011 £m
Interest on cash and cash equivalents	–	0.1
Expected return on pension scheme assets (see note 19)	4.8	4.2
Other finance income	0.1	–
	4.9	4.3

Finance costs	2012 £m	2011 £m
Interest expense arising on:		
– Bank loans and overdrafts	(2.6)	(2.1)
– Fair value losses on cash flow hedges transferred to profit and loss ⁽¹⁾	(1.2)	(1.3)
– Finance lease liabilities	– ⁽²⁾	(0.1)
– Interest cost on pension scheme liabilities (see note 19)	(5.0)	(4.8)
– Provisions: unwinding of discount on contingent consideration (see note 17)	(0.2)	(0.2)
Interest differentials on derivatives designated as hedges of net investment in foreign entities	(0.3)	(0.4)
Amortisation of debt issuance costs and deferred fees	(1.5)	(1.8)
Other finance costs	(0.1)	(0.3)
	(10.9)	(11.0)
Net financing costs	(6.0)	(6.7)

⁽¹⁾ Interest expense arising on cash flow hedges transferred to profit and loss relates to interest rate swaps.

⁽²⁾ Interest expense arising on finance lease liabilities in the year was less than £0.1 million.

7. Profit before tax

Profit before tax is stated after charging/(crediting):

	2012 £m	2011 £m
Auditors' remuneration		
Fees payable to the Company's auditor for the parent company financial statements and consolidation	0.1	–
Fees payable to the Company's auditor and network firms for other services:		
– The audit of accounts of the Company's subsidiaries pursuant to legislation	0.3	–
Fees payable to the Company's former auditor for the parent company financial statements and consolidation	–	0.1
Fees payable to the Company's former auditor and network firms for other services:		
– The audit of accounts of the Company's subsidiaries pursuant to legislation	–	0.4
– Services relating to taxation	–	0.1
– All other services	–	0.1
Depreciation and other amounts written off property, plant and equipment	23.5	24.8
Impairment of goodwill (see note 11)	1.2	–
Impairment of property, plant and equipment (see note 13)	1.3	3.4
Impairment of assets held for sale (see note 13)	0.2	1.6
Rentals payable under operating leases	4.7	4.9
Profit on sale of property, plant and equipment	(1.0)	(0.5)
Research and development costs written off during the year*	9.9	10.1
Acquisition related costs	–	0.1
Amortisation of intangible assets (see note 12)	1.7	2.9
Net foreign exchange losses on trading items	–	0.1

* During the years ended 30 June 2011 and 2012, all research and development expenditure was expensed as incurred as the criteria for capitalising development expenditure were not met.

8. Taxation

Analysis of tax charge in income statement

	2012			2011		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Current tax expense:						
Current period	(0.4)	4.4	4.0	–	5.0	5.0
Adjustment for prior periods	(0.1)	(0.4)	(0.5)	–	(0.1)	(0.1)
	(0.5)	4.0	3.5	–	4.9	4.9
Deferred tax (credit)/expense:						
Origination and reversal of temporary differences	0.4	(1.8)	(1.4)	(2.1)	(0.9)	(3.0)
Reduction in the UK tax rate	(0.7)	–	(0.7)	(0.1)	–	(0.1)
Adjustment for prior periods	1.6	–	1.6	–	–	–
	1.3	(1.8)	(0.5)	(2.2)	(0.9)	(3.1)
Total tax (credit)/charge in income statement	0.6	2.4	3.0	(2.2)	4.0	1.8

The Finance Bill 2012, which was published on 29 March 2012, includes legislation reducing the main rate of corporation tax from 26% to 24% with effect from 1 April 2012. This gives rise to an effective UK corporation tax rate of 25.5% (2011: 27.5%) for the year.

Deferred tax balances in the UK have been calculated at 24% at 30 June 2012, the rate that was substantively enacted with effect from 1 April 2012.

Further reductions to the main rate of UK corporation tax are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014. However, as these further reductions have not been substantively enacted at the balance sheet date they are not reflected in the deferred tax recognised on the balance sheet.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Tax recognised in equity and statement of other comprehensive income (OCI)

	2012 Equity £m	2012 OCI £m	2011 Equity £m	2011 OCI £m
Effective portion of changes in fair value of cash flow hedges	–	0.5	–	(0.5)
Net changes in fair value of cash flow hedges transferred to profit or loss	–	0.3	–	(0.6)
Share-based payments and other movements	(0.1)	–	(0.3)	–
Actuarial losses related to the defined benefit pension scheme - deferred tax effect	–	0.5	–	(1.2)
Actuarial losses related to the defined benefit pension scheme - current tax effect	–	0.6	–	–
	(0.1)	1.9	(0.3)	(2.3)

Reconciliation of effective tax rate

The total tax charge on the Group's profit before tax for the year differs from the standard rate of corporation tax for the following reasons:

	2012 £m	2011 £m
Profit for the year	9.1	5.3
Total income tax expense	3.0	1.8
Profit excluding income tax	12.1	7.1
Income tax using the Company's domestic tax rate	3.1	2.0
Effect of tax rates in foreign jurisdictions	0.8	0.7
Non-deductible expenses	1.4	1.8
Tax incentives	(2.5)	(1.3)
Utilisation of tax losses	(0.4)	(1.2)
Tax losses for which no deferred tax recognised	0.4	–
Change in rate of UK corporation tax	(0.7)	(0.1)
Adjustment for share-based payments	0.2	–
Other differences	(0.4)	–
Under/(over) provision in prior years	1.1	(0.1)
Total tax charge for the year	3.0	1.8

Notes to the Group financial statements continued

8. Taxation continued

Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements during the current and prior financial year.

Deferred tax asset/(liability)	Accelerated tax depreciation £m	Intangible assets £m	Tax losses £m	Retirement benefit obligations £m	Share-based payments £m	Surplus ACT £m	Other £m	Total £m
At 1 July 2010	(18.3)	(4.4)	1.8	5.9	0.9	4.1	1.5	(8.5)
Credit/(charge) to income statement	2.8	1.0	(0.7)	(1.1)	0.1	–	1.0	3.1
Charge to other comprehensive income	–	–	–	(1.2)	–	–	(1.1)	(2.3)
Charge to equity	–	–	–	–	(0.3)	–	–	(0.3)
Exchange movements	(1.3)	–	0.2	–	–	–	0.2	(0.9)
At 30 June 2011	(16.8)	(3.4)	1.3	3.6	0.7	4.1	1.6	(8.9)
Effect of the change in UK tax rate	0.2	0.4	–	0.1	–	–	–	0.7
Credit/(charge) to income statement	1.2	(0.4)	(0.4)	0.1	(0.5)	–	(0.2)	(0.2)
Credit to other comprehensive income	–	–	–	0.5	–	–	0.8	1.3
Charge to equity	–	–	–	–	(0.1)	–	–	(0.1)
Exchange movements	1.4	(0.2)	(0.1)	–	–	–	(0.1)	1.0
At 30 June 2012	(14.0)	(3.6)	0.8	4.3	0.1	4.1	2.1	(6.2)
Deferred tax asset at 30 June 2012	–	–	0.8	4.3	0.1	4.1	(7.2)	2.1
Deferred tax liability at 30 June 2012	(14.0)	(3.6)	–	–	–	–	9.3	(8.3)
	(14.0)	(3.6)	0.8	4.3	0.1	4.1	2.1	(6.2)
Deferred tax asset at 30 June 2011	–	–	1.3	3.6	0.7	4.1	(7.2)	2.5
Deferred tax liability at 30 June 2011	(16.8)	(3.4)	–	–	–	–	8.8	(11.4)
	(16.8)	(3.4)	1.3	3.6	0.7	4.1	1.6	(8.9)

Other includes £7.2 million (2011: £7.2m) to reflect offset of taxes levied by the same taxation authority where the Group has a legally enforceable right of offset.

No deferred tax has been recognised in respect of timing differences associated with the unremitted earnings of overseas subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and either it is probable that such differences will not reverse in the foreseeable future or if a distribution of profits is foreseen, based on the current repatriation policy of the Group no incremental tax is expected to be paid.

Unremitted earnings of overseas subsidiaries at the balance sheet date totalled £88.8 million (2011: £106.5m).

At the balance sheet date, the Group had unused tax losses of £5.5 million (2011: £7.8m) available for offset against future profits. A deferred tax asset has been recognised of £0.8 million (2011: £1.3m) of these losses. No deferred tax asset has been recognised in respect of the remaining losses due to the unpredictability of future profit streams. £0.8 million (2011: £1.1m) of unrecognised tax losses may be carried forward for offset against future profits. The majority of these tax losses arise in tax jurisdictions where they do not expire. However, Spanish tax losses of £1.1 million will expire in 2023 and Chinese tax losses of £1.0 million will expire between now and 2017.

At the balance sheet date, the Group had surplus ACT of £7.0 million (2011: £9.0m) available to offset against future tax liabilities. A deferred tax asset has been recognised in respect of surplus ACT of £4.1 million (2011: £4.1m). No deferred tax asset has been recognised in relation to the remaining surplus ACT of £2.9 million (2011: £4.9m) due to uncertainty as to future ACT capacity.

9. Earnings per share

Basic earnings per ordinary share is calculated on profit for the year, attributable to owners of the parent, divided by the weighted average number of ordinary shares in issue during the year in accordance with IAS 33.

		2012	2011
Total earnings (£m)	a	9.1	5.3
Weighted average number of ordinary shares	b	179,804,688	180,407,938
Basic earnings per share (pence)	a/b	5.1	2.9

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on assumption of conversion of all potentially dilutive ordinary shares.

During the year, the Company had two categories of potentially dilutive ordinary shares: share awards with no option price and shares allocated to an approved Save As You Earn scheme.

		2012	2011
Weighted average number of ordinary shares (million)	b	179.8	180.4
Effect of dilutive share awards (million)		0.3	1.1
Effect of dilutive SAYE scheme shares (million)		0.8	0.9
	c	180.9	182.4
Diluted earnings per share (pence)	a/c	5.0	2.9

Adjusted basic earnings per share applies to earnings excluding adjusting items as defined in note 1 since the Directors consider that this gives additional information about the underlying performance of the Group.

		2012 £m	2011 £m
Earnings used to calculate basic and diluted EPS	a	9.1	5.3
Exceptional items after tax		8.3	9.2
Amortisation of intangible assets after tax		1.3	2.2
Changes in estimate of contingent consideration arising on business combinations after tax		(1.3)	–
Unwind of discount on contingent consideration after tax		0.2	0.2
Earnings before adjusting items	d	17.6	16.9
Adjusted basic earnings per share (pence)	d/b	9.8	9.4
Adjusted diluted earnings per share (pence)	d/c	9.7	9.3

10. Payments to shareholders

Payments to shareholders from 24 March 2011 represent the nominal value of B shares issued. The total amounts recognised as distributions to equity holders in the year were as follows:

	2012 £m	2011 £m
Final dividend for the year ended 30 June 2011 of 4.8p (2010: 4.8p)	8.3	8.7
Issue of B shares in lieu of interim dividend of 2.0p (2011: 2.0p)	3.5	3.5
	11.8	12.2
Proposed issue of B shares in lieu of final dividend of 3.0p (2011: 4.8p)	5.5	8.6

The proposed final payment is subject to approval by shareholders at the Annual General Meeting and has not been included in these financial statements.

