Notes to the financial statements
for the year ended 31 December 2017

Devro plc ("the company") and its subsidiaries ("the group") is one of the world's leading manufacturers of collagen products for the food industry. The company is a public limited company, which is listed on the London Stock Exchange and is incorporated and domiciled in Scotland. The address of its registered office is Moodiesburn, Chryston, Glasgow G69 0JE.

1. Accounting policies

The principal accounting policies applied in the preparation of these consolidated and individual company financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

Basis of preparation

These consolidated and individual company financial statements have both been prepared in accordance with European Union endorsed International Financial Reporting Standards ("IFRSs"), IFRS IC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of derivative financial instruments and pension scheme assets.

The group's reporting currency is sterling and unless otherwise stated the financial statements are rounded to the nearest £0.1 million.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 35, along with the financial position of the group, its debt levels and borrowing facilities.

In addition, Note 23 includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The directors have, at the time of approving the financial statements, a reasonable expectation that the company and the group have adequate resources to continue in operation for the next 12 months from the date of approval of this statement. For this reason they continue to adopt the going concern basis of accounting in preparing the financial statements.

Key factors to support the going concern basis of accounting include the following:

- As at 31 December 2017 the group was operating within the £110m revolving bank facility negotiated in December 2014 and due to expire in December 2019, and US$100m US private placement, completed in June 2014 and due to expire between 2021 and 2026.
- Forecast of profits and cash flows have been prepared which indicate that the group is expected to operate within its key covenants and funding facilities for the next 12 months from the date of approval of the financial statements.

Critical estimates and judgements

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best assessments of amounts, events or actions, actual results ultimately may differ from those estimates. The key areas that require estimates and judgements that have a significant risk of material misstatement or of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the accounting for the group's exceptional items and carrying value of inventory.

Exceptional items

Devro is undergoing a major transformation including the construction and start-up of two new plants in China and the US which completed in 2016, a restructuring of operations in Scotland and Australia initiated in 2014 and the Devro 100 programme with expected benefits in 2019. The Devro 100 programme is focused on accelerating revenue growth through significantly improving sales capabilities, delivering substantial improvements in manufacturing efficiencies to reduce unit costs, and introducing the next generation of differentiated products. The incremental costs associated with implementing this transformation are significant, and judgement has been required to determine which costs should be expensed as incurred and which should be capitalised. Where costs have been expensed judgement has also been required to determine whether these costs should be disclosed as exceptional items, taking account of their nature and size and in particular whether they are incremental to normal operations. In some cases provisions have been set up in prior periods for the estimated liability for these costs and judgement is applied relating to the timing of recognition of provisions and the estimation of the amount of the provision. An analysis of exceptional items recognised is included in Notes 3 and 4. Details of provisions are included in Note 21.

Carrying value of inventory

Determining the carrying value of inventory involves a degree of judgement as to whether the group will be able to sell the inventory it has on hand for more than the value recorded in the balance sheet, which is typically the cost of production. The group adopts a policy of providing for inventory when it reaches a certain age, and also for any inventory where there are specific concerns. These estimated provisions are based on management's best assessments of future sales volumes and the likely selling prices, and actual results may differ from these estimates.

Although not considered significant, the following are the other key areas of judgement and estimation:

Pension obligations

The cost of defined benefit pension schemes is determined using actuarial valuations. The actuarial valuation involves certain key assumptions and complex calculations. The key assumptions include discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to uncertainty. An analysis of the sensitivity of the pension obligation to changes in key assumptions is provided based on movements in key variables that could reasonably occur. Further details are provided in Note 26.

Tax

The group's tax charge is based on the profit for the year and tax rates effective at the balance sheet date. In addition to corporation tax, the group is subject to indirect taxes such as sales and employment taxes across the tax jurisdictions in the countries in which it operates. The varying nature and complexity of these tax laws requires the group to review its tax positions and make appropriate adjustments at the balance sheet date.

The changing regulatory environment affecting all multinationals increases the estimation uncertainty associated with calculating the group's tax position. This is as a result of amendments to local tax laws, increased global co-operation between tax authorities and greater cross border transparency. The group estimates and recognises liabilities of taxes due based on management's interpretation of local tax laws, external advice and the likelihood of settlement. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the results in the year in which such determination is made. In addition, calculation and recognition of temporary differences giving rise to deferred tax assets requires estimates and judgements to be made on the extent to which future taxable profits are available against which these temporary differences can be utilised. In the event that actual taxable profits are different, such differences may impact the results in that year. Further details are provided in Notes 9 and 25.

Changes in accounting policies and disclosures

(a) New standards, amendments to standards and interpretations effective in 2017

The following new standards, amendments to standards and interpretations became mandatory for the first time during the financial year beginning 1 January 2017. With an exception of IAS 7, all were either not relevant for the group or had no material impact on the financial statements of the group. A new disclosure addressing the requirements of IAS 7 Changes in liabilities arising from financing activities is presented in Note 24.

