Vita (Lux III) S.à r.l

Société à responsabilité limitée
Consolidated financial statements for the year ended 31 December 2017

5, rue Guillaume Kroll
L-1882 Luxembourg
R.C.S. Luxembourg: B107 582
Subscribed capital: EUR 1,372,448

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Consolidated financial statements
for the year ended 31 December 2017

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Highlights

Continuing operations:	**2017** **€m**	2016 €m
Revenue	**673.9**	604.4
Profit on ordinary activities before taxation	**17.9**	26.3
Group:		
Net assets	**119.3**	135.9
EBITDA*	**40.1**	58.3

*Earnings before finance costs, taxation, depreciation, exceptional items, impairments and amortisation (EBITDA) are in respect of the Group's results, including both continuing and discontinued operations.

Despite unprecedented raw material price increases across Comfort and Technical foam production during 2017, Vita (Lux III) S.à r.l (the Company) and its subsidiary undertakings (together the Group) achieved record production volumes at many of its manufacturing sites and was proactive in generating additional sales, most markedly in the UK and Eastern Europe, through a range of product innovations largely for Comfort applications. The relentless increase in raw material prices impacted the Group's ability to maintain margins. Alongside its existing customer base, the Group continued to push into new geographic and product markets, including opening a new Comfort conversion facility in Albania during the first half of 2017.

Financing

At 31 December 2017, the Group had net cash of €96.0m (2016: €145.6m). The Group is in a significant net cash position.

The principal committed facility available to the Group is a €60m pan-European factoring facility with Factofrance SAS. Certain trade receivables from UK, France, Germany, Poland, Hungary and Netherlands are pledged to Factofrance. The facility was drawn to €11.8m as at 31 December 2017 (2016: €18.1m). The facility maturity date is 1 March 2020.

In addition, the Group has other ancillary financing facilities in the UK, Lithuania, Romania and Hungary. Certain assets in these territories are pledged to those financing institutions.

Dividend

In 2017, the Company did not pay a dividend to its immediate shareholder, Vita Cayman II Limited (2016: €nil).

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Management report (continued)

Activities

The Group engages in processing polymers to provide a range of products worldwide within three markets: Comfort, Technical and Flooring. The Group's main product is flexible polyurethane foam, along with various associated products including latex, reticulated, laminated, impregnated foams, liquid compounds and expanded polystyrene block. The Group's products offer specific properties tailored to meet customers' requirements to protect, cushion and add comfort.

The Company is a limited liability company incorporated and domiciled in Luxembourg. The address of its registered office is 5, Rue Guillaume Kroll, L-1882 Luxembourg, R.C.S. Luxembourg: B107 582.

Leadership and management structure

During 2017, the Group was managed for all matters including business ethics by the Vita Management Team (VMT) that consists of Group Chief Executive Officer (CEO), Group Chief Financial Officer (CFO), General Counsel and Company Secretary, HR Director, Director of Procurement and Risk Management, Business Development Director and Regional Directors. The Group CEO reports directly to the Board of Directors of Vita Cayman Limited, the ultimate holding company of the Group. A small corporate team supports the VMT with finance, tax, treasury, legal, HR, public relations and communication matters.

The Company is managed by a Board of Managers consisting of the Group CEO and Group CFO plus three Managers based in Luxembourg.

The market-focused VMT drives the Group's business through a management matrix based on geography and market. The Group is appropriately structured and resourced to execute its strategy in the future. The Group operates with a relatively flat reporting structure which allows speedy decision-making and efficient communication between members of the Board of Managers, VMT and operational management.

The VMT is committed to conducting its business with integrity and in accordance with laws and regulations. The Group is underpinned by a value system that respects and meets its fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption. It enacts the same values and principles wherever it has a presence, and knows that good practices in one area do not offset harm in another. By incorporating the Ten Principles of the UN Global Compact into strategies, policies and procedures, and establishing a culture of integrity, the Group is not only upholding its basic responsibilities to people and the planet, but also setting the stage for long-term success. The VMT manages all critical compliance issues including human rights, labour policies and practice, safety, health and environmental (SHE) issues, maintaining a responsible supply chain and fair business practice. On SHE matters each local business leader is directly responsible for SHE management in their businesses, with SHE advisers supporting site managers. Reporting and accountability is managed through the management structure which reports to the Group CEO.

Ownership and control

The Group's largest ultimate shareholder and former majority shareholder is TPG Partners IV - AIV, LP (TPG) which is deemed to have a controlling interest in the Group. TPG is managed by TPG Capital Management, L.P., which is regulated by the U.S. Securities and Exchange Commission.

TPG is a leading global alternative asset firm with over $79bn of assets under management as of 31 December 2017. Founded in 1992, TPG's investments span a range of industries including consumer & retail, financial services, healthcare, industrials, internet and digital media, natural resources and energy, real estate, technology and software. TPG aims to institute discipline and operational excellence across its investment strategy and the performance of its portfolio. Throughout the partnershipTPG brought to the Group deep investment skills, experience, operational and management expertise.

The Group is over 65 years old and was previously owned by the shareholders of British Vita PLC, a quoted company on the London Stock Exchange, until acquired by TPG in June 2005 when the Company de-listed.

Management report (continued)

Directors who have served on the Board of Directors of Vita Cayman Limited during 2017, the ultimate holding company of the Group, are as follows:

Norman Walker, 66, is a senior advisor to TPG Capital LLP, and is the Chairman of Vita Cayman Limited. He started his career with Ford Motor Co in London before moving to GrandMet. From there he joined Kraft Foods where he held a number of leading HR positions in Germany, the USA and Switzerland before joining Novartis Group where he served as Head of Corporate HR. Norman earned a degree in Business Studies at the University of Brighton, UK and attended the Harvard International Senior Management Program.

Joe Menendez, 67, is Non-Executive Director and was formerly Chief Executive Officer of the Group from 2008 to December 2016. He joined the Group from Saint-Gobain, where he was President of Saint-Gobain's global Abrasives business. Joe gained his degree in Chemistry from Washington & Jefferson College, Washington, PA, and holds an MBA from University of Pittsburgh, Katz School of Business, Pittsburgh, PA.

Richard Stevenson, 50, was a Non-Executive Director of Vita Cayman Limited (resigned on 5 October 2017). He is a Managing Director of Crescent Capital Group, LP. Previously, he was a Vice President at J.H. Whitney & Co in Stamford, CT and prior to that worked at Chase Securities, Inc in the High Yield and Global Chemicals Industry groups. Richard received his MBA from Wharton Business School and his Bachelor of Mechanical Engineering from the University of Delaware.

Edouard Croufer, 71, is a Non-Executive Director of Chemical, BioPharma and not-for-profit companies. He serves on the board of Allerinvest SA, The Innovation Circle and the Red Cross in Belgium, Gruenenthal GmbH in Germany. He has over 35 years' experience in chemical and pharmaceutical industries with Exxon Chemicals, UCB and Arthur D. Little. Edouard earned a Physicists Engineer degree from the University of Liege, a Masters in Management Sciences from the University of Waterloo, in Canada and an AMP from Harvard University.

Business review

The Group is a world-class producer of flexible polyurethane foams and associated products working in three markets: Comfort, Technical and Flooring. During 2017 the Group operated in 15 countries on 37 sites, including a branch in Croatia which forms part of the Hungarian subsidiary undertaking, Vitafoam Magyarorszag KFT. The product range includes a vast array of foams (flexible polyurethane, latex, reticulated and impregnated) and expanded polystyrene for applications including acoustic/noise control, automotive, bedding, construction, consumer, filtration, flooring, furniture, healthcare, insulation, hygiene, packaging, sports mats, sports Shockpads, telecommunications and transportation. In addition, it manufactures specialist liquid compounds for related markets.

Management believes that long-term development of the business will be secured through further expansion in both geographic and end-use markets and by continuing to create new products and services to existing customers and markets. The Group will continue to invest in growth, particularly in high margin markets.

The Group's mission is to become the most efficient producer and preferred supplier in its chosen markets by exploiting the inherent economies of scale and skill in its portfolio of businesses. The VMT seeks to maintain the Group's firm operational, financial and strategic foundations in order to drive improved performance and growth from its continuing activities.

Review of operations

The Group was founded in 1949 and today is a world-class producer of foams; it operates out of 15 countries, principally in Europe, for industrial applications and selected consumer markets. Foam operations are divided into two key activities: manufacture and conversion. Manufacture involves foaming, curing and storage; this specialist activity is performed at strategic geographic locations across Europe. Conversion involves cutting, fabricating and any additional treatments such as lamination, impregnation and reticulation. The Group prides itself in supplying quality products and on working with its customers to create reliable, innovative products. Its aim is simple - to be the best in all the markets where it operates.

Despite unprecedented raw material price increases across Comfort and Technical foam production during 2017, the Group achieved record production volumes at many of its manufacturing sites and was proactive in generating additional sales, most markedly in the UK and Eastern Europe, through a range of product innovations largely for Comfort applications. The relentless increase in raw material prices impacted the Group's ability to maintain margins and the businesses were forced to go back to customers in all markets with repeated price increases during the year.

The Group's Comfort products continued to remain in high demand and these sales were supported by a number of investment projects in 2017. In the UK there was further investment in its production at Middleton, Manchester, where a new automated rack storage facility was installed and operational in the second half of 2017. This allows more efficient utilisation of the foam production lines at this site. New product development continued in the UK with a new Shockpad range. This product is a foundation layer for use with artificial turf for sports pitches and enhances the performance of artificial turf systems. The first pitches that use this system are now fully functional and performing to the rigours of team sport. It is expected that demand for this product will continue to grow.

Western European Comfort markets picked up from the restrained growth of recent years, while the pace of growth in Eastern European markets remained robust throughout the year for the high volume Comfort business (furniture and bedding). The businesses in Hungary and Romania were further boosted when an additional Comfort conversion site opened in Albania during the first half of 2017. These sites together with their established satellite conversion operations in Croatia, Bulgaria and Serbia, benefited from market growth due to more furniture and bedding manufacturers migrating to lower cost countries. Increased demand was driven by export and domestic requirements and from strategic initiatives to expand the converted product offering. The Adormo sleep range continued to flourish with strong sales. Poland continued to see growth in demand during 2017 from customers supplying major retailers and gained increased sales to Technical markets. There was another year of record production in Lithuania. Strong demand was seen from customers supplying Scandinavian and Western European markets while the company experienced a decline in orders from Russia, a country where the Group's businesses have minimal direct exposure. Investment in additional storage facilities increased capacity in Lithuania.

Vita (Lux III) S.à r.l

Management report (continued)

Review of operations (continued)

The Group's Technical Foam volumes increased by 7% compared with prior year; mainly driven by sales from foaming plants in the UK and the Netherlands. Strong export volumes to China for automotive headliners and seating interior trim applications fuelled some of this growth. The Chinese just-in-time (JIT) conversion plant located in Changshu was established in 2016 and benefitted from further investment in a new peeler, which was commissioned in the second half of 2017 . This repeats the success of a similar start-up in Poland during 2015. The Group's main Technical Foams market is to European car production and this grew by 3% on prior year; with lower demand in the UK being offset by recovery in the rest of the region. Technical volumes in Germany were on a par with prior year as were specialist lamination sales in the UK. The Dutch plant located in Breda enjoyed a record year in both sales and volumes and is in the process of reviewing site expansion plans to cater for the future growth strategy. Medical and hygiene volumes also increased by a further 5% in 2017, with the Group maintaining its position as market leader in the Light Inco sector.

During 2017, the Group exited the supply of moulded parts for various transportation applications including tractor Original Equipment Manufacturers (OEMs). This allows the German businesses to focus on growing the Technical polyurethane foam volumes in its core business. This was supported by investment in a new loop slitting machine during the second half of 2017 to increase Technical rolled goods capacity by 50%. A reorganisation of the management team within Technical Foams in Germany will also allow for greater focus on its aviation and rail business in the future. This reorganisation will continue into 2018.

There was no generalised demand pattern for industrial markets in 2017; these markets include a diverse range of industries with independent and local market forces. Construction markets, principally served by Group businesses in France and the UK, had contrasting fortunes with the UK market slowing and the French construction activity seeing some growth after a number of years of static performance.

Demand for the Group's UK Flooring (underlay) business is principally driven by the UK housing related markets. During 2017 it experienced an increase in European trim pricing, which is the principal raw material for polyurethane underlay. This impacted in some part on the margins available to this business, however it was still able to outperform on this measure compared with some other Group businesses. Once again it continued to enhance the range offering with innovative new products for domestic, commercial and contract markets. The overall reduced margin by the Flooring business was offset by the gains in trim prices for the Group's foam producing units. The Group remains self-sufficient in the supply of trim foam.

The investment strategy supported growth in Comfort market volumes by expanding capacity (primarily curing and storage capacity) in Lithuania, Poland and the UK. The business also continued to invest in a major programme launched in 2016 to increase and upgrade its conversion machinery capacity. Targeted investment in Germany and China for Technical Foams enhances the Group's strategy to become the most efficient supplier. In summary, capital investment was focused, as always, on three broad areas:

1. New capabilities and incremental capacity for growth in developing markets as a priority;
2. Productivity improvements – investing in yield improvements or cost reductions across the portfolio; and
3. Critical SHE projects involving replacement and infrastructure programmes in core block foam production units.

Raw material markets continued with supply and price pressure for isocyanates, which had started in 2016. Planned additional raw material production by suppliers did not come on-stream in 2017. In addition there were a number of other unforeseen circumstances that impacted supply in Europe, most notably a product contamination issue in the second half of 2017 relating to a raw material (specifically Lupranat T80 A) delivered by one supplier (BASF). All testing to date has determined that the foam produced with this raw material presents no risk to health. The Group continues to co-operate with BASF to resolve the outstanding issues.