On 24 March 2011, shareholders approved proposals for the implementation of a 'B share' scheme as a mechanism for making payments to shareholders. This involves the issue of non-cumulative redeemable preference shares (known as 'B shares') in place of income distributions. Shareholders are able to redeem any number of their B shares for cash. Any B shares retained attract a dividend of 75 per cent of LIBOR on the 0.1p nominal value of each share, paid on a twice-yearly basis.

Movements in the B shares during the year were as follows:

	2012		2011	
	Number	Nominal value £m	Number	Nominal value £m
Issued and fully paid				
At 1 July	136,372,005	0.1	–	–
Issued to equity shareholders	12,204,449,048	12.2	3,607,902,100	3.6
Redeemed	(11,845,436,165)	(11.8)	(3,471,530,095)	(3.5)
At 30 June	495,384,888	0.5	136,372,005	0.1

Notes to the Group financial statements continued

11. Goodwill

	2012 £m	2011 £m
Cost		
At 1 July	34.9	32.9
Acquisitions (see note 4)	–	1.2
Impairment charge (see note 3)	(1.2)	–
Exchange movements	(1.1)	0.8
At 30 June	32.6	34.9

Goodwill acquired in a business combination is allocated, at acquisition, to the Group's cash generating units (CGUs) that are expected to benefit from that business combination.

Aggregate carrying amounts of goodwill allocated to each CGU by segment are as follows:

	2012 £m	2011 £m
UK	22.3	22.3
Western Continental Europe	8.6	9.3
Central and Eastern Europe	1.5	3.0
Corporate*	0.2	0.3
	32.6	34.9

* Goodwill arising on the acquisition of the Fortlab Personal Care business is shown within Corporate.

The net book value of goodwill by CGU was as follows:

	2012 £m	2011 £m
Acquired with UK Household liquids businesses	14.8	14.8
Acquired with Dasty business	6.4	7.1
Acquired with UK Air care businesses	6.4	6.4
Acquired with WCE Household liquids business	2.2	2.2
Acquired with CEE Skincare business	–	1.3
Other CGUs without significant goodwill	2.8	3.1
	32.6	34.9

Impairment testing of goodwill

Goodwill is not amortised but is subject to annual impairment testing, or more frequent testing if there are indications of impairment. The recoverable amounts of the CGUs are determined from value in use calculations that are prepared based on the budget for the year to June 2013, estimates by management of the pre-tax cash flows for a further four years to June 2017 and a terminal value calculated by taking the cash flows beyond June 2017 into perpetuity. An estimate of growth into perpetuity in line with growth projections used up to 2017 has been applied to certain CGUs as described below. To arrive at the value in use, the forecast cash flows for each CGU are then discounted at a discount rate that reflects the risks inherent in each CGU. Assumptions used to calculate future cash flows are based on external market information for specific product categories. Revenue growth and input cost inflation are, by their very nature in a consumer product industry, difficult to forecast.

Key assumptions used in value in use calculation

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Discount rates – reflect management's estimate of the risk-adjusted weighted average cost of capital (WACC) for each CGU, which is based on the pre-tax Group WACC of 10.4% (2011: 10.5%) which has been adjusted, where appropriate, for inflation, expected growth and appropriate risk factors. Management used a different WACC for the goodwill impairment testing of the following CGUs: Intersilesia (11.5%, 2011: 12.0%), Fortlab Personal Care business (17.5%, 2011: 17.5%) and CEE Skincare business (15.0%, 2011: 22.0%).

Raw material price, direct and indirect cost inflation – budgets are prepared using the most up-to-date price and forecast price data available. Beyond the period for which forecasts are available management's best estimate of changes to input costs are used.

Growth rate estimates – reflect management expectations of volume growth, which are in line with those indicated by Euromonitor. Euromonitor is an independent external source producing external market research data. Euromonitor data indicates that overall Household and Personal Care product markets in Western Europe in the five years from 2012 to 2016 will grow by 1% and 2% respectively. Over the same time period, within Household Euromonitor data suggests that certain product categories, such as Laundry Liquids and Machine Dishwash will grow by 2% in Western Europe and 3% in Central and

11. Goodwill continued

Key assumptions used in value in use calculation continued

Eastern Europe. Within Personal Care, the Skincare category is expected to grow by 2% in Continental Europe and by 3% in the UK. Euromonitor data indicates that growth in markets in the Far East will be substantially higher than in European markets with growth rates in Personal Care products in the five years from 2012 to 2016 in Malaysia and Vietnam of 4% and 8% respectively.

Perpetuity growth rates – reflect management expectations of volume growth beyond 2017 which are in line with those indicated by Euromonitor in the five years from 2012 to 2016. Growth in perpetuity is only applied to CGUs in product categories such as Skincare or geographies in the Asia region which exhibit strong Private Label growth potential.

Impairment charge

The impairment charge in respect of goodwill and property, plant and equipment recognised in the year was as follows:

Cash generating unit	Segment	Assets impaired	2012 £m	2011 £m
CEE Skincare business	Central and Eastern Europe	Goodwill	1.2	–
CEE Skincare business	Central and Eastern Europe	Property, plant and equipment	1.0	–
			2.2	–

During the year ended 30 June 2012, the goodwill and property, plant and equipment in relation to the CEE Skincare business was impaired by £2.2 million. Prior to its acquisition by the Group, the CEE Skincare business did not have any export sales into Western Europe. The fair values of goodwill and other non-current assets of the business were largely determined on the basis of management's expectations of the likely timing of the future growth in export sales from information available at the time of the acquisition. Since the date of acquisition management has a better indication of the likely profile of Skincare sales into Western Europe and it has been concluded that it will take longer than initially estimated for significant levels of export sales to be generated and that consequently sales and profits by 2017 are unlikely to reach the levels included in the original projections. The inherent difficulty in predicting the growth in export business was partly addressed in the way that the Group structured the acquisition with a significant proportion of the consideration payable for the acquisition being contingent on the level of sales between 2013 and 2017 and the operating profitability of the business in the 2017 financial year. These changes to projections in relation to export sales have resulted in the Group recognising a £1.9m credit to the income statement in relation to a reduction in the carrying amount of contingent consideration arising on the acquisition. The net amount recognised in the income statement was therefore £0.3 million.

Following the impairment charge the estimated recoverable amount of the CEE Skincare business CGU is equal to its carrying value at 30 June 2012. Consequently any adverse change in a key assumption would, in isolation, cause a further impairment loss to be recognised.

The table below shows the increase/(decrease) in the impairment charge arising from a reasonably possible change in each key assumption:

	£m
Pre-tax discount rate	
Increase by 100 basis points	0.5
Decrease by 100 basis points	(0.6)
Cost inflation rate	
Increase by 1%	0.9
Decrease by 1%	(0.8)
Growth rate	
Decrease by 5%	1.0
Increase by 5%	(1.0)
Perpetuity growth rate	
Decrease by 1%	0.4
Increase by 1%	(0.5)

Sensitivity to changes in assumptions

The economic climate in the principal geographical markets in which the Group has operations has been reflected in the discount rate and other assumptions used by the Group in its goodwill impairment testing. The Group has conducted sensitivity analysis and details in respect of the CGUs where a reasonably possible change in key assumptions used in the impairment testing would cause the carrying value to exceed its recoverable amount are provided below:

Notes to the Group financial statements continued

11. Goodwill continued Sensitivity to changes in assumptions continued

The key assumptions for discount rate, inflation rate and growth rate used in the most recent value-in-use calculation in the year ended 30 June 2012 are as follows:

	2012 Pre-tax discount rate	2012 Cost inflation rate	2012 Growth rate	2011 Pre-tax discount rate	2011 Cost inflation rate	2011 Growth rate
Acquired with Dasty business	*	*	*	10.5%	2.0%	0.0%
Acquired with UK Air care businesses	10.4%	2.0%	0.5%	*	*	*
Acquired with WCE Household liquids business	10.4%	2.3%	0.9%	10.5%	2.0%	0.0%

* In management's judgement no reasonably possible change in key assumption used in the value-in-use calculation would cause the carrying value to exceed its recoverable amount.

The table below shows the sensitivity of the goodwill to each of the key assumptions separately. The values shown for each particular key assumption are those which when changed in isolation and combined with the other key assumptions in the value-in-use calculations performed by management would result in a value-in-use equal to the carrying value of the relevant CGU:

	2012 Headroom above carrying amount £m	2012 Pre-tax discount rate %	2012 Cost inflation rate %	2012 Growth rate %	2011 Headroom above carrying amount £m	2011 Pre-tax discount rate %	2011 Cost inflation rate %	2011 Growth rate %
Acquired with Dasty business	*	*	*	*	40.4	32.9	3.7	(1.7)
Acquired with UK Air care businesses	6.0	14.5	2.4	(1.3)	*	*	*	*
Acquired with WCE Household liquids business	1.3	15.3	3.1	(0.3)	3.6	18.1	3.2	(1.2)

* In management's judgement no reasonably possible change in key assumption used in the value-in-use calculation would cause the carrying value to exceed its recoverable amount.

12. Other intangible assets

	Patents, brands and trade marks £m	Computer software £m	Customer relationships £m	Other £m	Total £m
Cost					
At 1 July 2010	2.4	0.5	8.5	–	11.4
Additions	–	0.5	–	0.2	0.7
Acquisitions (see note 4)	–	0.2	0.3	–	0.5
Disposals	(0.4)	–	–	–	(0.4)
Exchange movements	–	0.1	0.2	–	0.3
At 30 June 2011	2.0	1.3	9.0	0.2	12.5
Additions	–	0.9	–	0.3	1.2
Exchange movements	–	(0.2)	(0.7)	–	(0.9)
At 30 June 2012	2.0	2.0	8.3	0.5	12.8
Accumulated amortisation					
At 1 July 2010	0.8	0.3	4.9	–	6.0
Provided for in the year	0.2	0.2	2.5	–	2.9
Disposals	(0.3)	–	–	–	(0.3)
Exchange movements	–	–	0.2	–	0.2
At 30 June 2011	0.7	0.5	7.6	–	8.8
Provided for in the year	0.4	0.3	1.0	–	1.7
Exchange movements	–	–	(0.8)	–	(0.8)
At 30 June 2012	1.1	0.8	7.8	–	9.7
Net book value					
At 30 June 2012	0.9	1.2	0.5	0.5	3.1
At 30 June 2011	1.3	0.8	1.4	0.2	3.7
At 1 July 2010	1.6	0.2	3.6	–	5.4