	Effective date
• IFRS 12 (amendment) – Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017
• IAS 7 (amendment) – Disclosure Initiative	1 January 2017
• IAS 12 (amendment) – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017

(b) New standards, amendments to standards and interpretations not applied

At the date of approval of these financial statements, the following standards, amendments to standards and interpretations were in issue but have not been applied in these financial statements:

	Effective date
• IFRS 2 (amendments) – Classification and Measurement of Share-based Payment Transactions	1 January 2018
• IFRS 4 (amendments) – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
• IFRS 9 – Financial instruments	1 January 2018
• IFRS 15 – Revenue from contracts with customers	1 January 2018
• IAS 40 (amendments) – Transfers of Investment Property	1 January 2018
• IFRS 1 and IAS 28 (amendments) – Annual Improvements to IFRSs 2014-16 Cycle	1 January 2018
• IFRIC 22 – Foreign Currency Transactions and Advance Consideration	1 January 2018
• IFRS 16 – Leases	1 January 2019

It is expected that the group will adopt these standards or amendments to standards on their effective dates.

The directors do not anticipate that the adoption of these standards or amendments to standards will have a material impact on the financial statements of the group.

Notes to the financial statements continued
for the year ended 31 December 2017

1. Accounting policies continued

Changes in accounting policies and disclosures continued

IFRS 15 Revenue from contracts with customers
The requirements of IFRS 15 have been reviewed and the impacts on the contracts held by the group have been considered, such as variable consideration and the timing of revenue recognition. The directors do not anticipate that the adoption of IFRS 15 will have a material impact on the financial statements of the group.

IFRS 9 Financial instruments
The requirements of IFRS 9 have been reviewed in respect of the financial assets and financial liabilities of the group for classification and measurement and impairment, and the current hedging arrangements have been considered. The directors do not anticipate that the adoption of IFRS 9 will have a material impact on the financial statements of the group.

IFRS 16 Leases
IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. On adoption, the group will recognise a right of use asset and a lease liability based on the net present value of the payments required under each of its leases. The operating lease charge, currently recognised in EBITDA, will be replaced by the depreciation of the right of use asset and interest on the lease liability.

The group continues to assess the full impact of IFRS 16; however, the impact will depend on the facts and circumstances at the point of adoption and upon the transition choices adopted.

Basis of consolidation
The consolidated financial statements include the financial statements of the company and all its subsidiary undertakings made up to 31 December 2017. Intra-group sales and profits are eliminated fully on consolidation. The purchase method of accounting is used to account for the acquisition of subsidiary undertakings by the group. The results of subsidiary undertakings acquired or disposed of are consolidated for the period from or to the date on which control passed. Uniform accounting policies are applied across the group.

The subsidiaries are entities over which the group has control. The group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred. Any identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Any unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Business combinations
Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the group and liabilities incurred by the group to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

When the consideration transferred by the group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value with the corresponding gain or loss being recognised in profit or loss.

Goodwill
Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets
Intangible assets acquired separately that meet the recognition criteria of IAS 38 Intangible Assets, are capitalised at cost and when acquired in a business combination are capitalised at fair value at the date of acquisition. Cost includes the original purchase price of the asset and the costs directly attributable to bringing the asset to its working condition for its intended use. Following initial recognition, finite life assets are amortised on a straight-line basis and indefinite life assets are not amortised. Finite life intangible assets have a residual value of £nil and are amortised over their estimated useful lives as follows:

Computer software	4-5 years
Development projects	15 years
Customer contracts and relationships	12 years

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. External and internal costs are capitalised to the extent that they enhance the future economic benefit of the asset.

Intangible assets with indefinite lives are tested annually for impairment. The useful lives of finite life intangible assets are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Finite life assets are reviewed for impairment where indicators of impairment exist.

The group's only indefinite life intangible asset is goodwill.

Research and development
In general, research and development expenditure is charged to the income statement in the year in which it occurred. However, as set out above, under certain conditions development expenditure is capitalised as an intangible asset.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation. The cost of property, plant and equipment is its purchase cost, together with any incidental costs of acquisition and directly attributable costs. Provision for depreciation is made so as to write off the costs of the assets on a straight-line basis over their expected useful economic lives as follows:

Freehold buildings	50 years
Plant and machinery	8-15 years
Computer equipment	4-5 years
Motor vehicles	4 years
Fixtures and fittings	10 years

Notes to the financial statements continued
for the year ended 31 December 2017

1. Accounting policies continued

Property, plant and equipment continued
No depreciation is provided on freehold land or on assets under construction.

Assets under construction are transferred to the appropriate asset category when they come into use. Depreciation on assets so transferred is provided with effect from the month following the date of transfer.

Asset residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date, or more frequently if there have been indications of any significant change in either.

Gains and losses on disposals are determined by comparing the proceeds with carrying amounts and are recognised within other operating income or expense in the income statement.

Repairs and maintenance costs are charged to the income statement during the year in which they are incurred.

Impairment of non-financial assets
Assets that have an indefinite useful life are not subject to amortisation but are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Grants
Grants relating to property, plant and equipment are included in current and non-current liabilities as appropriate and credited to the income statement on a straight-line basis over the expected useful lives of the related assets.

Grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Fixed asset investments
The company's investments in subsidiary undertakings are shown at cost less accumulated impairment losses.

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition. Provision is made, where appropriate, for obsolete, slow-moving and defective inventories.