Margins in 2017 were impacted by unprecedented increases in isocyantes pricing. The effect was two-fold; firstly the magnitude of absolute price increases and secondly the sustained and continuous nature of these increases which have continued since the first quarter of 2016. The Group has taken action to increase its pricing in order to achieve full pass through. There was a measure of raw material price stability in quarter 4 which enabled some catch up on its margin recovery; however there is a lagged effect in passing through price increases which had an overall outcome on margins during the year. Once again effective management of the crucial equation of volume: pricing: mix and margin was key to the Group's performance.

Management report (continued)

Outlook

The outlook for the Group's markets reflects the macroeconomic picture in Europe and is strongly influenced by consumer confidence, which drives spending on medium to large discretionary items (furniture, beds and cars). The Eurozone saw a solid recovery during 2017 and this is expected to continue into 2018. For the UK, uncertainty in the process for leaving the European Union may impact this, however it is unpredictable and the business remains alert to rapid changes in consumer behaviour in all key European markets. Furthermore, any taxation impacts arising from the withdrawal of the UK from the European Union are yet to be fully established. Management will continue to monitor taxation and regulatory developments, so that any consequences are addressed. The global economy enters 2018 with good momentum and management will remain vigilant in responding to changes in demand.

The Group continues to focus on projects to drive growth through market expansion, particularly in markets outside its traditional geographies and through product development. The successful track record supports the view that the Group's team has the skills and experience to realise growth through this strategy. Furthermore the continued expansion of the Group's footprint provides robustness against shocks in key geographies.

Concerning the outlook for raw materials, the industry believes suppliers have plans in place that should alleviate the constraints in supply of isocyanates during 2018. The Group will continue to monitor its raw material outlook closely and take action as required to achieve normalised margins.

As ever the successful management of the margin equation; volume, pricing and mix remains critical to the success of the Group. The macroeconomic background has an influence on business volumes and thus revenues and profitability. The Group will continue to drive productivity to help offset cost inflation and protect competitiveness, while business expansion through reaching into new geographic markets and product development is expected to drive growth.

Key performance indicators

The financial key performance indicators used in the Group are set out below.

Financial

Every company in the Group produces monthly reporting packs containing its financial results and these are consolidated and submitted to the VMT and finance team for review. The key performance indicators (KPIs) on which the Group focuses are:

- Margin (MOP = Margin over Polymer)
- EBITDA
- Working capital
- Operational cash flow

The financial KPIs are measured in absolute terms and, in addition, working capital is also measured on days sales outstanding, days purchases outstanding and days inventory in hand. For 2017, due to the unprecedented raw material environment, the Group did not meet all of the KPI targets set by the Board.

Non financial

There are three non financial key performance indicators which are:

- Health and safety
- Environment
- Compliance

Health & safety

The Group believes that good Safety, Health and Environmental (SHE) risk management is morally and commercially imperative. It underpins the Company values and is a focus for risk reduction in operations.

The Group's policy states it will work hard to protect its employees and others who could be affected by the Group's work. Legal compliance is the minimum acceptable standard and the Group will strive to continually improve its performance. The Company recognises the contribution all employees must make to achieve this. As an indication of its importance these areas are the first items at VMT, management and regional meetings. All accidents, incidents, near misses and hazards are recorded in a standardised format. Any Fatality, Lost Time Accident (LTA), Major Injury or Major Incident report would be issued immediately to the VMT. The person responsible for risk management at the affected site must communicate with site management. An initial report detailing the nature and circumstances of the incident is submitted as soon as possible and in any event within twenty four hours.

All Group businesses share the same Vision, Safety Standards and supporting Policies. The Health & Safety Vision summarises the belief that all injuries and occupational illnesses are preventable and, therefore, the ultimate goal is to achieve zero reported events. The Health & Safety Standards highlight key areas where there are clear policies and guidance on safety critical tasks and operations. These are 'black and white' standards that must be adhered to and these help in the Group's relentless pursuit of an injury free workplace, ensuring a safe environment for the Group's employees and those working on or near Group sites. The Health & Safety Policies are documents that underpin everything the Group does; they set out the Group's fundamental objectives and define a system of principles and procedures to guide decisions. All operational policies are available in Dutch, English, French, German, Hungarian, Lithuanian, Polish, Romanian, Serbian, Croatian and Albanian; these being the local languages for all block foam and liquid compounding production sites. Online training with follow-up support is provided to the local business leader directly responsible for SHE management and SHE advisers, as well as senior managers.

Health & safety (continued)

The index of LTAs per million hours worked is measured monthly at all businesses and collated for the Group. The immediate objective is to achieve a rate of less than 10 LTAs per million hours worked. In recent years, significant progress has been made, in 2017 an LTA rate of 9.2 (2016: 9.5) was recorded, a marginal improvement on prior year.

This is an area where complacency is not tolerated and a significant programme of training and support for employees has been developed. Vita Towards Zero (VTZ) was launched in 2016 and continued during 2017. This programme follows the Milliken model for health and safety, which engenders a cultural move towards behavioural safety systems, and will continue into 2018. A new Group-wide software system for all accident, incident, near miss and hazard reporting, recording and investigation tracking was launched in quarter 1 2017 to assist SHE management.

Environment

The Group recognises the importance of its environmental responsibilities and complies with all local, national and international legislation with respect to the transportation, storage and use of hazardous chemicals. It supports a precautionary approach to environmental challenges. Some operations do have small amounts of permitted emissions and continued efforts are made to reduce and eliminate any environmental impact. The Group’s operations have some environmental impact principally derived from greenhouse gas emissions which arise from electricity, gas and oil consumption used for heat, light and power. It undertakes initiatives to promote greater environmental responsibility and encourages the development and sharing of environmentally friendly technologies.

The Group designs and implements policies to reduce any environmental damage that might be caused by its activities and regularly reviews its performance. Recycling opportunities are actively sought to reduce the volume of waste sent to landfill, this includes the reuse of trim product. When making any strategic business investment, sustainability issues will be embedded in the scope and specification as these often create an opportunity to improve processes and reduce environmental impact.

The Group’s key energy reduction projects are:
a. Upgrading old and obsolete equipment;
b. Improving power factors;
c. Re-engineering site infrastructure following site rationalisation/change;
d. Minimising energy intensive rework operations; and
e. Optimising production footprint to minimise transportation and use of specialised transport systems (such as foam compression trucks).

Environmental incidents are reported immediately to the VMT. At 31 December 2017, there were no prohibition / improvement / non-compliance notices at any sites across the Group. The Group’s Environmental Policy is available on the Group intranet and has been communicated to all business leaders and employees; it is also available to customers.

In 2017, a number of investment projects improved the Group’s environmental credentials; investment in a solvent tanker off-loading area at the UK liquid compounding business enables isolation of any solvent spillage from a tanker delivery; a number of businesses across Europe have converted to LED lighting and significant investment was made at Middleton to reduce fire risk.

Compliance to company policies (including human rights and labour practices)

The Group’s business relies heavily on the skills and experience of its employees. It prides itself on the fact that it operates businesses locally, with local managers. The Group has spent time building its leadership teams ensuring that the leaders understand the Group’s ethical business practice, its strategy, the associated business challenges and their roles in leading and engaging their teams. The Group’s Code of Business Conduct summarises the Group’s policies and supports managers in upholding the highest standards of business practice throughout the Group. The KPI’s ensure behaviours are aligned with the Group’s Code of Business Conduct and there is 100% completion for online compliance training courses.

Compliance to company policies (including human rights and labour practices) (continued)

All senior managers, customer facing and purchasing employees are supported in their understanding of the high standards of ethics and business practice expected by the Group. The management structure and regular 'face to face' meetings allow coaching and discussion about issues. Since 2011, to reinforce understanding of the Group's business ethics this group of employees undertake online training offered in 13 languages. Group-wide online compliance training on Economic Sanctions and Trade, IT/Document retention/Data security, Purchasing and Marketing Code of Ethics, Anti-Bribery and Corruption and Competition has been undertaken by these employees. Each online trainee makes an annual affirmation of the Anti-bribery and Corruption Policy and Competition Policy.

For 2017, the Group met the KPI target. Face to face training on Competition Law, Anti-bribery and Corruption and the Group's Whistleblowing process was also held in the first quarter of 2017. In all 215 senior and middle managers attended this training in six European countries. The Group is committed to work against corruption in all its forms, including extortion and bribery.

Employees, human rights and labour practices

The Group is an organisation which seeks to engage with its employees and embraces everyone's talents and abilities, and where diversity is valued. It does not unfairly discriminate and respects human rights. It seeks to recruit the right people who are committed to the business and to provide opportunities for employees to progress within the organisation on the basis of their skills, experience and aptitude.

The Group encourages involvement of its employees in the performance of the business and aims to achieve a sense of shared commitment. The Group produces a regular employee e-newsletter to share experiences and achievements. The Group has an intranet, which is a central portal for information on projects, SHE matters and policies. The VMT encourages honest, straightforward two-way communication. Announcements are periodically circulated to give details of commercial and staff matters. Notice boards are positioned at strategic locations at all sites, to ensure employees are informed on SHE matters as well as providing information relating to performance and projects. Posters providing information about the Group's Whistleblowing Policy are shown on employee notice boards at all sites.

Employment policies

The Group has standards of business conduct with which it expects all its employees to comply. The Group is committed to employment policies which follow best practice and are based on respect and equal opportunities for all employees, irrespective of gender, religion or belief, age, racial or ethnic origin, sexual orientation or disability. To avoid any issues arising from any conflicts of interest between the interests of the business and any personal interests of the employee, employees are encouraged to always disclose any potential or actual conflicts of interest to their manager or HR representative.

Human rights

The Group supports and respects the protection of internationally proclaimed human rights in the Ten Principles of the UN Global Compact and will not tolerate human rights abuses. The Group upholds the freedom of association and the effective recognition of the right to collective bargaining. It has no tolerance to all forms of forced and compulsory labour or child labour and does not discriminate in respect of employment and occupation. The Group's Slavery and Human Trafficking Statement sets out the steps the Group has taken during 2017 to ensure that slavery and human trafficking is not taking place in any of its supply chains, and in any part of its business. This statement is published on its website in accordance with the requirements of the UK Modern Slavery Act. The Group adheres to the regulatory requirements of the countries where it operates and, therefore, believes the risk of breaches in human rights is low. The Group's Supply Chain Responsibility Policy outlines the expectations of its relationships with its supply base. During 'face to face' meetings in November 2017, major suppliers were asked to confirm agreement to respect employee rights to freely choose employment, freedom of association, working hours that comply with national laws, equal opportunities (irrespective of gender, religion or belief, age, racial or ethical origin, sexual orientation or disability), recognised employment relationships, freedom from intimidation and to a safe and healthy working environment.

Remuneration

The Group recognises that its approach to reward is a critical factor to both attract and retain its employees and drive a performance culture. The Group offers a competitive reward package at all levels within the business. Performance, at all levels, is assessed against measures and targets that are relevant to the Group's business and are stretching, whilst providing maximum clarity.

For management the performance metrics that are used for its annual bonus have been selected to reflect the Group's key performance indicators, as detailed in the Key Performance Indicators section above, covering both financial and non-financial indicators.

VMT and management remuneration:
The executive remuneration arrangements aim to be simple and transparent for both employees and shareholders. One of the Group's main objectives is to build shareholder value. The Group's strategic focus places great importance on creating that value through high operating performance as well as successful corporate finance activity. The remuneration framework is designed to reinforce the link between pay and performance rewarding senior managers for delivering the Group's strategy. For these people, the focus is on cash and variable pay rather than fixed benefits. The reward package includes an annual performance-driven bonus, based on personal objectives and the key performance indicators of the Group (for VMT) or the performance of the operating entities on which the individual manager's performance has a direct impact (for management). This encourages all its managers to contribute towards achieving the Group's strategic objectives and enables them to share in the Group's success.

Employees' remuneration:
Except where specific bargaining arrangements apply, local management reviews salaries, wages and benefits annually in line with market rates to ensure continued alignment to the market.

Gender Pay Reporting

The Group's Gender Pay Report for 2017 was published on the group website in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 for its UK businesses. The VMT will continue to review this information and ensure that the key principle of equal pay for work of equal value remains an important legal and moral commitment.

Equality and diversity

Capitalising on individual employees' unique qualities and drawing on their different perspectives and experiences adds value to the way the Group does business. The Group recognises that a diverse workforce will provide an insight into different markets and help the Group to anticipate and provide what is required in those markets.

Gender diversity

The analysis below shows the gender diversity of employees in 2017, across all businesses worldwide and is split between the Board of Managers of Vita Lux (III) S.à r.l. and the VMT/Senior Managers. VMT/Senior Managers consists of the VMT, business managers and financial controllers for each of its operating businesses plus senior personnel in the support functions (i.e. Treasury, Tax, Human Resources, Legal and Communications). At the financial year end the breakdown was:

- Vita Lux (III) S.à r.l. Board: 5 employees in total: 1 female (20%) and 4 male (80%);
- VMT and Senior Managers: employees in total: 20 female (31%) and 44 male (69%);
- Total average employees: in total 2,612: 709 female (27%) and 1,903 male (73%).

Business ethics
The Group's business ethics are outlined in its Code of Business Conduct, which includes guidance on recording and avoiding conflicts of interest. The code is signed and championed by the Group CEO and available in 13 languages (UK and US share the same English version and the code is not currently available in Albanian because all employees are fluent in English) so all employees can read and be familiar with the Group's conduct expectations. More detailed guidance is contained in the Group's policies which are available on the Group intranet.