13. Property, plant and equipment

	Land and buildings £m	Plant, machinery, computer equipment, moulding equipment and motor vehicles £m	Payments on account and assets in the course of construction £m	Total £m
Cost				
At 1 July 2010	98.2	389.9	4.2	492.3
Exchange movements	7.1	19.8	0.1	27.0
Additions	1.4	12.3	9.7	23.4
Acquisitions (see note 4)	5.3	2.2	-	7.5
Disposals	(0.3)	(12.5)	-	(12.8)
Transfers	0.1	8.8	(8.9)	-
Reclassified to held for sale ⁽¹⁾	(0.7)	(15.7)	-	(16.4)
At 30 June 2011	111.1	404.8	5.1	521.0
Exchange movements	(8.6)	(22.1)	(0.1)	(30.8)
Additions	0.8	12.0	11.3	24.1
Disposals	(0.4)	(22.8)	-	(23.2)
Transfers	0.2	9.1	(9.3)	-
Reclassified to held for sale ⁽²⁾	(1.7)	-	-	(1.7)
At 30 June 2012	101.4	381.0	7.0	489.4
Accumulated depreciation				
At 1 July 2010	(27.8)	(284.6)	-	(312.4)
Exchange movements	(1.9)	(13.0)	-	(14.9)
Charge for the year	(3.7)	(21.1)	-	(24.8)
Impairment charge (see note 3)	(0.9)	(2.5)	-	(3.4)
Disposals	0.3	11.9	-	12.2
Reclassified to held for sale ⁽¹⁾	0.3	12.9	-	13.2
At 30 June 2011	(33.7)	(296.4)	-	(330.1)
Exchange movements	2.1	14.7	-	16.8
Charge for the year	(2.2)	(21.3)	-	(23.5)
Impairment charge (see note 3)	-	(1.3)	-	(1.3)
Disposals	0.2	22.5	-	22.7
Reclassified to held for sale ⁽²⁾	1.6	-	-	1.6
At 30 June 2012	(32.0)	(281.8)	-	(313.8)
Net book value				
At 30 June 2012	69.4	99.2	7.0	175.6
At 30 June 2011	77.4	108.4	5.1	190.9
At 1 July 2010	70.4	105.3	4.2	179.9

⁽¹⁾ During the year ended 30 June 2011 the Group entered into an agreement with a customer to sell certain plant and equipment located at its site at Foetz on expiry in 2012 of a toll manufacturing contract with that customer and has commenced marketing of one of its freehold land and buildings in Poland for which the Group expected to complete a sale in the next year. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' these assets were reclassified to assets held for sale.

⁽²⁾ During the year ended 30 June 2012 the Group closed its Burnley site and transferred production to other sites in the UK. Marketing of the vacant site has commenced and the Group expects to complete a sale in the next year. In accordance with IFRS 5 this asset has been reclassified to assets held for sale.

Included in the above table are assets held under finance leases with a net book value of £2.0 million (2011: £2.9m) within land and buildings and £3.6 million (2011: £4.3m) within plant, machinery, computer equipment, moulding equipment and motor vehicles. The depreciation charge for the year in respect of these assets was £0.1 million and £0.6 million respectively (2011: £0.1m and £0.6m).

Notes to the Group financial statements continued

13. Property, plant and equipment continued

The movements in assets held for sale were as follows:

	Freehold land and buildings £m	Plant, machinery, computer equipment, moulding equipment and motor vehicles £m	Total £m
Carrying amount			
At 1 July 2010	2.9	–	2.9
Exchange movements	0.2	0.1	0.3
Reclassified from property, plant and equipment	0.4	2.8	3.2
Impairment charge (see note 3)	(1.6)	–	(1.6)
At 30 June 2011	1.9	2.9	4.8
Exchange movements	(0.2)	(0.1)	(0.3)
Reclassified to/ from property, plant and equipment	0.1	–	0.1
Disposals	–	(2.8)	(2.8)
Impairment charge (see note 3)	(0.2)	–	(0.2)
At 30 June 2012	1.6	–	1.6

The Group is still in the process of selling the freehold land and buildings relating to the former site at Solaro, but expects to conclude a sale before the end of 2012. In the prior year the Group recognised a £1.6 million pre-tax operating charge to the income statement in relation to an impairment charge for the Solaro asset held for sale. The carrying amount of the Solaro asset held for sale at 30 June 2012 is unchanged from the previous year end.

The Group completed the sale of certain plant and equipment at Foetz during the year. The sale of the property in Poland has taken longer than expected to conclude. Although marketing of the property continues, the Group no longer expects to complete a sale within the next financial year and in the event that a sale is concluded the sale proceeds are likely to be lower than previously expected. There was a £0.2 million pre-tax operating charge to the income statement in relation to an impairment charge of the Polish property. In accordance with IFRS 5, the remaining carrying value has been transferred to property, plant and equipment as the criteria for classification as an asset held for sale were no longer met.

14. Other non-current assets

Other non-current assets of £0.6 million (2011: £0.6m) consist of prepayments on leases of land and interest-free loans to local government both in Western Continental Europe.

15. Inventories

	2012 £m	2011 £m
Raw materials, packaging and consumables	38.8	40.6
Finished goods and goods for resale	33.3	41.0
Total inventories	72.1	81.6

The cost of inventories recognised as an expense and included as cost of goods sold amounted to £496.0 million (2011: £483.5m).

The movements in the Group inventory provision during the year were as follows:

	2012 £m	2011 £m
At 1 July	(8.2)	(6.8)
Acquisitions	–	(0.8)
Utilisation	3.6	1.5
Charged to income statement	(1.3)	(2.1)
Exchange movements	0.5	–
At 30 June	(5.4)	(8.2)

16. Trade and other receivables

	2012 £m	2011 £m
Trade receivables	134.1	145.4
Other receivables	4.3	3.7
Prepayments and accrued income	4.7	5.5
Total receivables	143.1	154.6

Trade receivables have been reported in the balance sheet net of provisions as follows:

	2012 £m	2011 £m
Total trade receivables	135.4	146.7
Less: impairment provision for trade receivables	(1.3)	(1.3)
Net trade receivables	134.1	145.4

The movements in the provision account are as follows:

	2012 £m	2011 £m
At 1 July	1.3	1.8
Acquisitions	–	0.1
Charged to current year income statement	4.1	5.8
Utilisation	(4.0)	(6.4)
Exchange movement	(0.1)	–
At 30 June	1.3	1.3

Impairment of trade receivables charged during the year is included as part of revenue.

As at 30 June 2012, trade receivables of £4.1 million (2011: £4.3m) were past due but not impaired. These relate to a number of external parties where there is no expectation of default. The ageing analysis of these trade receivables is shown in the table below. Based on past experience the Group believes no impairment allowance is necessary in respect of trade receivables not past due.

	2012 £m	2011 £m
Not overdue	130.0	141.1
Past due less than one month	3.4	3.8
Between one and three months	1.0	0.5
Between three and six months	0.4	0.3
Over six months	0.6	1.0
Total	135.4	146.7

There is no material difference between the above amounts for trade and other receivables and their fair value, due to the short term duration of the majority of trade and other receivables.

The maximum amount of credit risk with respect to customers is represented by the carrying amount on the balance sheet. Credit terms for customers are determined in individual operating divisions, taking into account their financial positions, past experiences and other relevant factors. Individual customer credit limits are imposed based on these factors.

Trade receivables are predominantly denominated in the functional currency of the relevant Group company. Where significant balances arise in other currencies, the Group uses forward contracts to manage the exchange rate risk (see note 21).

17. Trade and other payables

	2012 £m	2011 £m
Trade payables	147.7	169.5
Taxation and social security	15.7	16.9
Unredeemed B shares	0.5	0.1
Other payables	13.0	14.2
Accruals and deferred income	13.4	18.7
Contingent consideration arising on business combinations (see below)	4.1	8.5
Total payables	194.4	227.9

Trade payables are predominantly denominated in the functional currency of the relevant Group company. Where significant balances arise in other currencies, the Group uses forward contracts to manage the exchange rate risk (see note 21).

Notes to the Group financial statements continued

17. Trade and other payables continued

The movement in contingent consideration arising on business combinations during the year was:

	2012 £m	2011 £m
At 1 July	8.5	0.7
Acquisitions (see note 4)	–	7.0
Consideration paid	(1.9)	(0.1)
Changes in estimates of contingent consideration (see note 11)	(1.9)	–
Unwind of discount (see note 6)	0.2	0.2
Exchange movements	(0.8)	0.7
At 30 June	4.1	8.5
Analysed as:		
Current	0.5	2.2
Between one and two years	–	0.6
Between two and five years	0.6	0.5
More than five years	3.0	5.2
Non-current	3.6	6.3
Total	4.1	8.5

18. Provisions

	Onerous contracts £m	Leasehold dilapidations £m	Redundancy/ termination £m	Other £m	Total £m
At 1 July 2011	0.1	0.6	4.8	1.1	6.6
Exchange movements	–	–	(0.3)	(0.1)	(0.4)
(Credit)/charge for the year	(0.1)	(0.3)	8.2	4.4	12.2
Utilisation in the year	–	–	(6.5)	(4.5)	(11.0)
At 30 June 2012	–	0.3	6.2	0.9	7.4
At 30 June 2011:					
Current	0.1	0.6	4.8	0.6	6.1
Non-current	–	–	–	0.5	0.5
Total	0.1	0.6	4.8	1.1	6.6
At 30 June 2012:					
Current	–	0.3	6.2	0.5	7.0
Non-current	–	–	–	0.4	0.4
Total	–	0.3	6.2	0.9	7.4

Onerous contracts

The onerous contracts relate to equipment that was expected to be scrapped as part of the supply chain restructuring initiated in the year to 30 June 2011. The unutilised provision was released in the year.

Leasehold dilapidations

£0.3 million relates to dilapidations and site clearance of a freehold and a leasehold taken on with the Darcy acquisition in 2007. A reassessment of the likely future dilapidation and site clearance costs was carried out during the year and resulted in a partial release of the provision. The remaining amount is expected to be incurred in the year to 30 June 2013.

Redundancy/termination

The outstanding balance relates to the management and support services restructuring initiated in the year to 30 June 2012 and further redundancy costs arising from the supply chain restructuring initiated in the previous year (see note 3) and these amounts are expected to be incurred in the year to 30 June 2013.

Other

The other provisions relate to consultancy costs in connection with the management and support services restructuring initiated in the year to 30 June 2012 (see note 3) for which the costs are expected to be incurred in the year to 30 June 2013 and to training cost obligations in France for which the timing of the costs is uncertain.

For those provisions that have been discounted, the effect of unwinding the provision is not material.

19. Pensions and other post-employment benefits

The Group operates a number of pension schemes. Within the UK, it operates the Robert McBride Pension Fund ('the Scheme'), which is a final salary pension scheme, and also defined contribution schemes. Together these schemes cover most of the Group's UK employees. In addition, the Group operates a number of smaller pension and other post-employment schemes in Western Continental Europe that are devised in accordance with local conditions and practices in the countries concerned. The fair value of the Group's non-UK liabilities has been estimated to be £1.6 million (2011: £2.0m).

Financial summary

	2012 £m	2011 £m
Balance sheet		
Deficit on the Scheme (see tables below)	17.9	14.2
Deficit/provision on Western Continental Europe post-employment schemes	1.6	2.0
	19.5	16.2
Related deferred tax asset on the Scheme	4.3	3.6
Income statement expense		
Defined contribution schemes	1.1	1.2
Defined benefit schemes and post-employment schemes	1.2	1.5
Total amount charged to income statement	2.3	2.7
Statement of comprehensive income		
Amounts credited/(charged) directly to other comprehensive income	(5.8)	4.5

UK defined benefit scheme

In 2002, the Scheme was closed to new entrants and a new defined contribution scheme for UK employees was established.