Trade receivables
Trade receivables are non-interest bearing and are initially recognised at fair value and subsequently measured at amortised cost, less provision for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on historical experience, together with specific amounts that are not expected to be collectible. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Individual trade receivables are written off when management deems them not to be collectible.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and short-term deposits with maturity dates of less than three months which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. For the purposes of the cash flow statement, net cash and cash equivalents comprise cash and cash equivalents net of bank overdrafts.

Offsetting of financial assets and liabilities
Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the group has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of non-derivative financial assets

Financial assets, other than those held at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment which could include significant financial difficulty for the issuer or counterparty or observable data indicating there is a measurable decrease in the cash flows expected from a group of financial assets.

Foreign currencies

Items included in the financial statements of each of the group's subsidiary undertakings are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in sterling, which is the company's functional and presentation currency.

Foreign currency transactions in each entity are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Other gains and losses arising from foreign currency transactions are included in the income statement.

The trading results of foreign currency denominated subsidiaries are translated into sterling, the presentation currency of the group and functional currency of the parent, using average rates of exchange for the year. The balance sheets of foreign currency denominated subsidiaries are translated into sterling at the rates of exchange ruling at the year end and exchange differences arising are taken directly to the translation reserve in equity. On disposal of a foreign denominated subsidiary, the deferred cumulative amount recognised in the translation reserve (since 1 January 2004 under the transitional rules of IFRS 1) relating to that entity is recognised in the income statement. All other translation differences are taken to the income statement, with the exception of differences on foreign currency borrowings and forward foreign currency contracts which are used to provide a hedge against the group's net investments in foreign enterprises. These are taken directly to equity or other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the group's activities. Sales revenue, which is net of returns, rebates and discounts, and which excludes value added tax and sales between group companies, represents the net invoiced value of goods supplied and is recognised when the goods have either been delivered to or collected by the customer and the risks and rewards of ownership of the goods have been transferred to them.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised by the company in the income statement on the date the entity's right to receive payment is established.

Tax

The tax expense represents the sum of tax currently payable and deferred tax. Current tax and deferred tax are recognised within profit or loss, except when they relate to items recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowable. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Tax provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also dealt with within equity or other comprehensive income.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the financial statements continued
for the year ended 31 December 2017

1. Accounting policies continued

Tax continued

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except for deferred tax liabilities where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Pensions

The group operates a number of defined contribution and defined benefit pension plans. All defined benefit pension plans are now closed to new entrants.

Payments to defined contribution pension plans are charged as an expense as they fall due.

The group's obligations in respect of defined benefit pension plans are valued by independent actuaries using the projected unit credit method. All group plans are funded externally, with the exception of Germany, where, in line with local practice, obligations are supported by insurance policies. Plan assets are valued at fair market value and are held completely separate from the group's assets. Full formal actuarial valuations of obligations are carried out at frequencies of not more than three years and are updated regularly for reporting purposes.

Amounts recorded in the balance sheet represent the fair value of external plan assets less the present value of the defined benefit obligations.

Amounts recorded in the income statement represent the current service cost over the reporting year, which is included in operating profit, and net finance income or cost, i.e. interest income on assets less interest cost on liabilities calculated using the discount rate, which is included as a separate component of finance income and cost. Other income statement credits or charges can arise for special events, such as a past service benefit improvement or settlement and curtailment of plan liabilities.

Re-measurements of the net defined benefit liabilities which comprise actuarial gains and losses, the gains or losses on plan assets excluding interest, and the effect of the asset ceiling (if any) are recognised immediately in other comprehensive income. Actuarial gains and losses on liabilities occur due to changes in actuarial assumptions at the balance sheet date and also due to any differences between assumptions and actual outcomes. Gains and losses on plan assets represent the difference between interest income over the year, and the actual return achieved.

Share schemes

The group operates a number of equity-settled share-based incentive plans as consideration for services received from employees. The fair value of services received in exchange for the grant of share awards is recognised as an expense with the total amount to be expensed being determined by reference to the fair value of the awards granted. The fair value of the awards includes any market performance conditions, but excludes the impact of any service or non-market performance vesting conditions and is reduced by any consideration received from employees. Any non-market performance or service conditions are included in assumptions over the number of awards expected to vest, and the total expense is recognised over the full vesting period in the income statement with a corresponding credit made to equity. At the end of each year the group revises its estimates of the number of awards expected to vest based on non-market vesting conditions and recognises the impact of any revision in the income statement, with a corresponding adjustment to equity.

The social security contributions payable on share awards granted is recognised in the income statement over the vesting period and is treated as a cash-settled transaction.

Dividends payable

The liability for final dividends is recorded when the dividends are approved by the company's shareholders. Interim dividends are recorded when paid.

Borrowings

Borrowings are recognised initially at fair value, net of transactions costs incurred, and subsequently re-measured at fair value where associated risks are hedged by derivative financial instruments. Un-hedged 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.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense in the year in which they are incurred, except where they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions for other liabilities and charges

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, with the present value of estimated cash flows used if the effect of the time value of money is material.