The Group's Whistleblowing Policy is available in 13 languages. The Group has a recognised procedure for investigating whistleblowing concerns. Refresher training was provided in 2017 to senior and site managers on this process and there is supporting information available on the Group intranet.

All policies are reviewed annually in light of any internal or external changes. This review and any amendments are presented to the Board of Managers.

Social and community
The Group is aware of its social responsibilities to the communities where it operates. There is no policy that applies to all sites and management at each site uses discretion when supporting local community activities. Generally all units communicate with local residents about changes in activities that may impact on, or be of interest to, the local community – such as informing them of onsite training with the fire services or significant changes to plant layout. In addition, sites may have involvement with local community groups and schools. During 2017, the UK business promoted its Shockpad product through sponsorship of kit for a number of children's soccer teams.

The Group does not have a formal process for recording community activities since these are arranged in response to local conditions and there is no target set for the number of events. Businesses are encouraged to share reports on their community activities through The Group's e-newsletter.

Research and development
The Group continues to invest in research and development, as it is considered necessary for its continuing success in the medium to long-term future. Many developments are pioneered through partnerships with customers.

Creditor payment policy and practice
The Group does not follow any specific external code or standard on payment practice. Its policy is normally to pay suppliers according to the terms of business agreed with them on entering into binding contracts and to keep to the payment terms providing the relevant goods or services have been supplied in accordance with the contracts.

Key business relationships – suppliers

The Group has a dedicated team of purchasing professionals who work closely with its suppliers. Each supplier is dealt with in accordance with the Group's Supply Chain Responsibility Policy which outlines the Group's expectations of its relationships with its supply base; this includes the Group's Purchasing Code of Ethics, Ethical Standards, Environmental Standards and Health & Safety Standards. The Group works collaboratively with suppliers in pursuit of this policy. This policy was presented to the Group's leading direct suppliers during 'face to face' meetings in November 2017. The Group has diversified raw material sourcing, ensuring materials are obtained with the expected quality at keen prices and ensuring continuity of supply across the manufacturing sites.

Key business relationships – customers

Strong customer relationships are critical to the business. Dedicated sales professionals work with customers in all markets and geographies to understand their needs.

As detailed in the employee section, all customer facing and purchasing employees are supported in their understanding of the high standards of business ethics expected by The Group through the management structure. Online training is offered in local languages on Economic Sanctions and Trade, Purchasing and Marketing Code of Ethics, Anti-Bribery and Corruption, Competition Law and Whistleblowing.

The Group's strategy

The Group's mission is to become the most efficient producer and preferred supplier in its Comfort, Technical and Flooring markets for foam and liquid compounds by exploiting the inherent economies of scale and skill in the Group's portfolio of businesses.

The business has firm operational, financial and strategic foundations from which the VMT can drive improved performance and growth. These are the strategic initiatives:

- **Driving growth in the core business** – the Group is focused on its core business of flexible polyurethane foam and associated products in Comfort, Technical and Flooring markets. It will continually review the right-size of the business as it responds to economic conditions; while driving growth by expanding the Group's geographic footprint and extending the product range;
- **Building blocks for excellence –** the Group focuses on continuous improvement and efficiency to protect its promise of high quality products and high quality service. Investment in lean manufacturing and health & safety initiatives over recent years has achieved results and the Group will continue to invest in people, systems and organisational structures;
- **Development through technical knowledge and agility** – future growth will be secured through expansion in both geographic and end-use markets and continuing to develop new products and services to existing customers and markets. The ability of people to work together, deliver the synergies within the Group, respond quickly to market conditions and innovate is critical.

Through this structured, incremental and progressive process the Group will create a safer, more stable operating environment for all its employees, while increasing the overall performance of the business in a sustainable manner grounded on best practice and creating an attractive long-term future for each of its businesses.

Reducing risk through business controls

The VMT and the Board of Managers are mindful of the risks and uncertainties facing the business and have implemented controls that will mitigate or reduce these risks. Review of internal controls and formal identification of key risk areas is an ongoing and live process. The CEO and CFO periodically conduct risk assessment workshops involving senior management, one such workshop was held in September 2017.

Strong support and control from the central finance, tax and treasury team gives rise to a number of significant benefits in terms of reducing both business and financial risk. These central controls and disciplines have become part of day-to-day operations. This model supports the existing businesses into the future and is sufficiently robust to immediately support organic growth into new territories.

The principal identified risks are:

- Commodity risk: the Group has a diversified raw material feed and is exposed to fluctuations in the price and availability of its underlying materials;
- Liquidity risk: this risk is managed through the treasury activities that seek to reduce financial risk, ensure sufficient liquidity and manage surplus cash. The treasury department's activities are subject to strict control and operate within parameters approved and monitored by the Board and VMT and restrict transactions to banks that have a defined minimum credit rating. The treasury department does not operate as a separate profit centre and does not take speculative financial positions and makes limited use of derivative financial instruments. The treasury department advises operational management on all financial risks and executes all major transactions in financial instruments;
- Competitive pressure: the Group manages this risk by providing value added services to its customers. It ensures its products remain competitive through measures to improve production yield;
- Accounts receivable: the Group insures the majority of its receivables, so mitigating the impact of a customer bankruptcy;
- The Group has no significant reliance on any single customer or geographic region;
- Raw material prices and supply: The Group has diversified raw material sourcing; ensuring materials are obtained with the expected quality at keen prices and ensuring continuity of supply across the manufacturing sites;
- Foreign exchange risk: this risk is managed both by the treasury team and by the businesses locally. The treasury team manage the Group's structural loan foreign exchange exposures, arising largely from subordination of debt, funding or taxation;
- Compliance risk: All senior managers, customer facing and purchasing employees are supported in their understanding of the high standards of ethics and business practice expected by the Group through the management structure and regular 'face to face' meetings. Since 2011, to support them in achieving these standards this group of employees also undertake online training. Each online trainee makes an annual affirmation of the Code of Business Conduct, Anti-bribery and Corruption Policy and Competition Policy.
- SHE risk: this risk is managed as one of the key non financial KPIs for the Group. The Group has comprehensive policies, procedures and guidance notes to support site management in maintaining formal SHE risk management systems that secure compliance with legislation and policy. There are strict investigating, reporting and recording requirements operated by all businesses in the event of an incident or accident on site; online training is given to local business leader directly responsible for SHE management, SHE advisers and senior managers. The Group holds site auditing programmes to ensure effective process safety compliance. There is an increasing focus on leading indicators to proactively reduce accidents and incidents at sites.

All risk findings are evaluated and action plans drawn up aimed at reinforcing controls and preventing reoccurrence. This is supported by dedicated software programs used throughout the Group.

The Group has brought together the various separate general commercial and business risk insurance policies into one consolidated global policy umbrella, wherever possible. This helps to drive more efficient and effective spend of the insurance premium.

Reducing risk through business controls (continued)

There is great focus on capital expenditure and restructuring spend and a structured management of working capital. Controls on capital expenditure ensure that investments are targeted at real growth, cost reduction and SHE priorities.

The above controls significantly reduce business and operational risks.

The Group's financial risk profile has improved in many ways in recent years and is likely to continue improving. This can be seen through a number of financial indicators:

- Operational gearing: this has reduced significantly as the overhead costs associated with maintaining many sites and unused capacity have reduced. The Group is becoming leaner yet operating in a more integrated and coordinated way that can respond to global pressures in its market places;
- The Group has had no dividend financing burden in recent years;
- Liquidity: the access to cash or ease of converting assets into cash quickly and without discount.

Statement of compliance

The Board of Managers consider the annual report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity, as required for reporting within the UK and this statement of compliance is outside PricewaterhouseCoopers, Luxembourg scope and, therefore, is not reported on in their Independent Audit Report.

Subsequent events

In February 2018, the Company's principal shareholder, TPG, informed the Company that it had accepted an offer for its shares from Strategic Value Partners (SVP), a private equity fund. TPG is currently awaiting regulatory clearance for the completion of the transaction.

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Audit report

To the Partners of
Vita (Lux III) S.à r.l.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Vita (Lux III) S.à r.l. (the "Company") and its subsidiaries (the "Group") as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement and statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Law and standards are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

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

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

Other information

The Board of Managers is responsible for the other information. The other information comprises the information stated in the consolidated Management report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Managers for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Managers is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

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- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers;

- conclude on the appropriateness of the Board of Managers' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

The consolidated Management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 22 March 2018

Vincent Ball

Vita (Lux III) S.à r.l

Consolidated income statement for the year ended 31 December 2017

	Notes	**2017 €m**	2016 €m
Revenue		**673.9**	604.4
Cost of sales		**(558.8)**	(470.9)
Gross profit		**115.1**	133.5
Distribution costs		**(64.6)**	(60.6)
Administrative expenses		**(27.9)**	(44.1)
- Operating profit before exceptional items		**31.3**	49.9
- Exceptional charge	2	**(8.7)**	(21.1)
Operating profit	2	**22.6**	28.8
Net finance costs			
Finance costs	3	**(4.4)**	(2.0)
Finance income	3	**0.1**	0.1
Expected returns on pension scheme assets less interest on scheme	7A/7B	**(0.4)**	(0.6)
Profit on ordinary activities before taxation		**17.9**	26.3
Income tax expense	4	**(9.3)**	(6.9)
Profit for the year – continuing operations		**8.6**	19.4
Profit for the year from discontinued operations	10	**-**	26.0
Profit for the financial year	20	**8.6**	45.4

The accounting policies and notes on pages 25 to 60 form part of these consolidated financial statements.

Vita (Lux III) S.à r.l

Consolidated statement of comprehensive income for the year ended 31 December 2017

	Notes	2017 €m	2016 €m
Profit for the financial year		**8.6**	45.4
Actuarial loss on pension schemes	7A/7B	**(22.5)**	(1.2)
Deferred taxation – retirement benefit obligations		**3.0**	-
Currency translation differences on foreign currency net investments**		**(5.7)**	(28.9)
Other comprehensive expense		**(25.2)**	(30.1)
Total comprehensive (expense)/income for the year		**(16.6)**	15.3
Attributable to:			
- owners of the parent		**(16.6)**	15.3
Total comprehensive (expense)/income for the year		**(16.6)**	15.3
Total comprehensive (expense)/income attributable to the owners of the parent arises from:			
- continuing operations		**(16.6)**	(10.7)
- discontinued operations		**-**	26.0
		(16.6)	15.3

**These are the only items of other comprehensive expense which may be subsequently reclassified to profit or loss.

The income tax relating to each component of other comprehensive income is disclosed in note 4.

The accounting policies and notes on pages 25 to 60 form part of these consolidated financial statements.

Vita (Lux III) S.à r.l

Consolidated statement of changes in equity for the year ended 31 December 2017

	Note	Share capital €m	Share premium account €m	Hedging & translation reserve €m	Other reserves €m	Accumulated losses €m	Total equity €m
Balance at 1 January 2016		1.4	184.1	32.8	1.8	(99.5)	120.6
Currency translation differences on foreign currency net investments		-	-	(28.9)	-	-	(28.9)
Actuarial loss on pension schemes	7	-	-	-	-	(1.2)	(1.2)
Net expense recognised directly in equity		-	-	(28.9)	-	(1.2)	(30.1)
Profit for the financial year		-	-	-	-	45.4	45.4
Total comprehensive (expense)/income for the year		-	-	(28.9)	-	44.2	15.3
Balance at 31 December 2016		1.4	184.1	3.9	1.8	(55.3)	135.9
Currency translation difference on foreign currency net investments		-	-	(5.8)	0.1	-	(5.7)
Deferred taxation – retirement benefit obligations		-	-	-	-	3.0	3.0
Actuarial loss on pension schemes	7	-	-	-	-	(22.5)	(22.5)
Net expense recognised directly in equity		-	-	(5.8)	0.1	(19.5)	(25.2)
Profit for the financial year		-	-	-	-	8.6	8.6
Total comprehensive expense for the year		-	-	(5.8)	0.1	(10.9)	(16.6)
Balance at 31 December 2017		**1.4**	**184.1**	**(1.9)**	**1.9**	**(66.2)**	**119.3**

The accounting policies and notes on pages 25 to 60 form part of these consolidated financial statements.

Vita (Lux III) S.à r.l

Consolidated balance sheet as at 31 December 2017

	Note	2017 €m	2016 €m
Assets			
Non-current assets			
Property, plant and equipment	9	**59.9**	53.6
Investment property	9	**7.9**	2.7
Goodwill	8	**135.3**	140.8
Other intangible assets	8	**0.7**	0.4
Deferred tax asset	4	**6.2**	5.7
		210.0	203.2
Current assets			
Inventories	11	**43.4**	40.2
Trade and other receivables	12	**113.5**	91.7
Derivative financial instruments	16	**0.4**	0.7
Current income tax		**6.3**	0.5
Cash and cash equivalents (excluding overdrafts)	13	**116.1**	164.6
		279.7	297.7
Total assets		**489.7**	500.9
Liabilities			
Current liabilities			
Financial liabilities – borrowings	15	**(19.9)**	(18.6)
Derivative financial instruments	16	**(0.3)**	(0.4)
Current income tax		**(9.9)**	(4.3)
Trade and other payables	14	**(166.1)**	(148.7)
Loan from parent company	23	**(143.2)**	(146.4)
Provisions for liabilities and charges	18	**(4.4)**	(12.7)
		(343.8)	(331.1)
Non-current liabilities			
Deferred tax liabilities	4	**(1.2)**	(1.0)
Retirement benefit obligations	7 (C)	**(20.9)**	(25.5)
Financial liabilities – borrowings	15	**(0.2)**	(0.4)
Other payables	14	**(2.8)**	(4.1)
Provisions for liabilities and charges	18	**(1.5)**	(2.9)
		(26.6)	(33.9)
Net assets		**119.3**	135.9
Equity attributable to owners of parent			
Share capital	19	**1.4**	1.4
Share premium account	19	**184.1**	184.1
Hedging and translation reserve		**(1.9)**	3.9
Other reserves		**1.9**	1.8
Accumulated losses	20	**(66.2)**	(55.3)
Total equity		**119.3**	135.9

The consolidated financial statements on pages 20 to 60 were approved by the Board on 22 March 2018 and were signed on its behalf by:

Mrs I Moinet

Mr J M Cheele

Directors

The accounting policies and notes on pages 25 to 60 form part of these consolidated financial statements.