The Scheme's assets are held in external funds administered by trustees and managed professionally. Regular assessments are carried out by independent actuaries and the long-term contribution rates are decided on the basis of their recommendations.

The most recently completed triennial actuarial valuation of the Scheme was performed by an independent actuary for the trustees of the Scheme and was carried out as at 31 March 2009. The results of that valuation have been projected to 30 June 2012 and then updated based on the assumptions disclosed below. Following the valuation, the Group increased its level of additional monthly contributions over and above the ordinary contributions. The Group has agreed with the trustees that it will aim to eliminate the deficit by 2026 and that the Group will monitor funding levels on an annual basis. The next triennial valuation as at 31 March 2012 is currently in progress and is expected to be finalised in 2013. Expected employer contributions for 2013 are currently estimated to be £3.4 million.

The expected rate of return on assets is the weighted average of the expected returns on each major category of asset at the balance sheet date. Bond returns are taken to be equal to the relevant gross redemption yields available. For equities and property, more judgement is required and it has been assumed that those assets will achieve a return of 3.5% above the gross redemption yield on long term fixed interest government bonds. Other plan assets consist of commodities, hedge funds, infrastructure and convertibles and the weighted average risk premium for these elements has been assumed at 3.5% above the gross redemption yield on long term fixed interest government bonds. A deduction is made for the expected level of the Scheme's expenses.

In order to determine some minimum pension increases, the Consumer Price Index (CPI) is used as the inflation measure. The main inflation rate remains the Retail Prices Index (RPI) which is the driver for pension increases in payment. This is in line with changes made by the UK Government to statutory index-linked features of retirement benefits. As the Scheme was not obligated to increase pensions in line with RPI, the change to using CPI was considered to be a change in the increase assumption, and gave rise to an actuarial gain in accordance with IAS 19. The change to CPI affected only revaluation of pensions in deferment and had no impact on pensions already in payment.

The Fund's benefits were changed with effect from 1 April 2011. From this date, future increases to pensionable salaries were limited to 2% per annum, or RPI if lower. A deferred benefit underpin was also put into place at the time of the benefit change. This means that, in respect of service before 1 April 2011, members' benefits will be at least as great as those they would have received had they opted out of the Scheme at that date. Service after 31 March 2012 will accrue on the new benefit scale.

Notes to the Group financial statements continued

19. Pensions and other post-employment benefits continued

Weighted average assumptions at the end of the period

	2012	2011
Discount rate	4.8%	5.6%
Expected return on plan assets	5.1%	6.3%
Future salary increases	2.0%	2.0%
Inflation rate (RPI)	2.8%	3.4%
Inflation rate (CPI)	1.8%	2.6%
Future pension increases – accrued before 1 April 2011	2.8%	3.4%
Future pension increases – accrued after 31 March 2011	2.2%	2.4%

Expected rate of return on plan assets

	2012	2011
Equities	5.8%	7.5%
Bonds	4.2%	4.8%
Property	5.8%	7.0%
Cash	2.3%	4.0%
Other	5.8%	6.8%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice. Mortality rates used in both years are based upon:

Mortality table	Life expectancy at age 65 (years)	
	Male	Female
Future pensioners 112% of PCMA00 and 118% of PCFA00 (projected by birth year using medium cohort factors)	22.1	23.9
Current pensioners 112% of PCMA00 and 118% of PCFA00 (projected by birth year using medium cohort factors)	21.0	22.9

Sensitivity analysis for the principal assumptions used to measure the Scheme's liabilities shows how the measurement of the Scheme's liabilities would have been affected by changes in the relevant assumption at the balance sheet date. For the purposes of this disclosure all other assumptions are taken to be held constant.

The sensitivities regarding the principal assumptions used to measure the Scheme's liabilities are set out below:

Assumption	Change in assumption	Impact on liabilities	%
Discount rate	Increase by 0.5%	Decrease	7.4
Rate of inflation, salary growth and LPI (limited price indexation)	Increase by 0.5%	Increase	6.8
Rate of mortality	Change in mortality table *	Increase	3.7

* If the death rates used are 112% for males and 118% for females of the '2000 series' standard tables, projected by year of birth using long cohort factors with a 1% floor rather than medium cohort factors. These alternative projections make a greater allowance for future improvements in life expectancy to improve over time due to improvements in medical treatments and other lifestyle factors such that younger members who have not yet reached pensionable age are expected to live longer than current pensioner members.

Summary of plan assets at the end of the period

	2012 £m	2011 £m	2012 %	2011 %
Equities	32.2	46.9	41	62
Bonds	5.1	16.6	6	22
Property	0.5	0.1	1	0
Cash	3.1	0.2	4	0
Other	37.1	11.8	48	16
Total	78.0	75.6	100	100

The Scheme has no investment in the Group's equity securities or in property used by the Group.

Other plan assets are predominantly those held within the Standard Life GARS fund.

19. Pensions and other post-employment benefits continued

Charges on the basis of the assumptions above were:

	2012 £m	2011 £m
Charge to the Group income statement		
Current service cost	1.0	1.5
Curtailement gain	–	(0.6)
Amount of charge included in administrative costs	1.0	0.9
Interest on pension liabilities (recognised in financial expense)	5.0	4.8
Expected return on scheme assets (recognised in financial income)	(4.8)	(4.2)
Amount charged to net financing costs	0.2	0.6
Total included within income statement	1.2	1.5
(Charge)/credit to the consolidated statement of comprehensive income before taxation		
Actual return less expected return on pension scheme assets	(3.6)	0.8
Experience losses and gains arising on scheme liabilities	(2.2)	3.7
	(5.8)	4.5

The cumulative recognised actuarial gains and losses for the Scheme is £15.2 million loss (2011: £9.4m loss).

Fair value of assets and liabilities of the Scheme

The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities were:

	2012 £m	2011 £m
Movement in plan assets		
At 1 July	75.6	68.3
Expected return on plan assets	4.8	4.2
Actuarial (losses)/gains	(3.6)	0.8
Employer contributions	3.3	3.9
Plan participants' contributions	0.6	0.7
Benefits paid	(2.7)	(2.3)
At 30 June	78.0	75.6
Movement in benefit obligation		
At 1 July	89.8	89.4
Service cost	1.0	1.5
Interest cost	5.0	4.8
Plan participants' contributions	0.6	0.7
Gain on curtailment	–	(0.6)
Actuarial gain from adoption of CPI	–	(2.5)
Other actuarial (gains)/losses	2.2	(1.2)
Benefits paid	(2.7)	(2.3)
At 30 June	95.9	89.8
Market value of the Scheme's assets	78.0	75.6
Present value of the Scheme's obligations	(95.9)	(89.8)
Deficit in the Scheme	(17.9)	(14.2)
Related deferred tax asset	4.3	3.6
	(13.6)	(10.6)
Analysed as:		
Non-current asset	4.3	3.6
Non-current liability	(17.9)	(14.2)
	(13.6)	(10.6)
Actual return on Scheme assets	1.2	5.0

Notes to the Group financial statements continued

19. Pensions and other post-employment benefits continued

History of experience gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of the Scheme obligations	(95.9)	(89.8)	(89.4)	(71.6)	(71.7)
Fair value of the Scheme assets	78.0	75.6	68.3	54.9	63.8
Deficit in the Scheme	(17.9)	(14.2)	(21.1)	(16.7)	(7.9)
Difference between expected and actual return on the Scheme's assets:					
Amount	(3.6)	0.8	9.8	(13.8)	(8.4)
Percentage of the Scheme's assets	(4.6%)	1.1%	14.3%	(25.1%)	(13.2%)
Experience gains and losses on the Scheme's liabilities:					
Amount	(2.2)	3.7	(14.1)	4.1	6.4
Percentage of the present value of the Scheme's liabilities	2.3%	(4.1%)	15.8%	(5.7%)	(8.9%)
Total amount recognised in the statement of comprehensive income:					
Amount	(5.8)	4.5	(4.3)	(9.7)	(2.0)
Percentage of the present value of the Scheme's liabilities	6.0%	(5.0%)	4.8%	13.5%	2.8%

20. Interest bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings.

Non-current liabilities

	2012 £m	2011 £m
Unsecured bank loans	44.6	45.6
Finance lease liabilities	0.1	0.4
	44.7	46.0

Current liabilities

	2012 £m	2011 £m
Overdrafts	4.8	7.0
Unsecured bank loans	0.7	0.4
Invoice selling facilities (see note 21)	43.1	39.5
Current portion of finance lease liabilities	0.3	0.4
	48.9	47.3
Total borrowings	93.6	93.3

Bank loans and overdrafts are repayable as follows:

	2012 £m	2011 £m
Less than one year	5.5	7.4
Between one and two years	0.1	0.3
Between two and five years	44.5	45.3
More than five years	–	–
Total repayable	50.1	53.0

Finance lease liabilities

	2012			2011		
	Minimum payments £m	Finance charge £m	Present value £m	Minimum payments £m	Finance charge £m	Present value £m
Less than one year	0.3	–	0.3	0.5	0.1	0.4
Between one and five years	0.1	–	0.1	0.4	–	0.4
	0.4	–	0.4	0.9	0.1	0.8

Material leases relate to plant and machinery at Brno and Bergamo where the options to buy at the end of the lease are for nominal amounts.

21. Financial instruments and treasury risk management

Exposures to credit, interest rate and currency risk arise in the normal course of the Group's business. Risk management policies and hedging activities are outlined below. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates in accordance with Group policy.

Credit risk

Trading exposures are monitored and managed by Group operating companies against agreed policy levels. Credit insurance is employed where it is considered to be cost-effective. Financial exposures are incurred only with financial institutions appointed as Group company bankers and approved at Group level.

At the balance sheet date there were no significant concentrations of credit risk. The majority of the trade receivables exposure is in the UK and Eurozone with retail customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Impairment losses on trade receivables have been disclosed in note 16.

Interest rate risk

The Group is exposed to changes in prevailing interest rates on its primarily floating-rate debt. The Group has partially covered this risk with interest rate swaps, which had the effect of fixing the rate on a notional principal debt amount of €55 million (2011: €55m). The Group classifies such swaps as cash flow hedges and states them at fair value, which amounted to a loss of £3.2 million (2011: £2.0m) recognised on the balance sheet.

Foreign currency risk

The Group is exposed to foreign currency transaction and translation risks.

Transaction risk arises on sales and purchases denominated in currencies other than the respective functional currency of each Group company. The magnitude of this exposure is relatively low, because the substantial majority of our sales and purchases are denominated in the functional currency of each Group company.

The Group's policy is to fully hedge such exposures as soon as they become committed. In addition, Group companies are required to hedge a proportion of their highly probable forecast exposures, on a rolling 12-month basis. The Group hedges these exposures using outright forward currency contracts.

For accounting purposes the Group classifies its forward exchange contracts hedging firm commitments and forecasted transactions as cash flow hedges, where they meet the hedge accounting criteria, and they are recorded at fair value. The fair value of forward exchange contracts used as hedges of firm commitments and forecasted transactions at 30 June 2012 was a loss of £1.2 million (2011: £1.5m gain) and was recognised on the balance sheet as derivative financial instruments within current assets or current liabilities. During the year, £nil million of fair value net loss/gain was recorded in the income statement. The cash flows for the forward contracts are expected to occur substantially within the next financial year, at the same time as the underlying forecasted transactions.