Restructuring provisions are recognised when the group has a detailed formal plan for the restructuring and has either started implementing the plan or announced its main features to those affected by it. The measurement of the obligation comprises costs which are directly related to the restructuring.

Derivative financial instruments

Derivative financial instruments used to hedge risks associated with interest rate and foreign currency fluctuations are initially and subsequently re-measured at fair value.

The fair values of forward exchange contracts are calculated by reference to market forward rates at the balance sheet date. The fair values of interest rate swap contracts are calculated on a discounted cash flow basis using market forward rates.

Gains or losses arising from the movement to fair value are taken to the income statement except where the derivative is designated as a cash flow hedge or net investment hedges.

In order to qualify for hedge accounting, the group is required to document in advance the relationship between the item being hedged and the hedging instrument, and demonstrate that the hedge will be highly effective on an ongoing basis. This effectiveness testing is re-performed at each reporting date to ensure that the hedge remains highly effective.

Cash flow hedges

The group has designated forward foreign exchange contracts and the interest rate differential of cross-currency interest rate swaps as cash flow hedges.

For cash flow hedges, the effective part of changes in the fair value of the derivative is recognised in other comprehensive income. Gains or losses relating to any ineffective part of changes in fair value are taken immediately to the income statement. Amounts accumulated in equity are transferred to the income statement in the same period as the hedged transaction occurs, for example, when the forecast sale or purchase transaction takes place.

Any movements in fair value occurring after the time when hedging contracts cease to be cash flow hedges are taken directly to the income statement.

Fair value hedges

The group has designated the exchange element of cross-currency interest rate swaps as fair value hedges.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The fair value adjustment to the carrying amount of the hedged risk is amortised in the income statement from the time the hedging contracts cease to be fair value hedges.

Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income. Gains or losses relating to any ineffective portion are taken immediately to the income statement. Amounts accumulated in equity are transferred to the income statement when the foreign operation is partially disposed of or sold.

Notes to the financial statements continued
for the year ended 31 December 2017

1. Accounting policies continued
Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board, which is responsible for allocating resources and assessing the performance of the operating segments.

Exceptional items
Exceptional items are those significant items which are incremental to normal operations and are separately disclosed by virtue of their nature or size to enable a better understanding of the group's underlying financial performance. See critical estimates and judgements section on page 72.

2. Segment information
The chief operating decision maker has been identified as the Board. The Board reviews the group's financial results on a geographical segment basis with three identifiable operating segments:

- Americas: includes North America and Latin America
- Asia – Pacific: includes Australia, New Zealand, Japan, China and the rest of South East Asia
- Europe: includes Continental Europe, UK, Ireland and Africa

The Board assesses the performance of the operating segments based on underlying operating profit. This measurement basis excludes the effects of exceptional income and expenditure from the operating segments. The Board assesses the operating segments based on group profit for external sales in each region, rather than statutory profit for the region which also includes profit on intercompany sales. Finance income and cost, and net finance cost on pensions, are not included in the segment results that are reviewed by the Board.

During the year the basis used by the Board was revised to reflect the new global organisation structure that was implemented in the last quarter of 2016, which created a single Global Supply Chain organisation and single Global Business Development organisation. Following this organisational change, the manufacturing asset base is now managed on a global basis, rather than by region. As a result the segmental information has been presented on the amended basis and the prior year figures have been restated on a consistent basis.

Profit for the geographic segments is determined as revenue less standard cost of manufacture and direct selling costs. The Global costs comprise Global Supply Chain (including any variances from standard cost of manufacture), Global Business Development (including research & development) and Global Business Services (including finance and human resources).

Information provided to the Board is consistent with that in the financial statements.

	Americas		Asia-Pacific		Europe		Global		Total group	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Revenue from external customers	**61.6**	64.0	**85.3**	75.5	**110.0**	101.6	**–**	–	**256.9**	241.1
Underlying operating profit	**23.7**	24.4	**28.4**	27.4	**40.7**	41.6	**(54.7)**	(55.3)	**38.1**	38.1
Exceptional items									**(5.1)**	(22.7)
Operating profit									**33.0**	15.4
Finance income									**–**	0.1
Finance cost									**(8.6)**	(7.0)
Net finance cost on pensions									**(2.8)**	(2.3)
Profit before tax									**21.6**	6.2

Other segment information:

	Americas		Asia-Pacific		Europe		Global		Total Group	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Additions to property, plant and equipment	**0.8**	1.0	**2.3**	16.2	**6.0**	3.3	**–**	–	**9.1**	20.5
Additions to intangible assets	**–**	0.1	**–**	0.7	**0.1**	0.5	**1.2**	0.4	**1.3**	1.7

The company is domiciled in the UK. Revenue by destination is presented based on the location of the customer receiving the supply and can be analysed as follows:

	2017 £'m	2016 £'m
UK	**32.4**	29.7
Other Europe	**80.8**	71.9
Total Europe	**113.2**	101.6
US	**51.6**	51.0
Other Americas	**10.0**	13.0
Total Americas	**61.6**	64.0
Australia	**19.6**	19.9
Other Asia – Pacific	**62.5**	55.6
Total Asia – Pacific	**82.1**	75.5
Total	**256.9**	241.1