Vita (Lux III) S.à r.l

Consolidated cash flow statement for the year ended 31 December 2017

	Note	**2017 €m**	**2017 €m**	2016 €m	2016 €m
Net cash from operating activities					
Cash (used in)/generated from operations	22		**(14.8)**		42.6
Interest paid		**(1.9)**		(2.0)	
Income tax paid		**(6.8)**	**(8.7)**	(11.3)	(13.3)
Net cash (used in)/generated from operating activities			**(23.5)**		29.3
Cash flows from investing activities					
Purchase of property, plant and equipment		**(30.9)**		(16.3)	
Proceeds from sale of property, plant and equipment		**6.0**		-	
Interest received		**0.1**		0.1	
Net cash used in investing activities			**(24.8)**		(16.2)
Cash flow from financing activities					
Repayment of loans	15	**(6.2)**		(4.0)	
Capital element of finance lease rentals	15	**(0.2)**		(0.2)	
Net cash used in financing activities			**(6.4)**		(4.2)
(Decrease)/increase in cash in the year			**(54.7)**		8.9
(Decrease)/increase in cash and cash equivalents			**(54.7)**		8.9
Cash and cash equivalents net of overdrafts at beginning of year			**164.3**		165.3
Exchange movements			**(1.5)**		(9.9)
Cash and cash equivalents net of overdrafts at end of year	13/15		**108.1**		164.3

In 2017, the discontinued operations generated €nil (2016: generated €26.0m) of the Group's net cash from operating activities and paid nil (2016: €nil) in respect of investing activities.

The accounting policies and notes on pages 25 to 60 form part of these consolidated financial statements.

Vita (Lux III) S.à r.l

Accounting policies

Compliance with applicable law and International Financial Reporting Standards
The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) guidance as adopted by the European Union.

Accounting convention:
The financial statements have been prepared on the going concern basis, refer to note 23 regarding repayment terms of related party loans, using the historical cost convention, as modified by the revaluation of certain items, as stated in the accounting policies.

Accounting principles and policies:
The preparation of the financial statements in conformity with IFRS requires the use of critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 30.

The financial statements have been prepared in accordance with the Group's accounting policies approved by the Board and described below. Accounting policies of subsidiary undertakings are consistent with the policies adopted by the Group under IFRS.

Basis of consolidation
The financial statements are presented in Euros which is the Company's functional currency.

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

A list of subsidiary undertakings, which in the opinion of the Board of Managers principally affected the amount of profit or net assets of the Group, is given on page 60, 'Principal Subsidiaries'.

The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings and associates acquired or disposed of in the year, including businesses acquired as major asset purchases, are included in the Consolidated Income Statement from the date of acquisition or up to the date of disposal.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Disposal of subsidiaries
When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the carrying amount recognised in profit or loss. Any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related asset and liabilities. This may mean that amounts previously recognised in other comprehensive income, such as foreign exchange relating to the overseas entity disposed, are reclassified to profit or loss.

New accounting standards and IFRS IC interpretations
The Group has adopted the following new and amended IFRSs in all periods presented in the consolidated historical financial information. There has not been a material impact to the Group when adopting these new and amended IFRSs:

- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38,'Intangible assets', on depreciation and amortisation
- Amendments to IAS 27, 'Separate financial statements' on the equity method
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures'
- Annual improvements 2014 - 2016
- Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative
- Amendment to IFRS 10 and IAS 28 on investment entities applying the consolidation exception
- Amendments to IAS 19 'Employee benefits'
- Amendment to IAS 7, 'Statement of cash flows on disclosure initiative'
- Amendment to IAS 12, 'Income taxes' on Recognition of deferred tax assets for unrealised losses

Accounting policies (continued)

New accounting standards and IFRS IC interpretations (continued)
At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- Amendments to IFRS 2, 'Share based payments' on clarifying how to account for certain types of share-based payment transactions
- IFRS 9 'Financial instruments'
- IFRS 15 'Revenue from contracts with customers'
- IFRS 16 'Leases'
- IFRIC 22, 'Foreign currency transactions and advance consideration'
- IFRIC 23 'Uncertainty over income tax treatments'
- IAS 40 'Transfers of investment property'

The Group intends to adopt IFRS 15 'Revenue from contracts with customers' with effect from 1 January 2018. The Group has undertaken a detailed review of sales arrangements and contracts in place with all subsidiaries. The majority of the Group's sales arrangements do not involve multiple performance obligations, with most sales recognised on delivery or collection of manufactured products, which is generally the point at which the Group's performance obligations have been fulfilled. Transaction pricing is based on sales invoice price and is recognised on fulfilment of the relevant performance obligations. Sales arrangements contain a small element of variable consideration relating principally to agreed rebate, bonus or discount schemes; the adoption of IFRS 15 will not alter the accounting treatment for such items. The Group is not significantly exposed to contracts or other long-term sales arrangements. Management have therefore concluded that the adoption of the standard will not have a material impact on the financial statements of the Group.

The Group intends to adopt IFRS 9 'Financial instruments' with effect from 1 January 2018. The Group has reviewed its financial assets and liabilities and is expecting minimal impact from adoption of the new standard. Management do not anticipate any material changes to the classification and measurement of its financial assets and liabilities, and are not anticipating any changes in accounting policy in respect of its foreign exchange forward contracts. The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. In respect of this, the Group takes a proactive approach to credit risk; trade credit insurance is used extensively and operational credit limits are in place across each business unit, therefore no significant change to provision measurement is expected. Furthermore, the Group has not identified any material complex financial instruments in its balance sheet that would require a change in accounting policy under the new standard. Management have therefore concluded that the adoption of the standard will not have a material impact on the financial statements of the Group.

The Group intends to adopt IFRS 16 'Leases' with effect from 1 January 2019. As disclosed in note 21 to the financial statements, the Group has commitments under non-cancellable operating lease arrangements totalling €124.6m (2016: €130.0m). Furthermore, as disclosed in note 15 to the financial statements, the Group has finance lease obligations totalling €0.3m at the balance sheet date (2016: €0.6m). The Group is undertaking a detailed review of all leasing arrangements and expects to quantify the impact on the financial statements during 2018.

Early adoption of standards
The Group has not adopted, and does not intend to adopt, any standards early

Foreign currency transactions
The results of overseas subsidiary undertakings and associates are translated into Euros using the average rates of exchange during the year. Foreign currency monetary assets and liabilities are translated into Euros at year-end closing exchange rates. Differences arising on translation of the opening balance sheets of subsidiary undertakings and associates and retained profit for the year at the closing rate of exchange are dealt with through reserves, including differences on related foreign currency borrowings used to finance the overseas investments. All other exchange differences are included in the Income Statement.

Derivative financial instruments
The Group uses derivative financial instruments to reduce exposures to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Group's policies adopted by the Board of Managers.

Property, plant and equipment
Property (which comprises freehold and leasehold land and buildings), plant and equipment (including vehicles) are stated at cost, net of depreciation and any provision for impairment. Cost includes expenditure attributable to the acquisition of the items. Financing costs are capitalised within the cost of qualifying assets in construction.

Accounting policies (continued)

Depreciation
Depreciation of property, plant and equipment is provided at rates estimated to write off the cost less residual value of assets over their useful economic lives, the principal rates of annual straight line depreciation being:

Property
a) Freehold buildings 2.5%. Freehold land is not depreciated;
b) Leasehold land and buildings 2.5% or over the period of the lease if less than forty years;

Plant and vehicles
a) Plant and machinery between 10% and 33.33%;
b) Vehicles between 16% and 25%;

Investment properties are depreciated over 40 years.

Residual values and lives are reviewed, and where appropriate adjusted, annually.

On disposal of property, plant and equipment, the cost and related accumulated depreciation and impairments are removed from the financial statements and the net amount, less any proceeds, is taken to the Income Statement.

Investment properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less depreciation, which reflects market conditions at the reporting date.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal and the net amount, less any proceeds, is taken to the Income Statement.

Goodwill and other intangible assets
Goodwill arises on the acquisition of subsidiary undertakings and represents the excess of the consideration transferred over the Company interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree and is stated at cost less impairments. For the purpose of impairment testing, goodwill is allocated to each of the cash generating units (CGUs) or groups of CGUs, which are expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill is deemed to have an indefinite useful life and is tested for impairment annually. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

On disposal of a previously acquired business, goodwill is included in determining the profit or loss on disposal.

Other intangible assets, which include software, know-how and development costs, are capitalised and amortised over their useful economic lives up to five years. Development costs include certain projects where the outcome is assessed as being reasonably certain as regards viability and technical feasibility. Know-how is in respect of acquired know-how.

Impairment reviews
Where circumstances indicate that there may have been an impairment of the carrying value of an intangible or tangible fixed asset, an impairment review is carried out using cash flows calculated from budgets and projections approved by the Board which are discounted at the Group’s risk-adjusted weighted average cost of capital (WACC), calculated from equity market data and borrowing costs.

Where the recoverable amount of assets (other than goodwill) subsequently materially increases, impairment losses recognised in previous periods are reversed but only to the extent that the revised recoverable amounts do not exceed the carrying values that would have existed, net of depreciation or amortisation, had no impairments been recognised.

Inventories
Inventories are valued at the lower of first-in, first-out cost and net realisable value. Net realisable value is the estimated selling price less any anticipated selling costs. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads allocated on a systematic basis (based on normal operating capacity). Provision is made for obsolete slow-moving or defective items where appropriate.

Accounting policies (continued)

Trade receivables
Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. These are carried at original invoice amount less any provision for impairment. Provisions are made where there is evidence of 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.

Long-term receivables are discounted where the effect is material.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, current balances with banks and similar institutions and highly liquid investments generally with maturities of three months or less. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value. Bank overdrafts are shown as borrowings in current liabilities.

Financial liabilities - borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Share capital
Shares are classified as equity and any incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Finance costs
Finance costs are deducted from the carrying value of debt and are recognised in the Income Statement over the term of such instruments at a constant rate on the carrying amount.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. These are classified as current liabilities if payment is due within one year or less. If not they are presented as non-current liabilities. Trade payables are held at amortised cost which equates to nominal value. Long-term payables are discounted where the effect is material.

Current and deferred taxation
Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions for uncertain tax positions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each balance sheet date and is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

Retirement benefit obligations
i) Defined benefit pension schemes:
For defined benefit schemes, the cost of benefits accruing during the year in respect of current and past service is charged or credited against operating profit or loss. The expected return on the schemes' assets and the increase in the present value of the schemes' liabilities arising from the passage of time, are included in finance costs.

Actuarial gains and losses are recognised in full in the year they occur. They are recognised outside the Income Statement and are presented in the Consolidated Statement of Comprehensive Income.

Accounting policies (continued)

Retirement benefit obligations (continued)

The liability recognised in the balance sheet in respect of defined benefit schemes is the present value of the defined benefit obligations at the end of the reporting year less the fair value of scheme assets, together with adjustments for unrecognised past-service costs. The defined benefit obligations are calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligations. There is a restriction on the surplus recognised in the balance sheet for the UK scheme under IFRIC 14 'The limit on a defined benefit asset, minimum funding requirements and their interaction'.

ii) Defined contribution pension schemes:
Amounts charged in respect of defined contribution schemes represent the contributions payable in the year and are charged in the Income Statement.

Provisions
A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect 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, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly.

The Group is exposed to environmental liabilities relating to its operations. Provisions are made immediately where a constructive or legal obligation is identified, can be quantified and it is regarded as more likely than not that an outflow of resources will be required to settle the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Vacant operating leased property
When an operating leased property ceases to be used in the business or a commitment is entered into which would cause this to occur, provision is made to the extent that the recoverable amount of the interest in the property is expected to be insufficient to cover future obligations relating to the lease.

Loss making sites
Where management have identified a site where the trade is loss making but it is uneconomic to close at the present time and it is unlikely to be restored to profitability, a provision has been recognised for the least net cost of exiting these units.

Revenue
Revenue is recognised in the Income Statement when goods are supplied to external customers against orders received, title and risk of loss is passed to the customer, reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete.

Revenue represents net invoice value after the deduction of discounts and allowances given and accruals for estimated rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in the light of contractual and legal obligations, historic trends, past experience and projected market conditions.

Revenue is after eliminating sales within the Group and excluding value added tax and other sales taxes.

Leases
Assets held under finance leases are capitalised as property, plant and equipment at fair value and the corresponding rentals liability is shown net of interest under finance leases within other payables. The capitalised values are written off over the shorter of the period of the lease and the useful life of the asset concerned and finance charges are written off over the period of the lease, based on a constant return on net investment. Rental costs under operating leases are charged to the Income Statement over the period of the lease.