Translation risk arises at the consolidated Group level, on earnings and net assets denominated in currencies other than pounds sterling. The Group's policy is to hedge a substantial proportion of overseas net assets, using foreign currency borrowings and swaps, in order to mitigate the risk of volatility in reported net assets and key financial ratios as a result of exchange rate fluctuations. The interest on these foreign currency borrowings and swaps provides a natural hedge of the translation exposure on our earnings denominated in the same currencies.

Euro, Polish Zloty ('Zloty'), Czech Koruna ('Koruna') and Malaysian Ringgit ('RM') forward contracts were designated as hedges of the Group's investments in its subsidiaries in the Eurozone, Poland, the Czech Republic and Malaysia. The notional values of these contracts at 30 June 2012 were €25.8 million (2011: €25.8m), Zloty 37.0 million (2011: Zloty 50.0m), Koruna 77.0 million (2011: nil) and RM7.5 million (2011: RM9.0m). A foreign exchange gain of £3.8 million (2011: £4.0m loss) was recognised in other comprehensive income on the contracts.

Foreign currency risk exposure may also arise on financial assets and liabilities. Group policy allows for such currency exposure to be economically hedged with forward contracts.

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of net financing costs (see note 6).

Notes to the Group financial statements continued

21. Financial instruments and treasury risk management continued

Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings.

Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on future consolidated earnings.

For the financial period to 30 June 2012 it is estimated that a general increase or decrease by 100 basis points in interest rates would have increased or decreased the Group's profit before tax by approximately £0.8 million (2011: £0.8m), excluding the impact of the interest rate swaps. Including the swaps reduces the impact on profit before tax to £0.4 million (2011: £0.3m). As at 30 June 2012, it is estimated that a general increase by 100 basis points in interest rates would have increased the Group's net assets by approximately £1.4 million. As at 30 June 2012, a general decrease of 25 basis points in interest rates would have decreased the Group's net assets by approximately £0.3 million.

It is estimated that an increase of 10 and 20 percentage points respectively in the value of Sterling against the Euro and the Zloty would have decreased the Group's profit before tax by £1.3 million and £0.1 million for the year ended 30 June 2012 (2011: £1.8m and £0.1m) due to translation of foreign subsidiaries' profits, assuming all other variables remained constant. A decrease of 10 and 20 percentage points respectively in the value of Sterling against the Euro and the Zloty would have increased profit before tax by £1.6 million and £0.1 million (2011: £2.2m and £0.2m). A decrease of 10 percentage points in the value of Sterling against the Euro would have increased net assets by £2.2 million (2011: £2.8m). An increase of 10 percentage points in the value of Sterling against the Euro would have decreased net assets by £1.8 million (2011: £2.3m). The profit before tax and net asset exposure to changes in exchange rates of other currencies is not significant.

Interest rate risk management quantification

This table analyses the currency and interest rate composition of the Group's financial assets and liabilities excluding short-term trade receivables and payables as they are non-interest bearing and therefore not normally subject to any interest rate risk, except in certain instances where the terms of payment are not adhered to.

2012	Period in which interest rate re-prices	Euro £m	Sterling £m	Other currencies £m	Impact of Euro interest rate swaps £m	Total carrying value 2012 £m
Financial liabilities:						
Fixed rate						
	Less than one year	(0.1)	-	(0.8)	-	(0.9)
	Between one and two years	(0.1)	-	-	-	(0.1)
	Between two and five years	-	-	-	(44.5)	(44.5)
Floating rate						
	Less than one year	(25.0)	(21.3)	(1.8)	-	(48.1)
	Between one and two years	-	-	-	-	-
	Between two and five years	(44.5)	-	-	44.5	-
Currency swaps						
	Less than six months	(69.7)	(21.3)	(2.6)	-	(93.6)
		(20.9)	31.9	(11.0)	-	-
Total financial liabilities		(90.6)	10.6	(13.6)	-	(93.6)
Financial assets:						
Floating rate						
		9.5	1.6	1.3	-	12.4
Total financial assets		9.5	1.6	1.3	-	12.4
Net financial (liabilities)/assets		(81.1)	12.2	(12.3)	-	(81.2)

21. Financial instruments and treasury risk management continued

2011	Period in which interest rate re-prices	Euro £m	Sterling £m	Other currencies £m	Impact of Euro interest rate swaps £m	Total carrying value 2011 £m
Financial liabilities:						
Fixed rate						
	Less than one year	-	-	(0.9)	-	(0.9)
	Between one and two years	(0.2)	-	(0.5)	-	(0.7)
	Between two and five years	(0.1)	-	-	(49.7)	(49.8)
Floating rate						
	Less than one year	(21.7)	(24.2)	(0.5)	-	(46.4)
	Between one and two years	-	-	-	-	-
	Between two and five years	(45.2)	-	-	49.7	4.5
		(67.2)	(24.2)	(1.9)	-	(93.3)
Currency swaps						
	Less than six months	(23.3)	36.5	(13.2)	-	-
Total financial liabilities		(90.5)	12.3	(15.1)	-	(93.3)
Financial assets:						
Floating rate						
		3.3	5.6	0.7	-	9.6
Total financial assets		3.3	5.6	0.7	-	9.6
Net financial (liabilities)/assets		(87.2)	17.9	(14.4)	-	(83.7)

Floating rate financial liabilities bear interest based on base rates and short-term interbank rates (predominantly LIBOR, EURIBOR and some EONIA).

Fixed rate borrowings relate to finance leases, which have weighted average interest rates between 2% and 10% (2011: 2% and 10%), and the impact of the €55 million (2011: €55m) interest rate swaps from LIBOR to 3.72% (2011: 3.72%).

The currency swaps reflect the currency in which the interest is borne.

Liquidity risk management

The Group has a €175 million revolving credit facility, which is provided by four major banks and remains committed until June 2015. The Group is required to comply with certain undertakings which are typical for unsecured borrowing facilities. These include financial covenants regarding interest cover and debt cover, as these ratios are defined in the facility agreement. The Group was fully compliant with all such undertakings and covenants at 30 June 2012.

The amount unutilised in the revolving credit facility at the year end was £97.1 million (2011: £112.9m).

Further liquidity is provided by a £25 million (2011: £25m) UK sales invoice facility, which is committed until September 2012 and similar €30 million facilities in Belgium (2011: €nil) and France (2011: €25m) which have rolling notice periods for termination of three and six months respectively.

Under these arrangements, the Group sells certain trade receivables to the facility providers, at a discount to the face value of the underlying invoices. The transferred trade receivables cannot then be used, sold or pledged to another counterparty. Such assets are not derecognised from the Group's balance sheet, because the Group has a continuing interest in the management and collection of the trade receivables, and remains exposed to late payment and credit risk.

The Group can borrow up to the lower of the relevant facility limits and the discounted value of the transferred trade receivables. These borrowings are included in current liabilities and are effectively secured against the related trade receivables. As at the Group's balance sheet date, the carrying values and fair values of the transferred assets and associated liabilities were as follows:

	2012		2011	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Trade receivables available in relation to facilities	64.4	64.4	63.5	63.5
Borrowings secured against trade receivables	(43.1)	(43.1)	(39.5)	(39.5)
Total	21.3	21.3	24.0	24.0

The maturity profile of the Group's financial liabilities, excluding short-term payables such as trade payables and accruals, which form part of the Group's day-to-day operating cycle, is disclosed in note 20. Maturity of all short-term trade payables is less than one year.

Notes to the Group financial statements continued

21. Financial instruments and treasury risk management continued

The table below details the Group liquidity analysis for its derivative financial instruments, based on undiscounted net cash inflows and outflows. When the amount payable is not fixed, the amount disclosed has been determined by reference to market yield curves prevailing at the reporting date.

					Due
	less than 1 month	1-3 months	3 months- 1 year	1- 5 years	Total
2012					
Net settled:⁽¹⁾					
Interest rate swaps	–	(0.3)	(1.1)	(3.2)	(4.6)
Gross settled:					
Foreign currency contracts	(0.3)	(0.4)	(0.8)	–	(1.5)
Currency swaps	0.4	–	–	–	0.4
	0.1	(0.7)	(1.9)	(3.2)	(5.7)
2011					
Net settled:					
Foreign currency contracts	–	–	–	–	–
Interest rate swaps	–	(0.3)	(0.5)	(1.3)	(2.1)
Gross settled:					
Foreign currency contracts	0.3	0.4	0.7	–	1.4
Currency swaps	(0.6)	(0.4)	–	–	(1.0)
	(0.3)	(0.3)	0.2	(1.3)	(1.7)

⁽¹⁾ The Group's undiscounted net cash inflows in relation to its interest rate caps are less than £0.1 million.

Currency risk management – net asset exposure

As indicated on page 111, it is the objective of the Group to minimise currency risk by hedging its currency exposure.

The Group operates significant businesses in Continental Europe, denominated in Euros and other European currencies and in South East Asia. The Group has exposure to movements in exchange rates on net assets. In order to hedge these exposures the Group arranges foreign currency funding, both internal and external, and uses forward contracts to hedge part of the remaining net exposure to foreign currency assets in line with Group policy. The net asset exposure and the effect of the rolling forward contracts is shown below.

Impact of forward contracts on net assets currency exposure

	Net assets before hedging £m	Forward contracts £m	Net assets after hedging £m
2012			
Sterling	54.4	31.9	86.3
Euro	40.8	(20.9)	19.9
Other	16.6	(11.0)	5.6
Total net assets attributable to the owners of the Company	111.8	–	111.8
2011			
Sterling	53.1	36.5	89.6
Euro	50.7	(23.3)	27.4
Other	21.0	(13.2)	7.8
Total net assets attributable to the owners of the Company	124.8	–	124.8

21. Financial instruments and treasury risk management continued

Fair value disclosure

The Group has adopted the amendment to IFRS 7 for financial instruments at fair value. The amendment requires disclosure of fair value measurements by level.

Level 1: quoted prices for identical instruments

Level 2: directly or indirectly observable market inputs

Level 3: inputs which are not based on observable market data

At 30 June 2012 the book and fair values of the Group's financial assets and liabilities are disclosed in the table below, including the fair value level measurement used where assets and liabilities are carried at fair value:

	2012		2011	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets and liabilities carried at fair value⁽¹⁾				
Forward exchange contracts assets (level 2) ⁽²⁾ :				
– designated as cash flow hedges	0.2	0.2	1.5	1.5
– designated as hedges of net investment in foreign entities	0.4	0.4	–	–
Forward exchange contracts liabilities (level 2) ⁽²⁾ :				
– designated as cash flow hedges	(1.4)	(1.4)	–	–
– designated as hedges of net investment in foreign entities	–	–	(1.0)	(1.0)
Interest rate swaps assets designated as cash flow hedges (level 2) ⁽³⁾	0.2	0.2	–	–
Interest rate swaps liabilities designated as cash flow hedges (level 2) ⁽³⁾	(3.2)	(3.2)	(2.0)	(2.0)
Contingent consideration on acquisitions (level 3) ⁽⁴⁾	(4.1)	(4.1)	(8.5)	(8.5)
Loans and receivables and financial liabilities carried at amortised cost				
Bank loans, overdrafts and other loans	(93.2)	(93.2)	(92.5)	(92.5)
Finance lease liabilities	(0.4)	(0.4)	(0.8)	(0.8)
Cash and cash equivalents	12.4	12.4	9.6	9.6
Trade and other payables	(174.1)	(174.1)	(202.4)	(202.4)
Unredeemed B shares	(0.5)	(0.5)	(0.1)	(0.1)
Trade receivables	134.1	134.1	145.4	145.4
Total	(129.6)	(129.6)	(150.8)	(150.8)

⁽¹⁾ The Group designates all these financial assets and liabilities as fair value through profit and loss upon initial recognition. The Group does not designate any financial assets or liabilities as held for trading.