Notes to the financial statements continued
for the year ended 31 December 2017

3. Operating profit

	2017			2016		
	Underlying £'m	Exceptional items £'m	Reported £'m	Underlying £'m	Exceptional items £'m	Reported £'m
Revenue	**256.9**	**–**	**256.9**	241.1	–	241.1
Cost of sales	**(166.3)**	**–**	**(166.3)**	(152.1)	(18.5)	(170.6)
Gross profit	**90.6**	**–**	**90.6**	89.0	(18.5)	70.5
Selling and distribution costs	**(19.6)**	**–**	**(19.6)**	(19.1)	–	(19.1)
Administrative expenses	**(23.6)**	**(5.1)**	**(28.7)**	(19.5)	(4.2)	(23.7)
Research and development expenditure	**(7.3)**	**–**	**(7.3)**	(7.2)	–	(7.2)
Other expenses	**(2.7)**	**–**	**(2.7)**	(5.3)	–	(5.3)
Total operating expenses	**(53.2)**	**(5.1)**	**(58.3)**	(51.1)	(4.2)	(55.3)
Other operating income	**0.7**	**–**	**0.7**	0.2	–	0.2
Net operating expenses	**(52.5)**	**(5.1)**	**(57.6)**	(50.9)	(4.2)	(55.1)
Operating profit/(expense)	**38.1**	**(5.1)**	**33.0**	38.1	(22.7)	15.4

An additional £1.2m (2016:£0.8m) of development expenditure has been capitalised within intangible assets (Note 14).

4. Exceptional items
Exceptional charges included in operating profit were £5.1m (2016: £22.7m).

	2017 £'m	2016 £'m
Devro 100 programme (i)	**5.1**	2.0
Investment projects		
Pre-operating costs to establish new manufacturing plants (ii)	**–**	20.3
Costs related to the closure of old manufacturing plant (iii)	**–**	0.4
	–	20.7
Total exceptional items	**5.1**	22.7

Devro is undergoing a major transformation including the construction and start up of two new plants in China and the US which completed in 2016, a restructuring of operations in Scotland and Australia initiated in 2014 and the Devro 100 programme with full benefits expected by 2019. The Devro 100 programme is focussed on accelerating revenue growth through significantly improving sales capabilities, delivering substantial improvements in manufacturing efficiencies to reduce unit costs, and introducing the next generation of differentiated products. The incremental costs associated with implementing this transformation are significant and as a result have been classified as exceptional items.

(i) Redundancy costs and other incremental external cost, including professional fees.

(ii) Costs related to the projects to establish new manufacturing plants in the US and China, including project management, legal and professional fees, and other incremental costs incurred prior to the commencement of normal production that are not eligible for capitalisation.

(iii) Costs incurred in the US related to the closure of the old manufacturing plant. Costs comprise redundancy and retention costs.

The exceptional tax charge includes £4.2m relating to the US federal tax rate change which is discussed in Note 9.

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5. Directors' emoluments

A detailed analysis of directors' emoluments, shareholdings, long-term incentive schemes and pension arrangements is provided in the Director's Remuneration Report on pages 47 to 61.

Emoluments are summarised as follows:

	2017 £'m	2016 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**1.4**	1.2
Payments in lieu of pension contributions	**0.1**	0.1

Details of the emoluments of the highest-paid director are as follows:

	2017 £'m	2016 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**0.7**	0.4
Payments in lieu of pension contributions	**0.1**	0.1

6. Employee information

The average monthly number of persons (including Executive Directors) employed by the group during the year was:

	2017	2016
By employee category		
Operations and engineering	**1,785**	1,856
Sales and marketing	**87**	97
Distribution	**37**	38
Administration	**160**	165
Research and development	**109**	109
	2,178	2,265

The above total includes 42 persons (2016: 42) in the company.

Staff costs for the group were:

	2017 £'m	2016 £'m
Wages and salaries (including bonus and other benefits)	**74.4**	71.5
Social security costs	**10.3**	9.2
Pension obligation costs (Note 26)	**9.1**	8.2
Performance Share Plan charge	**0.5**	0.6
Redundancy costs included within exceptional items	**1.7**	1.1
	96.0	90.6

The key management of the group comprises of the directors and the Executive Management Team.

Notes to the financial statements continued
for the year ended 31 December 2017

7. Finance income and cost

	2017 £'m	2016 £'m
Finance income		
Interest receivable and similar income:		
On bank balances	**–**	0.1
Finance cost		
Interest payable and similar charges:		
On loans and overdrafts	**(8.6)**	(7.0)
Net finance cost on pensions	**(2.8)**	(2.3)

8. Profit before tax

	2017 £'m	2016 £'m
Profit before tax is stated after charging/(crediting):		
Depreciation of property, plant and equipment	**25.0**	22.1
Amortisation of intangible assets	**1.0**	0.9
Inventory recognised as an expense	**122.4**	114.6
Inventory written down or written off	**7.0**	5.6
Repairs and maintenance expenditure	**12.9**	14.3
Research and development expenditure	**7.3**	7.2
Hire of assets – operating leases	**1.6**	2.0
Net foreign exchange (gains)/losses	**(0.4)**	2.8
Auditors' remuneration (see below)	**0.4**	0.3

The creation and release of provisions for impaired receivables is included in other expenses in the income statement (Note 3). Amounts provided are written off when there is no expectation of them being collected.