Accounting policies (continued)

Exceptional items
Items which are both material and non-recurring in nature are presented as exceptional charges or credits so as to provide a better indication of the Group’s underlying business performance and are shown separately on the face of the Income Statement.

Government grants
Grants on assets are credited to the Income Statement over the lives of the relevant assets. Other grants are credited to revenue in the period where the expenditure to which they relate is charged.

Research, patents and trademarks
Expenditure is charged to the Income Statement in the period in which it is incurred.

Dividend distribution
Dividend distribution to the Company’s shareholders is recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the Company’s shareholders.

Critical accounting estimates and judgements
The Group’s accounting policies have been set by management and approved by the Audit Committee. The application of these accounting policies to specific scenarios requires reasonable estimates and assumptions to be made concerning the future. These are continually evaluated based on historical experience and expectations of future events. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Under IFRS, estimates or judgements are considered critical where they involve a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities from period to period. This may be because the estimate or judgement involves matters which are highly uncertain, or because different estimation methods or assumptions could reasonably have been used.

Critical accounts estimates and assumptions have been made in the following areas when preparing the Group’s financial statements:

1. Impairment of goodwill and property, plant and equipment – see notes 8 and 9. The Group tests annually whether goodwill has suffered any impairment and tests tangible assets where indication of impairment exists. The recoverable amounts of CGUs with goodwill are then determined on a value-in-use basis, determining this value requires the use of estimates. The main estimates are around a suitable discount rate and the forecasted cash flows, which are based on approved budgets, estimated growth rates for that territory and include terminal values. The assumptions used are considered the best available and reasonable. Any reasonable change in the assumptions would not result in impairment.

2. Retirement benefit obligations – the key assumptions used to calculate the pensions surpluses or deficit and the sensitivity of those assumptions to change is contained within note 7. The assumptions used are considered the best available and reasonable.

3. Income tax expense – see note 4. The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provisions for income taxes and the recognition of deferred tax assets. To assess the income tax risks in each of the jurisdictions, the Group considers tax uncertainties for any years unaudited by the relevant tax authorities and the complexity of the tax issues such as transfer pricing in respect of transactions between Group companies to determine if a provision is needed and takes into account any historic tax assessment experiences. The Group also assesses the risks of any tax audits in progress and if tax assessment~~s~~ have been issued then the Group works closely with advisors before determining if any provision is necessary.

The recognition of deferred tax assets is based on the availability of suitable future taxable profits of a specific business unit in a specific tax jurisdiction and satisfies the relevant recognition criteria. The assumptions used are considered the best available and reasonable. A significant deterioration in results would need to occur in order to result in an impairment of the deferred tax asset recognised.

4. Loss making sites - The recoverable amounts of sites are determined on a value-in-use basis, determining this value requires the use of estimates. The main estimates are around the forecasted cash flows, which are based on approved budgets, estimated growth rates for that territory and include terminal values. The assumptions used are considered by management as the best available and reasonable.

Notes to the financial statements

1 Exchange rates

The principal exchange rates used in the preparation of the financial statements are:

	Average 2017	2016	% change	**Closing 2017**	2016	% change
Sterling (£)	**0.876**	0.819	7.0	**0.889**	0.854	4.1
United States ($)	**1.130**	1.106	2.2	**1.200**	1.051	14.2

2 Operating profit

	2017 €m	2016 €m
Operating profit is stated after charging/(crediting)		
Depreciation of tangible fixed assets:		
- owned	**8.2**	7.4
- held under finance leases	**0.1**	0.1
- impairment charge	**0.1**	0.2
Amortisation of intangible assets	**0.4**	0.7
Operating leases:		
- plant and vehicles	**2.7**	2.7
- land and buildings	**12.5**	12.3
Research and development	**0.6**	0.6
Government grants received	**(0.1)**	(0.1)
Staff costs (note 5)	**91.7**	102.4
Raw material and consumables used in cost of sales	**446.0**	351.6
Credit of inventories included in cost of sales	**(2.5)**	(0.8)
Charge/(credit) for write-down of inventories	**0.2**	(0.4)

Analysis of exceptional items:

	2017 €m	2016 €m
(Gain)/loss on settlement following the closure of the UK pension scheme to future accrual of benefits – note 7	**(0.2)**	1.8
Legal costs, claims and litigation settlements	**3.4**	4.7
Incremental costs relating to supplier contamination issue	**1.8**	-
Property related costs including onerous leases and contracts	**0.4**	5.8
Rationalisation and reorganisation	**3.3**	8.8
	8.7	21.1

Notes to the financial statements (continued)

2 Operating profit (continued)

Included within legal costs, claims and litigation settlements is a cost of €1.0m (2016: €nil) relating to commercial claims, a cost of €0.5m (2016: €nil) relating to taxation disputes, and income of €0.5m (2016: €nil) relating to the release of a tax provision under a sale and purchase agreement no longer required.

Auditors' remuneration

The total remuneration payable to the auditors, PricewaterhouseCoopers, was

	2017 **€m**	2016 €m
Audit of the company and its subsidiaries	**0.8**	0.8
Tax services – compliance	**0.4**	0.4
Tax services – advisory	**0.4**	0.3
Other non audit services	**0.4**	1.3
	2.0	2.8

Auditors' remuneration in respect of the Company, included above, was €58,000 (2016: €54,707).

3 Net finance costs

	2017 **€m**	2016 €m
Bank overdrafts, acceptance credits and bank loans	**1.6**	2.0
Other interest	**2.8**	-
Less finance income on short-term bank deposits	**(0.1)**	(0.1)
Net finance costs	**4.3**	1.9

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Notes to the financial statements (continued)

4 Income tax expense

	2017 €m	2016 €m
UK income tax	**0.3**	2.7
Overseas tax	**2.6**	5.1
Prior year tax adjustment	**3.6**	(2.0)
Group current tax charge for the year	**6.5**	5.8
Deferred taxation – retirement benefit obligations	**1.2**	-
Deferred taxation - others	**1.6**	1.1
Tax expense	**9.3**	6.9

	2017 €m	2016 €m
Profit on ordinary activities before taxation	**17.9**	26.3
Tax on profit on ordinary activities at standard UK corporation tax rate of 19.25% (2016: 20.0%)	**3.4**	5.3
Effects of:		
Expenses not deductible for tax purposes	**0.6**	2.0
Non taxable income	**(1.7)**	-
Capital allowances (in excess of)/less than depreciation	**(0.2)**	0.2
Other timing differences	**-**	(0.5)
Tax losses arising	**3.5**	1.8
Prior year tax adjustment	**3.6**	(2.0)
Higher tax rates of overseas earnings	**0.1**	0.1
Group total tax expense for the year	**9.3**	6.9

On 8 July 2015, the UK Chancellor of the Exchequer announced reductions in the main rate of UK corporation tax from 20.0% to 19.0% with effect from 1 April 2017 and to 18.0% from 1 April 2020.

On 16 March 2016, the UK Chancellor of the Exchequer announced a further reduction to 17% from 1 April 2020 (instead of 18% as previously announced). This change became substantively enacted on 6 September 2016. As such the deferred tax assets and liabilities have been remeasured accordingly.

The United States (US) tax reform will have little or no impact on the Group.

Notes to the financial statements (continued)

4 Income tax expense (continued)

As required by International Accounting Standard 12 'Income taxes' (IAS 12), deferred tax assets and liabilities may only be offset when there is a legally enforceable right and they arise in the same jurisdiction as part of a tax fiscal unity and are, therefore, presented on the Balance Sheet as follows:

	Retirement benefits €m	Property revaluations €m	Taxable losses €m	Total €m
Deferred tax asset				
At 1 January 2016	1.3	1.1	4.2	6.6
Exchange rate adjustment	0.1	-	(0.1)	-
Charge for the year	-	-	(0.9)	(0.9)
At 31 December 2016	1.4	1.1	3.2	5.7
Exchange rate adjustment	-	0.1	-	0.1
Charge for the year – other comprehensive income	3.0	-	-	3.0
Charge for the year – profit and loss	(1.2)	(0.2)	(1.2)	(2.6)
At 31 December 2017	**3.2**	**1.0**	**2.0**	**6.2**

The deferred taxation asset is in respect of property revaluations, taxable losses (which include excess capital allowances and other timing differences of €0.3m (2016: €0.3m)) and retirement benefits in different countries.

Potential deferred tax assets have not been recognised in respect of tax losses carried forward of €361m (2016: €337m), as it is not currently expected that they will be recoverable in the foreseeable future.

Of the €6.2m deferred tax asset, €1.7m is expected to be realised within one year (2016: €2.7m). Of the €1.2m deferred tax liability, €0.1m is expected to be realised within one year (2016: €nil),

	Property revaluations €m	Capital allowances in excess of depreciation €m	Total €m
Deferred tax liabilities			
At 1 January 2016	0.7	-	0.7
Exchange rate adjustment	0.1	-	0.1
Charge for the year	0.2	-	0.2
At 31 December 2016	1.0	-	1.0
Charge for the year	(0.1)	0.3	0.2
At 31 December 2017	**0.9**	**0.3**	**1.2**

The deferred taxation liability has arisen due to capital allowances being claimed in excess of depreciation in the UK and also is in respect of property revaluations in different countries.

5 Staff costs

	2017 €m	2016 €m
Employees and directors:		
Wages and salaries (including termination payments)	**73.7**	83.6
Social security costs	**13.4**	14.0
Pension costs - defined benefit schemes	**1.0**	2.6
Pension costs - defined contribution schemes	**3.6**	2.2
	91.7	102.4

In addition to the above, there was a loss on settlement of €nil (2016: €1.4m) following the closure of the UK pension scheme to future accrual of benefits which were disclosed in exceptional items.

Average numbers employed

	2017 Number	2016 Number
UK	**761**	751
Continental Europe	**1,835**	1,762
International	**16**	11
Company and subsidiary undertakings	**2,612**	2,524

The average number of Group employees, includes directors and excludes temporary and contract staff.

6 Key management compensation

Key management includes directors (Executive and Non-executive) and members of the Leadership Team.

The compensation paid to the key management in aggregate is:

	2017 €m	2016 €m
Wages and salaries, including termination payments, social security, bonuses and benefits-in-kind	**2.2**	6.8
Pension costs	**0.1**	0.1
	2.3	6.9

7 Retirement benefit obligations

Defined benefit schemes
In the UK, the majority of employees were eligible up to 28 February 2008 to join a scheme, administered by British Vita Pension Fund Trustees Limited, which provided final pensionable salary related benefits from separately invested assets. The Scheme was established from 1 April 1961 under trust and is currently governed by the scheme's trust deed and rules dated 15 November 2004. The Trustees are responsible for the operation and the governance of the scheme, including making decisions regarding the scheme's funding and investment strategy in conjunction with the Group.

The scheme is registered under UK legislation and funded in accordance with statutory requirements and the advice of consultant actuaries, Mercer Limited. All members receive an annual benefits statement, together with a copy of an annual report on the status of the appropriate scheme. See section A below for details.

On 28 February 2008 the UK scheme was closed to any new entrants and the scheme continued to operate for existing members until 20 November 2015 when the scheme was closed to future accrual of benefits. The UK now also operates a separate defined contribution scheme.

Defined benefit schemes are provided to employees in France and Germany, supplementing the state pension provision. In France a lump sum indemnity is provided to employees reaching normal retirement age. This liability is unfunded except for partial insurance policies in the French business units. In Germany collective contracts provide for employees to receive either a single lump sum payment or a monthly pension on retirement and are unfunded.

Defined benefit pensions were provided to employees in the Netherlands where funds were paid into third party insurance policies as benefits accrue. These policies provided guaranteed investment returns and the insurer bore the primary risk of asset return and mortality. However, during 2014, these schemes were converted to plans that qualify for defined contribution accounting treatment under IAS 19R 'Employee benefits'. The schemes are now fully secured with an insurance contract but whilst the obligations are still accounted for on a defined benefit basis the value of the assets are now assessed as equal to the obligations and so the net balance sheet liability is €nil.

See section B in respect of details of France and Germany, together with impact of the movements in the asset and obligation reconciliations for the Netherlands.

Recognition of obligations and funding of defined benefit and insured defined benefit schemes are made according to the advice of independent consulting actuaries who regularly review the various schemes.

Defined contribution schemes
Defined contribution pension plans operate in the principal operations in the UK and certain other countries. Pension benefits are paid as lump sums or ongoing payments. These benefits are funded and obligations accounted for at the time that benefits accrue and all investment, mortality and other risk is borne by the employee. Scheme assets are held separately from those of the Group by independent third party providers.

A. UK scheme
The Group's principal UK defined benefit pension scheme is set out below.

The 31 March 2017 actuarial valuation has been updated at 31 December 2017 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19R. Investments have been valued, for this purpose, at fair value.

The UK scheme, referred to above, was in surplus at the start of the year and at the end of the year. As the schemes are closed to new entrants there is an IFRS restriction to the surplus that is recognised in the balance sheet. In addition, the Group has adopted IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' and, therefore, recognises the liability based on the present value of future deficit reduction contributions, which are now nil, following the payment of a lump sum of €25m in November 2017.

Notes to the financial statements (continued)

7 Retirement benefit obligations (continued)

(i) The major assumptions for the actuarial valuation were:

	2017	2016
Rate of increase in salaries	**3.4%**	3.4%
Rate of increase in pensions in payment	**2.2%**	2.3%
Rate of increase in deferred pensions	**2.3%**	2.4%
Discount rate	**2.6%**	2.7%
Inflation assumption	**3.2%**	3.3%
Mortality assumption	**S2PA CMI 2016 (1.25% p.a.)**	S2PA CMI 2015 (1.25% p.a.)