⁽²⁾ Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching the maturity of the contracts.

⁽³⁾ Interest rate swaps contracts are measured using yield curves derived from quoted interest rates.

⁽⁴⁾ The contingent consideration (see note 17) has been recorded at fair value based on the Group's expectations of the amount and timing of the payments based upon the budget for the year to June 2013 and estimates by management of the financial performance beyond that date of the relevant business. The amounts of contingent consideration that the Group is required to pay may differ from these estimates. The most difficult payment to estimate is the amount payable in 2017 in relation to the acquisition of Dermacol a.s. because the calculation is driven by a variable multiple on earnings. Therefore for this payment there are a wide range of possible payments using reasonably possible assumptions on the growth in the acquired entity's Skincare export business. The quantification of this range is not considered practicable until closer to the payment date.

	2012 £m	2011 £m
Notional value of forward contracts		
Euros purchased	36.6	31.8
Euros sold	(30.6)	(34.1)
Polish Zlotys sold	(9.9)	(11.3)
Hungarian Forints purchased	0.9	–
Malaysian Ringgits sold	(1.5)	(1.9)
Czech Koruna purchased	0.7	–
Czech Koruna sold	(2.4)	–
US Dollars purchased	–	1.8
Sterling purchased	0.1	0.2
	(6.1)	(13.5)

Capital risk management

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an efficient capital structure to manage the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders and issue new shares or buy back existing shares.

The Group is committed to maintaining a debt/equity capital structure that is sufficiently robust to ensure continued access to a broad range of financing sources and thus be able to maintain sufficient flexibility to pursue commercial opportunities. To achieve this, the Group monitors a range of financial measures including net debt, net interest cover, debt cover and gearing.

Notes to the Group financial statements continued

21. Financial instruments and treasury risk management continued

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 20, after deducting cash and cash equivalents, equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings and non-controlling interests as disclosed in the statement of changes in equity.

The table below summarises the capital structure of the Group:

	2012 £m	2011 £m
Interest bearing loans and borrowings (see note 20)	93.6	93.3
Cash and cash equivalents	(12.4)	(9.6)
Issued share capital	18.3	18.1
Share premium account	129.2	139.9
Other reserves	10.0	6.1
Retained earnings	(46.2)	(39.3)
Non-controlling interests	0.6	0.6
	193.1	209.1

22. Share capital

	Authorised		Allotted, called up and fully paid	
	Number	£m	Number	£m
Ordinary shares of 10 pence each				
At 1 July 2010 and 30 June 2011	500,000,000	50.0	181,040,301	18.1
Shares issued to satisfy share option exercises	–	–	1,800,000	0.2
At 30 June 2012	500,000,000	50.0	182,840,301	18.3

Ordinary shares carry full voting rights and ordinary shareholders are entitled to attend Company meetings and to receive payments (see page 73).

	2012		2011	
	Number	£m	Number	£m
Shares held in treasury				
At 1 July	1,190,878	0.1	824,498	0.1
Shares purchased in the year	900,000	0.1	900,000	0.1
Shares issued to satisfy share option exercises	(1,157,663)	(0.1)	(533,620)	(0.1)
At 30 June	933,215	0.1	1,190,878	0.1

The treasury shares are held to satisfy future exercises of employee share options and equity-settled LTIPs.

23. Employee share schemes

Share options

The table below shows the movements in the 2009 Savings Related Share Option Scheme during the year:

	2012 Number m	2011 Number m
Outstanding at 1 July	3.3	3.7
Exercised	(2.8)	(0.1)
Expired	(0.1)	(0.3)
Outstanding at 30 June	0.4	3.3
Exercisable at the end of the year	0.4	–

The share options under the 2009 Savings Related Share Option Scheme have an exercise price of 93.5p and an expiry date of 31 October 2012.

The weighted average share price at the date of exercise during the year was 125.8p (2011: 143.0p).

Share awards

The Group operates a performance based LTIP, comprising both equity-settled and cash-settled awards with a three year vesting period, for senior executives provided they remain in the Group's employment. The percentage of the award vesting is dependent on the performance of the Group against the following criteria:

Total shareholder return (TSR): 50% of the award relates to comparing the TSR of McBride shares with the TSR of the companies in the FTSE 250 Ex Investment Companies Index (see page 68).

Earnings per share (EPS): 50% of the award relates to comparing the EPS growth of the Group with movements in the retail price index (see page 66).

Movements in share awards

	2012		2011	
	Equity-settled Number m	Cash-settled Number m	Equity-settled Number m	Cash-settled Number m
Outstanding at 1 July	0.7	2.0	1.0	1.5
Granted	0.6	1.4	0.3	0.9
Exercised	(0.2)	(0.3)	(0.4)	(0.1)
Expired	(0.2)	(0.9)	(0.2)	(0.3)
Outstanding at 30 June	0.9	2.2	0.7	2.0

The exercise price of the awards outstanding as at 30 June 2012 was nil (2011: nil). The weighted average share price at the date of exercise for equity-settled share awards during the year was 118.5p (2011: 175.4p).

During the year, payments of £0.3 million (2011: £0.2m) were made to satisfy cash-settled awards where performance criteria was met.

At 30 June 2012, the total accrued in relation to cash-settled awards was £0.2 million (2011: £0.4m).

Valuation of share-based payments

The following assumptions were used to determine the fair value of the LTIPs using a variant of the Monte Carlo pricing model:

	2012	2011
Risk-free interest rate	0.8%	2.0%
Discounted share price on grant date (pence)	100.48p	167.33p
Dividend yield on stock	5.8%	3.7%
Dividend yield on index	3.1%	2.5%
Volatility for stock	39.0%	62.0%
Volatility for index	20.0%	26.0%
Expected life of LTIPs	3 years	3 years

Expected volatility was determined based on weekly information and over a weighted three year period where the annualised standard deviation of the weekly log-normal returns is calculated.

Notes to the Group financial statements continued

23. Employee share schemes continued

	Number of awards granted	Weighted fair value (pence)
Issued in the year ended 30 June 2012 – outstanding and not exercisable	1,631,055	72.1
Issued in the year ended 30 June 2011 – outstanding and not exercisable	1,120,543	131.3

The total charge for the year relating to employee share-based payment schemes was £0.6 million (2011: £0.5m), of which £0.5 million (2011: £0.6m) related to equity-settled share-based transactions and £0.1 million (2011: credit of £0.1m) to cash-settled share-based transactions.

24. Employee numbers and costs

The average monthly number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	2012	2011
Operations	4,288	4,575
Sales and marketing	337	332
Finance and administration	487	514
Total full-time equivalent employees	5,112	5,421

	2012 £m	2011 £m
The aggregate payroll costs were:		
Wages and salaries	125.5	129.4
Share scheme costs	0.6	0.5
Social security costs	26.4	26.7
Pension costs	2.2	2.1
Total payroll costs	154.7	158.7

Pension costs include the current service costs for defined benefit schemes and payments to defined contribution schemes but exclude defined benefit scheme costs included within net financing costs.

25. Net debt

	2011 £m	Cash flow £m	Cash and debt acquired £m	Exchange movements £m	2012 £m
Cash and cash equivalents per the balance sheet	9.6	4.1	–	(1.3)	12.4
Overdrafts	(7.0)	1.3	–	0.9	(4.8)
Cash and cash equivalents per the cash flow statement	2.6	5.4	–	(0.4)	7.6
Debt: Due after one year	(45.6)	(4.4)	–	5.4	(44.6)
Debt: Due within one year	(39.9)	(5.9)	–	2.0	(43.8)
Finance leases	(0.8)	0.4	–	–	(0.4)
Net debt	(83.7)	(4.5)	–	7.0	(81.2)

	2010 £m	Cash flow £m	Cash and debt acquired (note 4) £m	Exchange movements £m	2011 £m
Cash and cash equivalents per the balance sheet	5.0	4.0	0.2	0.4	9.6
Overdrafts	(6.1)	(0.2)	–	(0.7)	(7.0)
Cash and cash equivalents per the cash flow statement	(1.1)	3.8	0.2	(0.3)	2.6
Debt: Due after one year	(49.5)	8.5	–	(4.6)	(45.6)
Debt: Due within one year	(9.0)	(30.2)	–	(0.7)	(39.9)
Finance leases	(0.4)	0.6	(0.9)	(0.1)	(0.8)
Net debt	(60.0)	(17.3)	(0.7)	(5.7)	(83.7)

26. Commitments

	2012 £m	2011 £m
Capital expenditure on property, plant and equipment		
Contracted but not provided	2.0	4.0

Operating leases

The future minimum lease payments under non-cancellable operating leases are as follows:

Total operating leases	2012 £m	2011 £m
Within one year	3.7	5.0
In the second to fifth years inclusive	6.5	8.1
After five years	3.6	4.6
	13.8	17.7

27. Contingent liabilities

The Group is in discussion with a local authority regarding possible remedial actions in relation to potential historical environmental contamination at one of its sites. The high degree of uncertainty about the nature of any possible remedial action, means that McBride cannot predict the outcome of the discussion and any associated costs. Short term precautionary measures are being taken to mitigate the possible impact of any potential contamination.

28. Subsequent events

On 1 August 2012 following the exercise of its put/call option, the Group acquired the remaining 15% shareholding in Fortlab Holdings Sdn Bhd for consideration of £0.5 million (RM2.7 million).

Independent Auditors' report to the members of McBride plc

We have audited the parent company financial statements of McBride plc for the year ended 30 June 2012 which comprise the Company balance sheet, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 75, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report 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 Directors' Remuneration Report 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 McBride plc for the year ended 30 June 2012.

John Minards (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

3 September 2012

Company balance sheet

for the year ended 30 June 2012

	Note	2012 £m	2011 £m
Fixed assets			
Tangible assets	3	0.3	0.3
Investments	4	158.1	157.5
		158.4	157.8
Debtors	5	114.7	113.7
Cash at bank and in hand		0.8	5.0
Creditors: amounts falling due within one year	6	(49.0)	(57.6)
Net current assets		66.5	61.1
Total assets less current liabilities		224.9	218.9
Creditors: amounts falling due after more than one year	8	(46.7)	(45.2)
Provisions for liabilities	7	(0.2)	(0.4)
Net assets		178.0	173.3
Capital and reserves			
Called up share capital	9	18.3	18.1
Share premium account	10	129.2	139.9
Capital redemption reserve	10	15.8	4.0
Profit and loss account	10	14.7	11.3
Total shareholders' funds		178.0	173.3

The financial statements on pages 121 to 127 were approved by the Board of Directors on 3 September 2012 and were signed on its behalf by:

Chris Bull
Director

McBride plc
Registered number: 2798634

Notes to the Company financial statements

1. Presentation of the financial statements and accounting policies

Description of business

McBride plc is the parent company of the McBride Group of companies which is Europe's leading provider of Private Label Household and Personal Care products.