Services provided by the company's auditors and its associates
During the year the group (including its overseas subsidiaries) obtained the following services from the company's auditors and its associates:

Group	2017 £'m	2016 £'m
Fees payable to the company's auditors and its associates for the audit of the parent company and consolidated accounts	**0.1**	0.1
Fees payable to the company's auditors and its associates for other services:		
– The audit of the company's subsidiaries	**0.3**	0.2
– Audit related assurance services £21,000 (2016: £21,000)	**–**	–
– Non-audit services £nil (2016: 20,000)	**–**	–
	0.4	0.3

In addition to the above, in 2017 the group incurred charges for services in relation to occupational pension scheme audits of £15,000 (2016: £12,000).

9. Tax

2017	Underlying £'m	Exceptional items £'m	Reported £'m
Current Tax			
UK corporation tax at 19.25%	0.1	(0.1)	–
Foreign tax	12.3	(0.2)	12.1
Total current tax charge/(credit)	**12.4**	**(0.3)**	**12.1**
Deferred tax			
Origination and reversal of temporary differences representing:			
UK corporation tax	(0.6)	–	(0.6)
Foreign tax	(5.9)	0.5	(5.4)
	(6.5)	**0.5**	**(6.0)**
Adjustments in respect of prior years	(0.1)	–	(0.1)
Total deferred tax (credit)/charge (Note 25)	**(6.6)**	**0.5**	**(6.1)**
Tax charge/(credit) in the income statement	**5.8**	**0.2**	**6.0**
Tax on items charged/(credited) to equity or other comprehensive income			
Deferred tax charge on pension obligations (excluding rate changes)	4.4	–	4.4
Deferred tax charge on net fair value losses on cash flow hedges	0.4	–	0.4
Rate changes – US federal rate (on pension obligations)	4.0	–	4.0
Deferred tax on items charged to equity or other comprehensive income	**8.8**	**–**	**8.8**
Current tax credit on other hedges	(0.4)	–	(0.4)
Total tax on items charged to equity or other comprehensive income	**8.4**	**–**	**8.4**
Total current tax charge/(credit) for the year	**12.0**	**(0.3)**	**11.7**
Total deferred tax charge for the year	**2.2**	**0.5**	**2.7**

Notes to the financial statements continued
for the year ended 31 December 2017

9. Tax continued

2016	Underlying £'m	Exceptional items £'m	Reported £'m
Current Tax			
UK corporation tax at 20%	0.4	(0.1)	0.3
Foreign tax	9.2	(0.1)	9.1
	9.6	(0.2)	9.4
Adjustments in respect of prior years	(1.8)	–	(1.8)
Total current tax charge/(credit)	7.8	(0.2)	7.6
Deferred tax			
Origination and reversal of temporary differences representing:			
UK corporation tax	(0.1)	(0.3)	(0.4)
Foreign tax	(1.1)	(2.2)	(3.3)
	(1.2)	(2.5)	(3.7)
Adjustments in respect of prior years	0.1	–	0.1
Total deferred tax (credit)/charge (Note 25)	(1.1)	(2.5)	(3.6)
Tax charge/(credit) in the income statement	6.7	(2.7)	4.0
Tax on items charged/(credited) to equity or other comprehensive income			
Deferred tax credit on pension obligations (excluding rate changes)	(5.8)	–	(5.8)
Deferred tax credit on net fair value losses on cash flow hedges	(0.2)	–	(0.2)
Deferred tax on Performance Share Plan charge	0.1	–	0.1
Rate changes – UK (on pension obligations)	0.6	–	0.6
Deferred tax on items credited to equity or other comprehensive income	(5.3)	–	(5.3)
Current tax credit on other hedges	(0.3)	–	(0.3)
Total tax on items credited to equity or other comprehensive income	(5.6)	–	(5.6)
Total current tax charge/(credit) for the year	7.5	(0.2)	7.3
Total deferred tax credit for the year	(6.4)	(2.5)	(8.9)

The effective rates for both years are higher than the standard rate of corporation tax in the UK. The differences are explained below:

2017	**Underlying £'m**	**Exceptional items £'m**	**Reported £'m**
Profit before tax	26.7	(5.1)	21.6
Profit before tax multiplied by the UK 19.25% corporation tax rate	5.2	(1.0)	4.2
Effects of:			
– Adjustments in respect of foreign tax rates	(1.2)	(0.2)	(1.4)
– Overseas tax	0.2	–	0.2
– Changes in tax rates (US federal rate)	–	4.2	4.2
– Temporary differences on which deferred tax not recognised/ (previously unrecognised)	0.4	(2.6)	(2.2)
– Permanent differences	1.2	(0.2)	1.0
Tax charge for the year	**5.8**	**0.2**	**6.0**

2016	Underlying £'m	Exceptional items £'m	Reported £'m
Profit before tax	28.9	(22.7)	6.2
Profit before tax multiplied by the UK 20% corporation tax rate	5.8	(4.5)	1.3
Effects of:			
– Adjustments in respect of prior years	(1.7)	–	(1.7)
– Adjustments in respect of foreign tax rates	(0.7)	(2.1)	(2.8)
– Overseas tax	0.4	–	0.4
– Changes in tax rates	0.2	–	0.2
– Temporary differences on which deferred tax not recognised/ (previously unrecognised)	2.9	3.9	6.8
– Permanent differences	(0.2)	–	(0.2)
Tax charge/(credit) for the year	6.7	(2.7)	4.0

The group's underlying effective tax rate on profit before exceptional items is 21.6% (2016: 23.2%).