Mortality assumptions are set out below and uses the medium cohort projections and scheme specific adjustments apply (+2 years or -3 years depending on the pension scheme):

		2017	2016
Longevity at age 60 retiring immediately (current pensioner)	Male	**25.0**	25.2
	Female	**28.1**	28.6
Longevity at age 45 retiring at 60 (future pensioner)	Male	**26.1**	26.5
	Female	**29.4**	30.1

(ii) The fair value of the assets in the scheme, the present value of the obligations in the scheme and the expected rates of return at each balance sheet date were:

	2017 €m	2016 €m
Equity instruments	**76.9**	67.8
Debt instruments	**197.3**	175.0
Assets held by insurance company	**94.3**	101.4
Cash	**8.1**	26.4
Total market value of assets	**376.6**	370.6
Present value of scheme obligations	**(284.1)**	(307.9)
Scheme surplus	**92.5**	62.7
IFRIC 14 adjustment	**(92.5)**	(66.3)
Net pension liability after IFRIC 14 adjustment	**-**	(3.6)

Notes to the financial statements (continued)

7 Retirement benefit obligations (continued)

From 20 November 2015 the scheme was closed to future accrual of benefits.

(iii) The sensitivity of the principal assumptions is as follows:

	Change in assumptions	Impact on scheme obligations €m
Discount rate	+/- 0.25%	(14.3)/14.2
Inflation assumption	+/- 0.25%	7.3/(7.4)
Mortality	+/- 1 year	11.1/(10.3)

The sensitivities have been calculated on an approximation basis by changing the key assumptions only while keeping all other assumptions fixed. The impact of the above sensitivity will be negated by the limitation under IFRIC 14.

(iv) Movements in the fair value of scheme assets:

	2017 €m	2016 €m
At 1 January	**370.6**	375.0
Exchange rate adjustment	**(14.8)**	(51.2)
Employer contributions (see note 7.A (xii))	**27.0**	5.2
Settlement payments from assets	**-**	(9.1)
Expected return on pension scheme assets	**9.6**	12.7
Administration expenses	**(0.8)**	(1.0)
Actuarial gains	**1.4**	50.9
Benefits paid	**(16.4)**	(11.9)
At 31 December	**376.6**	370.6

(v) Movements in present value of scheme obligations in the year:

	2017 €m	2016 €m
At 1 January	**307.9**	326.6
Exchange rate adjustment	**(11.9)**	(44.4)
Loss on settlement (included in exceptional items)	**-**	1.4
Past service credit (included in exceptional items) on closure of scheme	**(0.3)**	-
Settlement payments from liabilities	**-**	(9.1)
Interest on pension scheme obligations	**7.9**	11.0
Actuarial (gains)/losses– net of demographic gain of €5.7m (2016: €25.3m)	**(3.1)**	34.3
Benefits paid	**(16.4)**	(11.9)
At 31 December	**284.1**	307.9

Notes to the financial statements (continued)

7 Retirement benefit obligations (continued)

(vi) Analysis of the amount charged to operating profit:	**2017 €m**	2016 €m
Loss on settlement re closure of scheme (included in exceptional items)	**-**	1.4
Past service credit (included in exceptional items) on change in scheme provisions	**(0.3)**	-
Administration expenses (included in administration expenses)	**0.7**	0.6
Administration expenses re closure of scheme (included in exceptional items)	**0.1**	0.4
	0.5	2.4

(vii) Analysis of the amount charged to net finance charges:		
Expected return on pension scheme assets	**9.6**	12.7
Interest on pension scheme obligations	**(7.9)**	(11.0)
Interest expense on effect of IFRIC 14	**(1.7)**	(1.9)
Net finance charge	**-**	(0.2)

(viii) Analysis of the amount recognised in the Statement of Comprehensive Income:		
Actual return less expected return on pension scheme assets	**1.4**	50.9
Changes in assumptions underlying the present value of the scheme obligations	**3.1**	(34.3)
Movement under IFRIC 14	**(27.1)**	(18.0)
Net exchange rate adjustment –IFRIC 14 adjustment	**2.6**	7.5
Net exchange rate adjustment –scheme assets and obligations	**(2.9)**	(6.8)
Actuarial loss recognised in Statement of Comprehensive Income	**(22.9)**	(0.7)

(ix) Cumulative actuarial gains and losses recognised in equity:		
At start of year	**(45.3)**	(44.6)
Actuarial loss recognised in equity	**(22.9)**	(0.7)
At end of year	**(68.2)**	(45.3)

The cumulative loss reflects the total recognised since the acquisition of British Vita PLC in June 2005.

7 Retirement benefit obligations (continued)

	2017 €m	2016 €m	2015 €m	2014 €m	2013 €m
Total market value of assets	**376.6**	370.6	375.0	369.5	286.1
Present value of scheme obligations	**(284.1)**	(307.9)	(326.6)	(327.5)	(264.0)
Surplus in schemes	**92.5**	62.7	48.4	42.0	22.1
Restriction on surplus	**(92.5)**	(66.3)	(53.9)	(48.5)	(26.8)
Deficit after IFRIC 14 adjustment	**-**	(3.6)	(5.5)	(6.5)	(4.7)

(x) Information about the risks of the scheme to the Group:
The ultimate cost of the scheme to the Group will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and as such the cost of the scheme may be higher (or lower) than disclosed. In general, the risk to the Group is that the assumptions underlying the disclosures or the calculation of contribution requirements are not borne out in practice and the cost to the Group is higher than expected. This could result in higher contributions required from the Group and a higher deficit disclosed.

More specifically, the assumptions not being borne out in practice could include:

i. The return on the scheme's assets being lower than assumed, resulting in an unaffordable increase in the required Group contributions;
ii. Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities;
iii. Unanticipated future changes in mortality patterns leading to an increase in the scheme's liabilities. Future mortality rates cannot be predicted with certainty. This is especially so bearing in mind that the youngest scheme members could be expected to still be alive in 60 years or more and it is not possible to reliably predict what medical advances may or may not have occurred by this time;
iv. The potential exercise (by members or others) of options within the scheme, for example taking early retirement or exchanging a portion of pension for a cash lump sum.

(xi) Information about any amendments, curtailments and settlements:
There were no scheme amendments, curtailments or settlements during the reporting year other than referred to in 7 iv) above following the closure of UK scheme to future accruals of benefits.

(xii) Expected future cash flows to and from the scheme:
In the recovery plan dated 23 June 2014, which was based on 31 March 2013 valuation deficit of €7.1m, the Group agreed to pay contributions of €1.4m each year, with the view to eliminating the shortfall by 30 September 2019. Following the payment of a lump sum of €25m in November 2017, no future contributions are due to be made to the scheme. The scheme's Pension Protection Levies are met by the participating UK companies.

(xiii) The scheme's investment strategy:
The scheme's investment strategy is to invest broadly 25% in low risk assets and 75% in liability management assets. This strategy reflects the scheme's liability profile and the Trustees' and Group's attitude to risk.

Notes to the financial statements (continued)

7 Retirement benefit obligations (continued)

B. European Schemes

(i) The major assumptions for the actuarial valuation were:

	2017	2016
Rate of increase in salaries	**1.5% to 3.0%**	1.5% to 3.0%
Rate of increase in pensions in payment	**1.5% to 2.0%**	1.5% to 2.0%
Discount rate	**1.5% to 2.0%**	1.4% to 1.9%
Inflation assumption	**2.0%**	2.0%

As stated above, the European schemes are generally unfunded, with the exception of insurance policies in France and the Netherlands. The present value of the obligations in the scheme at the balance sheet date was as stated below. The ongoing company cash contribution to the insurance policies is negligible.

(ii) The fair value of the assets in the schemes and the present value of obligations in the schemes were:

	2017 €m	2016 €m
Insurance policy	**32.1**	33.2
Total fair value of assets	**32.1**	33.2
Present value of scheme obligations	**(53.0)**	(55.1)
Net pension liability	**(20.9)**	(21.9)

(iii) The sensitivity of the principal assumptions is as follows:

	Change in assumptions	Impact on scheme obligations €m
Discount rate	+/- 0.25%	(0.6)/0.6
Inflation assumption	+/- 0.25%	0.5/(0.5)

The sensitivities have been calculated on an approximation basis by changing the key assumptions only while keeping all other assumptions fixed.

(iv) Movements in the fair value of the schemes' assets:

	2017 €m	2016 €m
At 1 January	**33.2**	30.0
Employer contributions	**1.2**	1.2
Expected return on pension scheme assets	**0.6**	0.8
Actuarial (losses)/gains	**(0.3)**	3.7
Benefits paid	**(2.6)**	(2.5)
At 31 December	**32.1**	33.2

Notes to the financial statements (continued)

7 Retirement benefit obligations (continued)

(v) Movements in present value of the schemes obligations' in the year:

	2017 €m	2016 €m
At 1 January	**55.1**	52.0
Current service cost (included in staff costs)	**0.2**	0.2
Interest on pension scheme obligations	**1.0**	1.2
Actuarial (gains)/losses	**(0.7)**	4.2
Benefits paid	**(2.6)**	(2.5)
At 31 December	**53.0**	55.1

The actuarial gain is net of a gain of €nil (2016: €0.4m) for demographic assumptions.

(vi) Analysis of the amount charged to operating profit:

	2017 €m	2016 €m
Current service cost (included in staff costs)	**0.2**	0.2
	0.2	0.2

(vii) Analysis of the amount charged to net finance charges:

Expected return on pension scheme assets	**0.6**	0.8
Interest on pension scheme obligations	**(1.0)**	(1.2)
Net finance charge	**(0.4)**	(0.4)

(viii) Analysis of the amount recognised in the Statement of Comprehensive Income:

Actual return less expected return on pension scheme assets	**(0.3)**	3.7
Experience gains and losses arising on the scheme obligations	**0.4**	0.2
Changes in assumptions underlying the present value of the scheme obligations	**0.3**	(4.4)
Actuarial gains/(losses) recognised in Statement of Comprehensive Income	**0.4**	(0.5)

(ix) Cumulative actuarial gains and losses recognised in equity:

At start of year	**(1.9)**	(1.4)
Actuarial gains/(losses) recognised in equity	**0.4**	(0.5)
At end of year	**(1.5)**	(1.9)

The cumulative loss reflects the total recognised since the acquisition of British Vita PLC in June 2005.

Vita (Lux III) S.à r.l

Notes to the financial statements (continued)

7 Retirement benefit obligations (continued)

C. Summary of scheme deficits

	UK		Overseas		Total	
	2017	2016	**2017**	2016	**2017**	2016
	€m	€m	**€m**	€m	**€m**	€m
Retirement benefit obligations	**-**	3.6	**20.9**	21.9	**20.9**	25.5
Scheme deficits	**-**	3.6	**20.9**	21.9	**20.9**	25.5

D. Reconciliation of balance sheet

	UK		Overseas		Total	
	2017	2016	**2017**	2016	**2017**	2016
	€m	€m	**€m**	€m	**€m**	€m
Balance at start of year - deficit	**3.6**	5.5	**21.9**	22.0	**25.5**	27.5
Exchange rate adjustments	**2.9**	6.8	**-**	-	**2.9**	6.8
Income statement	**0.8**	1.2	**0.6**	0.6	**1.4**	1.8
(Net past service credit)/loss on settlement	**(0.3)**	1.4	**-**	-	**(0.3)**	1.4
Re-measurement (gain)/loss in consolidated statement of comprehensive income	**20.0**	(6.1)	**(0.4)**	0.5	**19.6**	(5.6)
Employer contributions	**(27.0)**	(5.2)	**(1.2)**	(1.2)	**(28.2)**	(6.4)
Balance at end of year - deficit	**-**	3.6	**20.9**	21.9	**20.9**	25.5

The Overseas deficit includes a partially funded deficit of €0.2m (2016: €0.5m).

8 Intangible assets

	Goodwill €m	Other €m	Total €m
Cost			
At 1 January 2016	230.9	7.2	238.1
Exchange rate adjustments	(31.6)	(0.3)	(31.9)
Additions	-	0.6	0.6
At 31 December 2016	199.3	7.5	206.8
Exchange rate adjustments	(7.8)	(0.1)	(7.9)
Additions	-	0.7	0.7
Disposals	-	(0.1)	(0.1)
At 31 December 2017	**191.5**	**8.0**	**199.5**
Accumulated amortisation			
At 1 January 2016	67.8	6.6	74.4
Exchange rate adjustment	(9.3)	(0.2)	(9.5)
Charge for the year	-	0.7	0.7
At 31 December 2016	58.5	7.1	65.6
Exchange rate adjustment	(2.3)	(0.1)	(2.4)
Charge for the year	-	0.4	0.4
Disposals	-	(0.1)	(0.1)
At 31 December 2017	**56.2**	**7.3**	**63.5**
Net book value			
At 31 December 2017	**135.3**	**0.7**	**136.0**
At 31 December 2016	140.8	0.4	141.2

Goodwill is allocated to cash generating units (see below) which are tested for impairment annually.

Amortisation of other intangible assets in 2017 and 2016 was charged to administrative expenses.

Notes to the financial statements (continued)

8 Intangible assets (continued)

The carrying value of goodwill is represented below:

	Comfort	Technical	Flooring	**Total**
	€m	€m	€m	**€m**
Net book value at 1 January 2016	125.0	20.7	17.4	163.1
Exchange rate adjustments	(17.0)	(2.9)	(2.4)	(22.3)
Net book value at 31 December 2016	108.0	17.8	15.0	140.8
Exchange rate adjustments	(4.2)	(0.7)	(0.6)	(5.5)
Net book value at 31 December 2017	**103.8**	**17.1**	**14.4**	**135.3**

The Board in considering the appropriate analysis of goodwill took into account that it views the Group as having groups of cash generating units and that it monitors the businesses by three distinguishable operational segments i.e. Comfort, Technical and Flooring which is reflected in the Group's internal reporting.