Basis of accounting

The separate financial statements of the Company are prepared under the going concern basis and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom ('UK GAAP'). They have been prepared under the historical cost convention, modified to include revaluation to fair value of certain financial instruments. They are presented in Sterling, being the Company's functional currency.

Under FRS 1, 'Cash flow statements', the Company is exempt from the preparation of a cash flow statement on the grounds that it is included within the consolidated accounts.

Under FRS 8, 'Related party disclosures', the Company is exempt from disclosing related party transactions with entities that are wholly owned subsidiaries of the Company.

The principal accounting policies are summarised below and have been prepared consistently with the prior year except for the adoption of the following amended standards and new Urgent Issues Task Force (UITF) abstract:

Improvements to Financial Reporting Standards 2010
UITF 47 (IFRIC 19) 'Extinguishing financial liabilities with equity instruments'

The adoption of these annual improvements and the new UITF abstract has not had any material effect on the financial statements of the Company.

Investments

Fixed asset investments in subsidiaries are held at cost less any provision for impairment. The carrying values of investments are reviewed for impairment when there is an indication that the investment might be impaired. Any provision resulting from an impairment review is charged to the profit and loss account in the year concerned. For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Tangible fixed assets

Tangible fixed assets are stated at the historic purchase cost of the assets less accumulated depreciation. Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer equipment (including software)	– 3 to 5 years
Furniture and fittings	– 8 to 10 years

Foreign exchange

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Financial instruments

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and includes no obligation to deliver cash or other financial assets. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

1. Presentation of the financial statements and accounting policies continued

Financial instruments continued

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of directly attributable issue costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account directly attributable issue costs, and any discount or premium on settlement. Any difference between the proceeds net of transaction costs and the settlement or redemption of borrowings is recognised over the term of the borrowing.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issuance costs.

Derivative financial instruments

The Company does not enter into speculative derivative contracts. The Company's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. Derivative financial instruments such as foreign currency forward contracts and interest rate swaps are used to hedge these risks. Such derivative financial instruments are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments and is the amount that the Company would receive or pay to terminate the swap at the balance sheet date. Changes in fair value are immediately recognised in the income statement. The Company has not designated any derivatives for the purposes of hedge accounting.

Payments to shareholders

On 24 March 2011, the shareholders of the Company passed a resolution to make payments to shareholders via the issue and subsequent redemption of B shares. Subject to shareholder approval at each AGM, it is the Company's intention that, for the foreseeable future, all payments to shareholders will be made in this way. B shares are recognised as liabilities when they are issued and are held at amortised cost from the date of issue until redeemed. Prior to this shareholder resolution, payments to shareholders were made by payment of dividends which were recognised in the Group's financial statements in the period in which they were paid.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments. Proceeds from the sale of treasury shares are recognised in the profit and loss reserve.

Leases

Operating leases are charged to the profit and loss account on a straight-line basis over the life of the operating lease. The value of any lease incentive received to take on an operating lease is recognised as deferred income and is released over the period to the next rent review.

Share-based payments

Where a parent company grants share-based payments to employees of a subsidiary and such share-based compensation is accounted for as equity- or cash-settled in the consolidated financial statements of the parent, the subsidiary is required to record an expense for such compensation in accordance with FRS 20, 'Share-based payments'. This has resulted in a corresponding increase recognised in equity of £0.5 million (2011: £0.6m) and an increase in recognised liabilities of £0.1 million (2011: decrease of £0.1m). The grant by the Company of options or awards over its equity instruments or cash in lieu of its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. Consequently, the Company has recognised an addition to fixed asset investments of the aggregate amount of these contributions of £0.6 million (2011: £0.5m) with a net credit to equity/liability for the same amount.

Taxation

Current tax is provided at the amounts expected to be paid applying tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is on an undiscounted basis as the impact of discounting would not be significant.

Notes to the Company financial statements continued

1. Presentation of the financial statements and accounting policies continued

Taxation continued

Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future periods has been entered into by the subsidiary.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense. Further details are given in note 7.

Contingent liabilities

When the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

2. Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company reported a profit for the financial year ended 30 June 2012 of £15.5 million (2011: £8.5m). Fees payable to the Company's auditors for the audit of the Company's annual accounts were £0.1 million (2011: £0.1m).

3. Tangible assets

	Furniture and fittings £m	Computer equipment £m	Total £m
Cost			
At 1 July 2011	0.4	0.2	0.6
Additions	–	0.1	0.1
At 30 June 2012	0.4	0.3	0.7
Accumulated depreciation			
At 1 July 2011	0.1	0.2	0.3
Charge for the year	0.1	–	0.1
At 30 June 2012	0.2	0.2	0.4
Net book value			
At 30 June 2012	0.2	0.1	0.3
At 30 June 2011	0.3	–	0.3

4. Investments

	£m
Shares in subsidiary undertakings at cost	
At 1 July 2011	1575
Share-based payments granted to employees of subsidiaries	0.6
At 30 June 2012	158.1

Set out below are the principal subsidiary undertakings of the Company, whose results are included in the consolidated financial statements as at 30 June 2012. The country of incorporation is also the principal country of operation.

4. Investments continued

The main business activity of the major operating subsidiaries involves the manufacture and distribution of Household and Personal Care products. A full list of subsidiaries is filed with the Registrar of Companies.

Company	Ownership	Country of incorporation
Trading subsidiaries	(ordinary shares)	
Robert McBride Limited ⁽¹⁾	100.0%	England
McBride S.A.	100.0%	Belgium
McBride Zhongshan Limited	100.0%	China
McBride Czech a.s. ⁽²⁾	70.0%	Czech Republic
McBride S.r.o.	100.0%	Czech Republic
McBride S.A.S.	100.0%	France
Vitherm S.A.S.	100.0%	France
Chemolux GmbH	100.0%	Germany
McBride Hungary Kft	100.0%	Hungary
McBride S.p.A.	100.0%	Italy
Chemolux S.a.r.l.	100.0%	Luxembourg
Fortune Laboratories Sdn Bhd ⁽²⁾	85.0%	Malaysia
Intersilesia McBride Polska Sp. Z.o.o.	100.0%	Poland
McBride Australia PTY Limited	100.0%	Australia
McBride S.A.U.	100.0%	Spain
Newlane Cosmetics Company Limited	92.5%	Vietnam
Investment companies		
McBride Holdings Limited ⁽¹⁾	100.0%	England
McBride CE Holdings Limited	100.0%	England
McBride Hong Kong Holdings Limited	100.0%	Hong Kong
McBride Asia Holdings Limited	100.0%	Hong Kong
CNL Holdings Sdn Bhd ⁽³⁾	92.5%	Malaysia
Fortlab Holdings Sdn Bhd ⁽²⁾	85.0%	Malaysia
Fortune Organics (F.E.) Sdn Bhd ⁽⁴⁾	46.8%	Malaysia

⁽¹⁾ These companies are directly owned subsidiary undertakings of McBride plc ('the Company') with McBride Holdings Limited 100.0% owned and Robert McBride Limited 57.7% owned by the Company.

⁽²⁾ These companies are accounted for using the anticipated acquisition method and no minority interests have been recognised.

⁽³⁾ This company is 50% owned by McBride Hong Kong Holdings Limited and 50% held by Fortlab Holdings Sdn Bhd therefore the effective indirect ownership by the Company of this investment company and Newlane Cosmetics Company Limited, its wholly owned subsidiary, is 92.5%. However, these companies are accounted for using the anticipated acquisition method and no minority interests have been recognised.

⁽⁴⁾ This company is 55% owned by Fortlab Holdings Sdn Bhd and therefore the effective indirect ownership of this investment company and its wholly owned subsidiary by the Company is 46.8%. Its parent company has been accounted for using the anticipated acquisition method. As a result no minority interests in respect of the parent company have been recognised and the minority interests in this investment company in the consolidated financial statements is 45%.

5. Debtors

	2012 £m	2011 £m
Amounts owed by Group undertakings	111.2	108.9
Foreign currency contracts	0.2	0.2
Interest rate cap	0.2	-
Deferred tax assets (note 11)	0.9	0.9
Other debtors	1.9	3.4
Prepayments and accrued income	0.3	0.3
Total debtors	114.7	113.7

Notes to the Company financial statements continued

6. Creditors: amounts falling due within one year

	2012 £m	2011 £m
Amount relating to cash-settled share-based payments granted to employees of subsidiaries	0.2	0.4
Forward contract liabilities	-	0.2
Interest rate swaps	1.0	2.0
Unredeemed B shares	0.5	0.1
Other creditors	0.3	0.5
Amounts owed to Group undertakings	46.2	53.5
Accruals and deferred income	0.8	0.9
Total creditors	49.0	57.6

On 24 March 2011, shareholders approved proposals for the implementation of a 'B share' scheme as a mechanism for making payments to shareholders. This involves the issue of non-cumulative redeemable preference shares (known as 'B shares') in place of income distributions. Shareholders are able to redeem any number of their B shares for cash. Any B shares retained attract a dividend of 75 per cent of LIBOR on the 0.1p nominal value of each share, paid on a twice-yearly basis.

Movements in the B shares during the year were as follows:

	2012 Nominal value £m		2011 Nominal value £m	
	Number	£m	Number	£m
Issued and fully paid				
At 1 July	136,372,005	0.1	-	-
Issued to equity shareholders	12,204,449,048	12.2	3,607,902,100	3.6
Redeemed	(11,845,436,165)	(11.8)	(3,471,530,095)	(3.5)
At 30 June	495,384,888	0.5	136,372,005	0.1

7. Provisions for liabilities

	£m
At 1 July 2011	0.4
Provided in year	1.1
Utilised in year	(1.3)
At 30 June 2012	0.2

The provisions relate to consultancy costs in connection with certain restructuring initiatives carried out by subsidiary undertakings and the amounts are expected to be incurred in the next year.

8. Creditors: amounts falling due after more than one year

	2012 £m	2011 £m
Unsecured bank loans	44.5	45.2
Interest rate swaps	2.2	-
Total creditors	46.7	45.2

The unsecured bank loans relate to amounts drawn down under a €175 million revolving credit facility, which is provided by four major banks and remains committed until June 2015.

9. Called up share capital

	Authorised	
	Number	£m
Ordinary shares of 10 pence each		
At 1 July 2011 and at 30 June 2012	500,000,000	50.0
	Allotted, called up and fully paid	
	Number	£m
Ordinary shares of 10 pence each		
At 1 July 2010 and 30 June 2011	181,040,301	18.1
Shares issued to satisfy share option exercises	1,800,000	0.2
At 30 June 2012	182,840,301	18.3

Ordinary shares carry full voting rights and ordinary shareholders are entitled to attend Company meetings and to receive payments (see page 73).