The group operates around the world and earns profits which are subject to tax at differing rates in different tax jurisdictions. The global nature of the group's operations gives rise to several factors which could affect the future tax rate. These include the mix of profits, changes to statutory tax rates or tax legislation and the foreign exchange rates applicable when those profits are translated into sterling.

Tax reforms were enacted in the US on 22 December 2017, and although effective from 1 January 2018 the reforms did have an impact on the tax charge in 2017 due to the revaluation of deferred tax assets and liabilities to reflect the change in federal tax rate from 35% to 21%. The income statement impact for 2017 was an additional tax charge of £4.2m which is reported as an exceptional item.

Additional deferred tax assets in respect of previously unrecognised losses have been recognised in the year as a result of an increase in the projected taxable profits in the relevant jurisdictions, including the effects of a review of the internal funding structure. To the extent that additional deferred tax assets related to losses previously charged to exceptional items, the associated tax credit has also been reported as an exceptional item.

The UK corporation tax rate of 20% reduced to 19% from 1 April 2017 giving a blended rate for the year of 19.25%. Further reductions to 17% from 1 April 2020 were substantively enacted in September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2017 has been calculated based on these rates.

The group has recognised potential liabilities in respect of uncertain tax positions as described in the group accounting policies. In determining such liabilities, having regard to the specific circumstances of each tax position and external advice where appropriate, the group assesses the range of potential outcomes and estimates whether additional tax may be due. Tax uncertainties and associated risks are increasing for all multi national groups as a consequence of changes to local and international tax rules, for example the OECD's Base Erosion & Profit Shifting project and other possible changes such as tax reform in the US. In these circumstances tax risk can arise from unclear regulations and differences in interpretation, but most significantly where tax authorities apply diverging standards in assessing intra-group cross-border transactions. The group does not currently anticipate any material changes to the amounts recorded in respect of these liabilities as at the balance sheet date.

10. Profit for the year

As permitted by Section 408 of the Companies Act 2006, the parent company's income statement and statement of comprehensive income have not been presented in these financial statements.

The parent company profit for the year is £54.1m (2016: £34.3m).

Notes to the financial statements continued
for the year ended 31 December 2017

11. Dividends

Group and company	2017 £'m	2016 £'m
Final paid of 6.1 pence per share (2016: 6.1 pence)	**10.2**	10.2
Interim paid of 2.7 pence per share (2016: 2.7 pence)	**4.5**	4.5
	14.7	14.7

During the year, dividends totalling £nil (2016: £nil) were waived in respect of shares owned by the Devro Employee Share Ownership Trust.

The directors propose a final dividend of 6.10 pence per share in respect of the financial year ended 31 December 2017 which will absorb an estimated £10.2m of shareholders' funds. It will be paid on 11 May 2018 to shareholders who are on the register at close of business on 3 April 2018.

12. Earnings per share

	2017 £'m	2016 £'m
Profit attributable to equity holders	**15.6**	2.2
Underlying profit attributable to equity holders	**20.9**	22.2
Earnings per share		
– Basic	**9.3p**	1.3p
– Underlying basic	**12.5p**	13.3p
– Diluted	**9.3p**	1.3p
– Underlying diluted	**12.4p**	13.2p

	2017	2016
Shares in issue Weighted average number of shares in the year	**166,949,022**	166,941,137
Adjustments for: – Performance Share Plan	**1,691,003**	1,717,046
Weighted average number of shares adjusted for potential dilution	**168,640,025**	168,658,183

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent of £15.6m (2016: £2.2m) by 166,949,022 (2016: 166,941,137) shares, being the weighted average number of shares in issue throughout the year.

Shares arising from the Performance Share Plan are only treated as dilutive where the effect is to reduce earnings per share. Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of £15.6m (2016: £2.2m) by the average number of shares, including the effect of all dilutive potential shares, of 168,640,025 (2016: 168,658,183).

Underlying earnings per share is calculated in order to eliminate the effect of exceptional items after tax in 2017 of £5.3m (2016: £20.0m) on the results. Underlying basic earnings per share is calculated by dividing the underlying profit attributable to ordinary shareholders of £20.9m (2016: £22.2m) by 166,949,022 (2016: 166,941,137) shares, being the weighted average number of shares in issue throughout the year.