The recoverable amounts of the cash generating units are assessed using a value in use model. Value in use is calculated as the net present value of the projected risk-adjusted post-tax cash flows plus a terminal value of the cash generating operation to which the goodwill is allocated. Initially a post-tax discount rate is applied to calculate the net present value of the post-tax cash flows. The post-tax discount rate is based on the Group post-tax weighted average cost of capital (WACC) of 7.4% (2016: 7.5%). The Group WACC is equivalent to a pre-tax discount rate of approximately 10% (2016: 10%). Where the impairment test indicates that the recoverable value of the operation is close to or below its carrying value, the test is re-performed using a pre-tax discount rate and pre-tax cash flows in order to determine if impairment exists and to determine its magnitude.

Details relating to the discounted cash flow models used in the impairment tests:

i. Key assumptions - sales growth rates, EBITDA, discount rate;

ii. Determination of assumptions - growth rates are internal forecasts based on both internal and external market information. EBITDA reflects past experience, adjusted for expected changes. Discount rate based on Group WACC;

iii. Period of specific projected cash flows - five years;

iv. Discount rates 7.4%, 9.2% or 8.1% on a cash generating unit by cash generating unit basis (2016: 7.5%, 9.4% or 10.2%);

v. Terminal growth rate – 2.0% or 2.5% (2016: 2.0% or 2.5%) depending on market;

vi. Sensitivity analysis is undertaken looking at impact of changes to the discount rate and terminal growth rate.

No reasonably possible change in any assumptions would be expected to give rise to an impairment of the carrying value of goodwill remaining at 31 December 2017.

Notes to the financial statements (continued)

9 Property, plant and equipment

	Property €m	Plant & vehicles €m	Total €m	Investment property €m
Cost				
At 1 January 2016	17.9	98.8	116.7	3.2
Exchange rate adjustments	(0.1)	(4.6)	(4.7)	(0.5)
Additions	2.1	12.2	14.3	-
Disposals	-	(0.8)	(0.8)	-
At 31 December 2016	19.9	105.6	125.5	2.7
Exchange rate adjustments	0.2	(2.7)	(2.5)	(0.1)
Additions	1.8	13.5	15.3	15.6
Impairment provision	-	-	-	(2.7)
Disposals	-	(2.1)	(2.1)	(7.6)
At 31 December 2017	**21.9**	**114.3**	**136.2**	**7.9**
Accumulated depreciation				
At 1 January 2016	2.3	65.4	67.7	-
Exchange rate adjustments	(0.1)	(2.6)	(2.7)	-
Charge for the year	0.9	6.6	7.5	-
Impairment charge	-	0.2	0.2	-
Disposals	-	(0.8)	(0.8)	-
At 31 December 2016	3.1	68.8	71.9	-
Exchange rate adjustments	0.3	(2.2)	(1.9)	-
Charge for the year	0.9	7.3	8.2	0.1
Impairment charge	-	0.1	0.1	-
Disposals	-	(2.0)	(2.0)	(0.1)
At 31 December 2017	**4.3**	**72.0**	**76.3**	**-**
Net book value				
At 31 December 2017	**17.6**	**42.3**	**59.9**	**7.9**
At 31 December 2016	16.8	36.8	53.6	2.7

The gross value of plant and vehicles leased assets was €1.9m (2016: €2.0m) less accumulated depreciation of €1.3m (2016: €1.2m) giving a net book value included in the above of €0.6m (2016: €0.8m).

Depreciation of €7.5m (2016: €7.0m) has been charged to cost of sales, €0.4m (2016: €0.3m) to distribution costs and €0.4m (2016: €0.4m) to administrative costs.

2017 plant and vehicles additions include an amount of €4.3m (2016: €nil) in respect of assets capitalised but still under construction, which was not depreciated in 2017.

In 2015, the Group repurchased a UK long leasehold property previously sold in 2005 under the UK sale and leaseback arrangement. This manufacturing property was held to earn rentals and was treated as an Investment Property and valued at cost less depreciation until its disposal in 2017 for proceeds of €2.6m. Accumulated depreciation was €0.1m.

In 2017, the Group repurchased two long leasehold properties previously sold in 2005, one under the UK and one under the German sale and leaseback arrangement. The UK manufacturing property was included in investment properties and valued at cost less depreciation, until its disposal in 2017 for proceeds of €3.5m. Accumulated depreciation was less than €0.1m.

The German manufacturing property has been included in investment properties and valued at cost less depreciation. Accumulated depreciation is less than €0.1m. There is an impairment provision of €2.7m for this property, which has been transferred from brought forward provisions and liabilities, as the resale (market value) of the property is deemed to be below the purchase cost.

Notes to the financial statements (continued)

9 Property, plant and equipment (continued)

Reversals of impairment arise from subsequent reviews of the impaired assets where the conditions which gave rise to the original impairments are deemed no longer to apply. All the reversals have been credited to exceptional costs where originally created.

10 Discontinued operations and disposal of groups held for sale

Analysis of discontinued operations is as follows:

	2017 €m	2016 €m
Revenue	**-**	-
Income (2016 includes exceptional credit: €27.9m)	**-**	27.9
Operating profit of discontinued operations	**-**	27.9
Operating profit of discontinued operations	**-**	27.9
Income tax expense - corporate tax	**-**	(1.9)
Profit after taxation of discontinued operations	**-**	26.0
Profit on disposal of subsidiary undertakings	**-**	-
Profit for the year from discontinued operations	**-**	26.0

The exceptional credit in 2016 is a result of a judgement in the US courts for which the Group received a full and final commercial settlement of €27.9m and was in respect of a former Cellular Foams business. The income tax is after utilising tax losses brought forward.

Details of the principal subsidiaries are given on page 60**.**

11 Inventories

	2017 €m	2016 €m
Raw materials and consumable stores	**22.8**	22.2
Work in progress	**4.4**	3.6
Finished goods	**16.2**	14.4
	43.4	40.2

The cost of inventories recognised as an expense and included in "cost of sales" amounted to € 485.5m (2016: €396.1m).

Notes to the financial statements (continued)

12 Trade and other receivables

Amounts falling due within one year	**2017 €m**	2016 €m
Trade receivables	**97.5**	82.2
Less provision for impairment of trade receivables (see below)	**(5.1)**	(4.8)
Trade receivables – net	**92.4**	77.4
Other receivables	**4.1**	3.4
Prepayments and accrued income	**9.7**	4.8
	106.2	85.6
Amounts falling due after more than one year		
Other receivables – others	**0.8**	0.9
Other receivables – related parties (note 23)	**6.5**	5.2
	113.5	91.7

The Group does not consider there to be any requirement for impairment in the other receivable balances. There is not considered to be any additional credit risk based on the credit quality of financial assets that are neither past due nor impaired.

Provision for impairment of trade receivables	**€m**
Balance at 1 January 2016	5.1
Exchange rate adjustment	(0.2)
Subsequent recoveries of amounts provided for	(0.9)
Charge for the year in distribution costs	0.8
Balance at 31 December 2016	4.8
Subsequent recoveries of amounts provided for	(0.1)
Charge for the year in distribution costs	0.4
Balance at 31 December 2017	**5.1**

12 Trade and other receivables (continued)

At the year end, the following trade receivable balances were overdue. All of the below are stated net of any impairment provision.

	2017 €m	2016 €m
Within 1 month	**13.6**	10.6
Between 1- 3 months	**3.2**	1.8
Over 3 months	**0.6**	0.2
Receivables in Chapter 11 (see below)	**0.3**	0.3
	17.7	12.9

Where a customer is unable to pay its creditors, it can file with a federal bankruptcy court for protection under Chapter 11 and, in most instances, remains in control of its business operations as a ‘debtor in possession’, but is subject to the oversight and jurisdiction of the court.

The carrying amounts of trade receivables are denominated in the following currencies:

	2017 €m	2016 €m
Euro	**44.2**	35.3
Pounds sterling	**24.9**	19.8
US dollar	**1.4**	1.2
Other	**21.9**	21.1
	92.4	77.4

13 Cash and cash equivalents (excluding overdrafts)

	2017 €m	2016 €m
Cash and cash equivalents (excluding overdrafts)	**116.1**	164.6

Principally the cash and cash equivalents are held with financial institutions with a weighted average credit rating of Aa (Moody’s credit rating).

14 Trade and other payables

	2017 €m	2016 €m
Amounts falling due within one year		
Trade payables	**136.0**	110.8
Other taxes and social security costs	**9.3**	8.1
Other payables	**3.1**	3.2
Accruals	**17.7**	26.6
	166.1	148.7

Amounts falling due after more than one year

	2017 €m	2016 €m
Other payables	**2.8**	4.1

The long-term other items include employee and property related liabilities.

The carrying amounts of these payables are denominated in the following currencies:

	2017 €m	2016 €m
Euro	**127.3**	103.1
Pounds sterling	**35.9**	41.1
US dollar	**0.2**	2.3
Other	**5.5**	6.3
	168.9	152.8

15 Financial liabilities - borrowings

	2017 **€m**	2016 €m
Amounts due within one year		
Bank overdraft and acceptance credits – unsecured	**8.0**	0.3
Loan secured	**11.8**	18.1
Finance leases (see below)	**0.1**	0.2
	19.9	18.6

	2017 **€m**	2016 €m
Amounts due after more than one year		
Finance leases (see below)	**0.2**	0.4

	2017 **€m**	2016 €m
Finance lease obligations payable comprise :		
Between one and two years	**0.1**	0.3
Between two and five years	**0.1**	0.1
Amounts falling due after more than one year (see above)	**0.2**	0.4
Amounts falling due within one year (see above)	**0.1**	0.2
	0.3	0.6

The present value of finance leases is as follows:

	2017 **€m**	2016 €m
Amounts falling due within one year	**0.1**	0.2
Between one and two years	**0.1**	0.3
Between two and five years	**0.1**	0.1
	0.3	0.6

Notes to the financial statements (continued)

15 Financial liabilities – borrowings (continued)

	2017 €m	2016 €m
Cash flow reconciliations		
As at 1 January		
- bank loans (net of finance costs)	**18.1**	23.4
- finance leases	**0.6**	0.7
	18.7	24.1
Non-cash items:		
Foreign exchange	**(0.2)**	(1.3)
Finance lease	**-**	0.1
As at 31 December		
- bank loans (net of finance costs)	**(11.8)**	(18.1)
- finance leases	**(0.3)**	(0.6)
Net cash used in financing activities	**6.4**	4.2

	2017 €m	2016 €m
Net cash at beginning of the year	**145.6**	141.2
(Decrease)/increase in cash and cash equivalents	**(54.7)**	8.9
(Increase)/decrease in loans	**6.4**	4.2
Foreign exchange	**(1.3)**	(8.7)
Net cash at the end of the year	**96.0**	145.6

Net cash includes cash and cash equivalents, secured loans and finance leases.

15 Financial liabilities – borrowings (continued)

The carrying amounts of these liabilities are denominated in the following currencies:

	2017 €m	2016 €m
Euro	**17.6**	16.3
Pounds sterling	**2.4**	1.4
Other	**0.1**	1.3
	20.1	19.0

The Group has undrawn committed borrowing facilities including:

	2017 €m	2016 €m
Floating rate		
- expiring within one year	**20.6**	56.2
- expiring over one year	**59.7**	17.5
	80.3	73.7

The principal committed facility available to the Group is a €60m pan-European factoring facility with Factofrance SAS. Certain trade receivables from UK, France, Germany, Poland, Hungary and Netherlands are pledged to Factofrance. The facility was drawn to €11.8m as at 31 December 2017 (2016: €18.1m). The facility maturity date is 1 March 2020.

In addition, the Group has other ancillary financing facilities in the UK, Lithuania, Romania and Hungary. Certain assets in these territories are pledged to the financing institutions.

The Group has a Guarantee Facility of €0.9m (2016: €25.6m) which included the guarantee referred to in note 25.

16 Derivative financial instruments

The Group's assets included derivatives used for hedging foreign currency that are measured at fair value of €0.4m at 31 December 2017 (2016: €0.7m).

The Group's liabilities included derivatives used for hedging foreign currency that are measured at fair value of €0.3m at 31 December 2017 (2016: €0.4m).

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2017 were €88.1m (2016: €80.0m).

The financial instruments are carried at fair value, by valuation method. The different levels have been defined as follows and all derivatives held by the Group are considered to be level 2:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is derived from prices); and

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable prices).

Notes to the financial statements (continued)

17 Financial instruments

The Group's treasury function operates procedures designed to reduce or eliminate financial risk and ensure that funds are available for current and future needs. The policies are approved by the Board and the use of financial instruments is strictly controlled.

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the cash and borrowings disclosed in notes 13 and 15, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings, as disclosed in the Statement of Changes in Equity.