9. Called up share capital continued

	2012		2011	
	Number	£m	Number	£m
Shares held in treasury				
At 1 July	1,190,878	0.1	824,498	0.1
Shares purchased in the year	900,000	0.1	900,000	0.1
Shares issued to satisfy share option exercises	(1,157,663)	(0.1)	(533,620)	(0.1)
At 30 June	933,215	0.1	1,190,878	0.1

The treasury shares are held to satisfy future exercises of employee share options and equity-settled LTIPs.

10. Movement on reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
At 1 July 2011	139.9	4.0	11.3
Retained profit for the year	–	–	15.5
Equity granted to employees of subsidiaries	–	–	0.5
Additional amounts received relating to issue of shares	1.5	–	0.9
Issue of B shares	(12.2)	–	–
Redemption of B shares	–	11.8	(11.8)
Own shares acquired and held as treasury shares	–	–	(1.1)
Related tax movements	–	–	(0.6)
At 30 June 2012	129.2	15.8	14.7

11. Deferred tax

	Share-based payments £m	Other £m	Total £m
Deferred tax asset at 1 July 2011	0.7	0.2	0.9
(Charge)/credit to income statement	(0.5)	1.1	0.6
Charge to reserves	(0.1)	(0.5)	(0.6)
Deferred tax asset at 30 June 2012	0.1	0.8	0.9

12. Guarantees

The Company has guaranteed the loans and debt of certain subsidiaries up to £8.6 million (2011: £14.0m).

13. Share-based payments

The Company has no employees. Shares in the Company have been granted to employees of the Group as part of the share-based payment plans and recharged to the employing company on the basis of the actual cost as calculated by the number of employees benefiting from any share issue. See note 23 to the consolidated financial statements for more detail on the Group's share-based payment plans.

14. Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	2012 £m	2011 £m
Leases of land and buildings which expire		
Within one year	–	–
In two to five years	0.3	0.3
In over five years	–	–
	0.3	0.3

15. Related party transactions

In the year ended 30 June 2012, the Company recharged to McBride Czech a.s. and Fortlab Holdings Sdn Bhd costs paid on their behalf of £0.1 million and less than £0.1 million respectively (2011: £0.2m and £nil). At 30 June 2012 no amounts were still outstanding (2011: £0.2m and £nil).

Useful information for shareholders

Company's registered office

28th Floor
Centre Point
103 New Oxford Street
London WC1A 1DD
Telephone: 020 7539 7850
Facsimile: 020 7539 7855

Independent auditors

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KBC Bank N.V.
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London EC2N 1BR

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Registrars

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www.computershare.com

Financial public relations advisers

FTI Consulting
Holborn Gate
26 Southampton Buildings
London WC2A 1PB

Financial Calendar

Next key dates for shareholders:

Annual General Meeting (Centre Point, London)	15 October 2012
2012-13 Q1 interim management statement	15 October 2012
Record date for entitlement to B shares (final dividend)	26 October 2012
Record date for entitlement to B share dividend payable on B shares issued and not previously redeemed	26 October 2012
Ex-entitlement to B shares date (ex-dividend date for final dividend)	29 October 2012
Credit CREST accounts with B share entitlements	29 October 2012
Latest date for receipt by Registrar of completed election forms and submitting CREST elections	12 November 2012
Despatch of cheques in respect of B shares which have been redeemed	23 November 2012
Payment into bank accounts in respect of B shares which have been redeemed by certificated shareholders who have valid mandate instructions in place	23 November 2012
Despatch of share certificates for B shares not being redeemed	23 November 2012
Payments on redeemed B shares issued in CREST	23 November 2012
Payments of B share dividend payable on B shares issued and not previously redeemed	23 November 2012

These dates are provisional and may be subject to change.

Payments to shareholders

On 24 March 2011 shareholders approved a proposal for the implementation of a B Share scheme as a mechanism for making payments to shareholders. This involves the issue of non-cumulative redeemable preference shares (B Shares) in place of income distributions. Shareholders are able to redeem any number of their B Shares for cash. B Shares that are retained attract a dividend of 75% of LIBOR on the 0.1p nominal value of each share, paid on a twice-yearly basis.

Shareholders may choose to have payments made directly into their bank or building society account. This benefits shareholders as the payments are paid into their account, as cleared funds, on the date the payment is due. Confirmation of payment is contained in a dividend payment advice which is posted to shareholders' registered addresses at the time of payment. This payment advice should be kept safely for future reference.

Shareholders who wish to benefit from this service should complete the relevant section of the election form accompanying the Notice of Annual General meeting. Alternatively, the required documentation can be obtained by contacting the Company's registrar using one of the methods outlined below.

Shareholder queries

Shareholders who change address, lose their share certificates, wish to amalgamate multiple shareholdings to avoid receiving duplicate documentation, want to have payments paid directly into their bank account or otherwise have a query or require information relating to their shareholding should contact the Company's registrar.

This can be done by writing to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ. Alternatively, shareholders can contact Computershare on the dedicated McBride shareholder information telephone line: 0870 707 1136 or email their enquiry to web.queries@computershare.co.uk, indicating they are a McBride shareholder.

Shareholders are also able to access and amend details of their shareholding (such as address and distribution payment instructions), subject to passing an identity check, via the registrar's website at www.investorcentre.co.uk.

Electronic communications

Shareholders are now able to register to receive communications from McBride electronically. This service enables shareholders to tailor their communication requirements to their needs. McBride is encouraging shareholders to use this service to elect to receive all communications electronically which enables more secure and prompt communication and allows shareholders to:

- Receive electronic notification via email and the internet of the publication and availability of statutory documents such as financial results, including annual and interim reports
- Access details of their individual shareholding quickly and securely online
- Amend their details (such as address or bank details)
- Choose the way dividends are received
- Submit AGM/EGM proxy voting instructions.

It also enables shareholders to contribute directly to reducing McBride's costs and environmental impact through saving paper, mailing and transportation and reducing unnecessary waste.

Registration for this service is via the eTree™ campaign run by Computershare, McBride's registrars, in conjunction with The Woodland Trust. You can register directly by visiting www.etreeuk.com/mcbrideplc and following the online instructions. Alternatively, you can access the service via the investor relations section of McBride's website at www.mcbride.co.uk or via our registrar's website at www.computershare.com.

When you register for electronic communications, a tree will be planted on your behalf with the Woodland Trust's 'Tree For All' scheme in a UK area selected for reforestation.

Online shareholder services

McBride provides a number of services online in the investor relations section of its website at www.mcbride.co.uk, where shareholders and other interested parties may:

- View and/or download annual and interim reports.
- Check current or historic share prices (there is a historic share price download facility).
- Check the amounts and dates of historic dividend payments.
- Use interactive tools to calculate the value of shareholdings and chart McBride ordinary share price changes against indices.
- Register to receive email alerts regarding press releases, including regulatory news announcements, annual reports and company presentations.

Useful information for shareholders continued

ShareGift

McBride supports ShareGift, the share donation charity (registered charity number 1052686). ShareGift was set up so that shareholders who have only a very small number of shares which might be considered uneconomic to sell are able to dispose of them by donating them for the benefit of UK charities. Donated shares are aggregated and sold by ShareGift, the proceeds being passed on to a wide range of UK charities. Donating shares to charity gives rise neither to a gain nor a loss for UK Capital Gains purposes and UK taxpayers may also be able to claim income tax relief on the value of the donation.

Further information about donating shares to ShareGift is available either from its website at www.ShareGift.org, by writing to ShareGift at 17 Carlton House Terrace, London SW1Y 5AH or by contacting them on 020 7930 3737.

Even if the share certificate has been lost or destroyed, the gift can be completed. The service is generally free. However, there may be an indemnity charge for a lost or destroyed share certificate where the value of the shares exceeds £100.

Share price history

The following table sets out, for the five financial years to 30 June 2012, the reported high, low, average and financial year end (30 June or immediately preceding business day) closing middle market quotations of McBride's ordinary shares on the London Stock Exchange.

Year ended 30 June	Share price (pence)			
	High	Low	Average	Financial year end
2008	236	73	138	78
2009	150	83	116	145
2010	247	114	196	130
2011	192	125	155	138
2012	142	105	123	124

Unsolicited mail

The Company is obliged by law to make its share register publicly available should a request be received. As a consequence, shareholders may receive unsolicited mail from organisations that use it as a mailing list. Shareholders wishing to limit the amount of such mail should either write to Mailing Preference Service, DMA House, 70 Margaret Street, London W1W 8SS, register online at www.mpsonline.org.uk or call the Mailing Preference Service (MPS) on 0845 703 4599. MPS is an independent organisation which offers a free service to the public within the UK such that registering with them will help stop most unsolicited consumer advertising material.

Five year financial summary (unaudited)

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Results					
Revenue	813.9	812.4	812.2	792.4	700.9
Adjusted Profit before tax ⁽¹⁾	23.7	22.5	44.4	31.0	21.3
Adjusted Profit after tax ⁽¹⁾	17.6	16.9	33.2	23.2	15.6
Profit before tax	12.1	7.1	29.6	22.2	15.7
Profit after tax	9.1	5.3	22.1	16.6	11.5
Earnings					
Adjusted diluted earnings per share ⁽¹⁾	9.7	9.3	18.1	12.8	8.6
Shareholder payments per share ⁽²⁾	5.0	6.8	6.8	6.0	5.6

⁽¹⁾ Adjusting items include amortisation of intangible assets, exceptional items, changes in estimates of contingent consideration arising on business combinations, and any non-cash financing costs from unwind of discount on initial recognition of contingent consideration and any related tax.

⁽²⁾ Interim and proposed shareholder payments for the year.

WARNING TO SHAREHOLDERS – BOILER ROOM SCAMS

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money. The FSA has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

Protect yourself

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- Get the name of the person and organisation contacting you.
- Check the FSA Register at www.fsa.gov.uk/fsaregister to ensure they are authorised.
- Use the details on the FSA Register to contact the firm.
- Call the FSA Consumer Helpline on 0845 606 1234 if there are no contact details on the Register or you are told they are out of date.
- Search our list of unauthorised firms and individuals to avoid doing business with.
- **REMEMBER:** if it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

Report a scam

If you are approached about a share scam you should tell the FSA using the share fraud reporting form at www.fsa.gov.uk/scams, where you can find out about the latest investment scams. You can also call the Consumer Helpline on 0845 606 1234.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

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Our online resources



McBride communicates its financial and sustainability performance as well as providing additional information about the Group at its website: www.mcbride.co.uk.

McBride's Annual Report and Accounts are available to view online or to download from: www.mcbride.co.uk/investors.

McBride's Sustainability Reports are available to view online or to download from: www.mcbride.co.uk/our-responsibilities/reports.

Latest announcements can be found at the McBride online media centre at: www.mcbride.co.uk/media-centre/regulatory-news.

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This Annual Report is available at: www.mcbride.co.uk.



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Iain Napier, Chairman, Chris Bull, Chief Executive Officer and Richard Armitage, Chief Finance Officer, McBride plc, presented the Company's results on 4 September 2012. The presentation and audiocast can be found at the company's website www.mcbride.co.uk or by scanning this code with your smartphone.



FTSE4Good

McBride has been accepted into the FTSE4Good Index Series of leading companies which meet globally recognised corporate responsibility standards.



McBride has been a leading contributor in the development of the AISE Charter for sustainable cleaning and was the first Private Label company to achieve Charter status.