The Group's principal financial instruments comprise borrowings, cash and liquid resources and various items, such as trade receivables and trade payables that arise directly from its operations. The Group also uses currency swaps and forward foreign currency contracts to manage the currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities:

	Carrying values		**Fair values**	
	2017 €m	2016 €m	**2017 €m**	2016 €m
Financial assets:				
Trade and other receivables (excluding prepayments)	**103.8**	86.9	**103.8**	86.9
Cash and cash equivalents	**116.1**	164.6	**116.1**	164.6
Derivatives at fair value	**0.4**	0.7	**0.4**	0.7
	220.3	252.2	**220.3**	252.2
Financial liabilities:				
Bank loans and overdrafts	**20.1**	19.0	**20.1**	19.0
Trade and other payables (excluding other taxes, social security costs and accruals)	**141.9**	118.1	**141.9**	118.1
Loan from related party (note 23)	**143.2**	146.4	**143.2**	146.4
Derivatives at fair value	**0.3**	0.4	**0.3**	0.4
	305.5	283.9	**305.5**	283.9

Set out below is a maturity analysis of financial liabilities:

	2017 €m	2016 €m
Amounts falling due within one year	**162.3**	137.5
Amounts falling due after more than one year	**143.2**	146.4
	305.5	283.9

17 Financial instruments (continued)

Fair values have been obtained from relevant institutions where appropriate. The carrying amount of bank loans and overdrafts approximates to fair value. The fair values of trade and other receivables and payables are deemed to be equal to their carrying values.

The fair value of the Group's financial instruments is measured using inputs other than quoted prices that are directly or indirectly observable.

The main risks arising from the Group's financial instruments are market risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below, together with related disclosure required by IFRS.

Market risk
The Group's main exposure to market risk is in the form of interest rate risk, foreign currency risk and credit risk. The policies adopted to address these risks are as follows:

Interest rate risk
The Group finances its operations through a mixture of retained profits, factoring facilities and some leases.

The Group borrows at floating rates of interest and has cash deposits also at floating rates. This helps to reduce the Group's exposure to interest rate fluctuations.

Foreign currency risk
The Group is a Euro functional currency Group, largely with Euro assets, and does not seek to hedge the translation of non Euro denominated net assets. The majority of the Group's cash and debt is denominated in Euros and non Euro net cash and debt is monitored and minimised.

The Group hedges currency transaction exposures at the point of confirmed order, using forward foreign exchange contracts. The Group also, selectively, hedges anticipated currency transaction exposures that are highly likely to occur within the next six months. The Group's policy is, where practicable, to hedge all exposures on monetary assets and liabilities. Consequently, there are no material currency exposures to disclose (2016: nil).

Credit risk
The amounts presented in the Balance Sheet for trade and other receivables are net of allowances for doubtful debts as estimated by the Group's management. The Group does not have a significant concentration of credit risk, with exposure being spread over a large number of customers and jurisdictions. In addition, it is policy of the Group that trade receivables are covered by appropriate credit insurance, where it can be obtained.

Before accepting a new customer the Group uses appropriate procedures to assess the potential customer's quality in order to set a credit limit.

Management consider the credit quality of financial assets that are neither past due not impaired to be sufficient.

Liquidity risk
The Group maintains liquidity in the form of short-term cash deposits and available committed borrowing facilities.

Impact on Income Statement
Changes in the fair value of derivative contracts amounting to €0.5m have been credited to the Income Statement in the year (2016: €2.3m).

Derivative financial instruments
The Group has a number of forward currency contracts that are used to reduce the exposure to currency risk.

Changes in the fair value of derivative financial instruments are recognised in the Income Statement as they arise.

Sensitivity analysis
The following table illustrates the effect on the Income Statement and items that are recognised in equity that would result from reasonably possible movements in UK and Euro interest rates and in Euro to sterling exchange rates
before the effect of income tax:

17 Financial instruments (continued)

Sensitivity analysis (continued)

	2017		2016	
	Income Statement underlying +/- **€m**	**Equity IFRS +/- €m**	Income Statement underlying +/- €m	Equity IFRS +/- €m
Foreign currency sensitivity analysis				
Euro exchange rate + 1.0%	**(0.3)**	**(2.6)**	(0.4)	(2.9)
Euro exchange rate - 1.0%	**0.3**	**2.6**	0.4	2.9

The interest rate sensitivity analysis shows no impact to the Income Statement or Equity on both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

The foreign currency sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 1% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or borrower.

The Group's cash and cash equivalents (excluding overdrafts) amounted to €116.1m at 31 December 2017 (2016: €164.6 m).

18 Provisions for liabilities and charges

	Claims and litigation settlements	**Rationalisa-tion**	**Total**
	€m	**€m**	**€m**
At 1 January 2016	5.0	7.4	12.4
Exchange rate adjustments	(0.2)	(0.7)	(0.9)
Charged during the year	3.5	7.5	11.0
Release of provision	-	(1.5)	(1.5)
Utilised during the year	(2.4)	(3.0)	(5.4)
At 31 December 2016	5.9	9.7	15.6
Exchange rate adjustments	-	(0.2)	(0.2)
Charged during the year	1.5	0.6	2.1
Release of provision	(0.5)	-	(0.5)
Utilised during the year	(4.4)	(6.7)	(11.1)
At 31 December 2017	**2.5**	**3.4**	**5.9**

The provision for claims and litigation settlements included provisions arising from or associated with the EU and North America investigations. Exceptional costs in 2017 include €nil (2016: €3.5m) in respect of this matter. The provision relating to this liability was settled in 2017. The Company considers this matter closed.

As included in note 2, exceptional costs in 2017 include €1.0m (2016: €nil) relating to other commercial claims and €0.5m (2016: €nil) relating to taxation disputes. These were charged to administrative expenses. €0.5m of a tax provision under a sale and purchase agreement was released in 2017, with €1.0m (2016: €1.5m) remaining at the balance sheet date.

The provision for rationalisation includes provisions arising from onerous contracts and other property related liabilities. The release of rationalisation provision in 2016 was in respect of onerous leases.

€4.4m (2016: €12.7m) is expected to be spent within twelve months. The balance of the provisions will be spent in future years.

Notes to the financial statements (continued)

19 Share capital and share premium account

	Share capital		Share premium account	
	2017 **€m**	2016 €m	**2017** **€m**	2016 €m
At 1 January and 31 December	**1.4**	1.4	**184.1**	184.1

Subscribed and fully paid share capital 31,192 (2016: 31,192) shares at €44 each.

The Company does not hold any of its own shares.

The share premium is distributable.

20 Accumulated losses

	Accumulated losses €m
At 1 January 2016	(99.5)
Actuarial loss on pension schemes	(1.2)
Profit for the year	45.4
At 31 December 2016	(55.3)
Actuarial loss on pension schemes	(22.5)
Deferred taxation – retirement benefit obligations	3.0
Profit for the year	8.6
At 31 December 2017	**(66.2)**

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of the annual net income, until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed. At 31 December 2017 the reserve was less than €0.1m (2016: less than €0.1m).

The movement in the net pension liabilities, see note 7, is included in the Income Statement.

Notes to the financial statements (continued)

21 Capital and leasing commitments

Commitments for capital expenditure at 31 December 2017 contracted but not provided for in the financial statements amounted to €2.6m (2016: €11.6m) for the Group and relates to property, plant and equipment.

Commitments for intangible assets at 31 December 2017 contracted but not provided for in the financial statements amounted to €nil (2016: €nil) for the Group and relates to software, know-how and development costs.

At 31 December the Group has total commitments in respect of non-cancellable operating leases expiring as shown:

	2017		2016	
	Land and buildings €m	**Plant and vehicles €m**	Land and buildings €m	Plant and vehicles €m
Within one year	**13.5**	**2.4**	13.6	2.4
Between one and five years	**49.4**	**3.9**	46.9	4.9
Beyond five years	**55.4**	**-**	62.1	0.1
	118.3	**6.3**	122.6	7.4

22 Reconciliation from operating profit to operating cash flow

	2017 €m	2016 €m
Operating profit - continuing operations	**22.6**	28.8
- discontinued operations (note 10)	**-**	27.9
Operating profit	**22.6**	56.7
Depreciation charges	**8.3**	7.5
Impairment of fixed assets	**0.1**	0.2
Amortisation of intangible assets	**0.4**	0.7
Government grants	**(0.1)**	(0.1)
Profit on sale of property, plant and equipment	**(0.1)**	(0.1)
(Decrease)/increase in provisions for liabilities and charges – retirement benefit obligations	**(26.6)**	(2.6)
(Decrease)/increase in provisions for liabilities and charges - other	**(6.0)**	2.9
Increase in inventories	**(3.6)**	(9.1)
Increase in accounts receivable	**(23.2)**	(18.2)
Increase in accounts payable	**13.4**	4.7
Net cash (used in)generated from operating activities	**(14.8)**	42.6

23 Related party transactions

i) On 4 December 2015, the Company reduced its issued share capital and settled by a related party loan to its sole shareholder and parent company, Vita Cayman II Limited for €165.7m. On the same date this loan was re-assigned to a subsidiary undertaking of the Company. The loan is repayable at the earlier of on demand and the date that the borrower ceases to be a member of the Group. The loan will carry interest at the rate of 0%, reset annually in line with market conditions.

In November 2016, €65.0m of the loan was reassigned to Vita Cayman Limited and in December 2016 €19.5m was repaid. A further €3.2m was repaid in February 2017. Following these transactions, the total loan is now €143.2m (2016: €146.4m) and is made up of a loan with Vita Cayman Limited of €42.3m (2016: €45.5m) and Vita Cayman II Limited of €100.7m (2016: €100.7m). In addition, there is a further loan of €0.2m (2016: €0.2m) with Vita Cayman II Limited. The Company has received written confirmation that Vita Cayman Limited and Vita Cayman II Limited will not demand repayment of the loans during the twelve months from the approval of these financial statements, unless the Group has adequate funds available to repay the loans.

ii) Included in other receivables, note 12, is €6.5m (2016: €5.2m) in respect of additional loans with Vita Cayman II Limited. The movement in the loan relates to expenses paid on behalf of Vita Cayman Limited and is interest bearing at three months EURIBOR plus 0.5%.

iii) Key management includes directors (Executive and Non-executive), and members of the VMT. The compensation paid or payable to key management for employee services is shown in note 6.

24 Ultimate controlling party

In the opinion of the Board of Managers, the Company's ultimate controlling party is TPG Partners IV-AIV, LP, a partnership located in the Cayman Islands. The ultimate parent company is Vita Cayman Limited.

25 Contingent liability

The Group has in place bank guarantees totalling €0.9m (2016: €25.6m), €nil of which relates to the Vita Pension Fund 1 Scheme (2016: €25.2m), should the principal employers fail to meet their obligations, as that requirement was released by the Trustees following the €25.0m contribution into the scheme during the year.

26 Subsequent events

In February 2018, the Company's principal shareholder, TPG, informed the Company that it had accepted an offer for its shares from Strategic Value Partners (SVP), a private equity fund. TPG is currently awaiting regulatory clearance for the completion of the transaction.

Vita (Lux III) S.à r.l

PRINCIPAL SUBSIDIARIES

Subsidiary undertakings	Country of Incorporation	Product of activities and principal operation
United Kingdom		
Ball & Young Limited	England	Cellular foams
British Vita Property (UK) 2 Limited	England	Property company
Vita (Holdings) Limited	England	Parent company
Vita (Group) Unlimited	England	Parent company
Vita Cellular Foams (UK) Limited	England	Cellular foams
Vita Industrial (UK) Limited	England	Administrative services
Vita Liquid Polymers Limited	England	Liquid compounds
Vita International Limited	England	Parent company
Vita Investments North America Limited	England	Parent company
Continental Europe		
Vita (France) SAS	France	Parent company
Vita (Germany) GmbH	Germany	Parent company
Vita (Netherlands) BV	Netherlands	Parent company
Vita (Lux IV) S.à r.l	Luxembourg	Parent company
Vita (Lux V) S.à r.l	Luxembourg	Administrative services
Caligen Europe BV	Netherlands	Cellular foams
Deutsche Vita Polymere GmbH	Germany	Parent company
Draka Interfoam BV	Netherlands	Cellular foams
ICOA France SAS	France	Cellular foams
Koepp Schaum GmbH	Germany	Cellular foams
Metzeler Schaum GmbH	Germany	Cellular foams
MAR GmbH	Germany	Cellular foams
Metzeler Slovakia S.R.O.	Slovakia	Cellular foams
Radium Foam BV	Netherlands	Cellular foams
Radium Latex GmbH	Germany	Cellular foams
Tramico SAS	France	Cellular foams
UAB Vita Baltic International	Lithuania	Cellular foams
Veenendaal Schaumstoffwerk GmbH	Germany	Cellular foams
Vita Interfoam BV	Netherlands	Parent company
Vitafoam Bulgaria EOOD	Bulgaria	Cellular foams
Vitafoam Magyarorszag KFT	Hungary	Cellular foams
Vitafoam Romania SRL	Romania	Cellular foams
Vitafoam RS d.o.o. Beograd-Stari Grad	Serbia	Cellular foams
Vitafoam Croatia d.o.o	Croatia	Cellular foams
Vitafoam Albania sh.p.k	Albania	Cellular foams
Vita Polymers France SAS	France	Parent company
Vita Polymers Poland Sp. z o.o	Poland	Cellular foams
International		
Vita Foam Products (Changshu) Company Limited	China	Cellular foams
Vita (US) Inc.	USA	Administrative services
Metzeler Schaum Inc.	USA	Cellular foams

Notes:

1 Interests in the United Kingdom, Continental European and International subsidiary undertakings are held through subsidiary undertakings of the Company and are 100% owned unless otherwise stated.

2 The year end of the subsidiary undertakings is 31 December.

3 The Group has one branch in Croatia which is part of Vitafoam Magyarorszag KFT in Hungary. A new subsidiary in Croatia was created in November 2017.

4 The US tax reform will have little or no impact on Vita (US) Inc. and Metzeler Schaum Inc.