13. Property, plant and equipment

Group	Freehold land and buildings £'m	Plant and machinery, and motor vehicles £'m	Fixtures and fittings, and computer equipment £'m	Assets in the course of construction £'m	Total £'m
Cost					
At 1 January 2017	155.5	374.9	17.0	7.5	554.9
Exchange differences	1.6	(1.0)	(0.9)	1.0	0.7
Additions	0.1	2.8	0.5	5.7	9.1
Disposals	(1.7)	(4.4)	(0.4)	–	(6.5)
Reclassification	1.1	3.6	0.1	(4.8)	–
At 31 December 2017	**156.6**	**375.9**	**16.3**	**9.4**	**558.2**
Accumulated depreciation					
At 1 January 2017	(39.5)	(195.1)	(11.7)	–	(246.3)
Exchange differences	(1.1)	(0.5)	(0.1)	–	(1.7)
Charge for year	(3.5)	(21.0)	(0.5)	–	(25.0)
Disposals	1.3	4.3	0.3	–	5.9
At 31 December 2017	**(42.8)**	**(212.3)**	**(12.0)**	**–**	**(267.1)**
Net book value at 31 December 2017	**113.8**	**163.6**	**4.3**	**9.4**	**291.1**
Cost					
At 1 January 2016	88.5	266.1	10.6	103.4	468.6
Exchange differences	18.5	39.7	2.1	6.3	66.6
Additions	0.2	1.7	0.2	18.4	20.5
Disposals	–	(0.6)	(0.2)	–	(0.8)
Reclassification	48.3	68.0	4.3	(120.6)	–
At 31 December 2016	155.5	374.9	17.0	7.5	554.9
Accumulated depreciation					
At 1 January 2016	(32.2)	(157.6)	(8.7)	–	(198.5)
Exchange differences	(4.3)	(20.7)	(1.5)	–	(26.5)
Charge for year	(3.0)	(17.4)	(1.7)	–	(22.1)
Disposals	–	0.6	0.2	–	0.8
At 31 December 2016	(39.5)	(195.1)	(11.7)	–	(246.3)
Net book value at 31 December 2016	116.0	179.8	5.3	7.5	308.6
Cost at 1 January 2016	88.5	266.1	10.6	103.4	468.6
Accumulated depreciation at 1 January 2016	(32.2)	(157.6)	(8.7)	–	(198.5)
Net book value at 1 January 2016	56.3	108.5	1.9	103.4	270.1

In the income statement, depreciation of £23.6m (2016: £20.8m) has been charged in cost of sales, £0.2m (2016: £0.1m) in selling and distribution costs, £0.9m (2016: £1.1m) in administrative expenses, £0.1m (2016: £0.1m) in research and development expenditure and £0.2m (2016: £nil) in other expenses.

Notes to the financial statements continued
for the year ended 31 December 2017

13. Property, plant and equipment continued

Borrowing costs of £nil (2016: £0.5m) were capitalised to property, plant and equipment with no tax effect in 2017 (2016: £0.1m). A rate of 4.3% was used to capitalise borrowing costs in 2016.

Company	Plant and machinery, and motor vehicles and Total £'m
Cost	
At 1 January 2017	**0.9**
At 31 December 2017	**0.9**
Accumulated depreciation	
At 1 January 2017	**(0.8)**
Charge for year	**(0.1)**
At 31 December 2017	**(0.9)**
Net book value at 31 December 2017	**–**
Cost	
At 1 January 2016	0.9
At 31 December 2016	0.9
Accumulated depreciation	
At 1 January 2016	(0.7)
Charge for year	(0.1)
At 31 December 2016	(0.8)
Net book value at 31 December 2016	0.1
Cost at 1 January 2016	0.9
Accumulated depreciation at 1 January 2016	(0.7)
Net book value at 1 January 2016	0.2

14. Intangible assets

Group	Goodwill £'m	Customer contracts & relationships £'m	Computer software £'m	Development costs £'m	Total £'m
Cost					
At 1 January 2017	3.1	2.1	8.4	5.6	19.2
Exchange differences	–	–	0.1	(0.2)	(0.1)
Additions	–	–	0.1	1.2	1.3
At 31 December 2017	**3.1**	**2.1**	**8.6**	**6.6**	**20.4**
Accumulated amortisation					
At 1 January 2017	–	(0.2)	(7.3)	(1.3)	(8.8)
Exchange differences	–	–	(0.2)	–	(0.2)
Charge for year	–	(0.2)	(0.5)	(0.3)	(1.0)
At 31 December 2017	**–**	(0.4)	(8.0)	(1.6)	(10.0)
Net book value at 31 December 2017	**3.1**	**1.7**	**0.6**	**5.0**	**10.4**
Cost					
At 1 January 2016	3.1	2.1	7.0	4.4	16.6
Exchange differences	–	–	0.5	0.4	0.9
Additions	–	–	0.9	0.8	1.7
At 31 December 2016	3.1	2.1	8.4	5.6	19.2
Accumulated amortisation					
At 1 January 2016	–	–	(6.4)	(1.0)	(7.4)
Exchange differences	–	–	(0.4)	(0.1)	(0.5)
Charge for year	–	(0.2)	(0.5)	(0.2)	(0.9)
At 31 December 2016	–	(0.2)	(7.3)	(1.3)	(8.8)
Net book value at 31 December 2016	3.1	1.9	1.1	4.3	10.4
Cost at 1 January 2016	3.1	2.1	7.0	4.4	16.6
Accumulated amortisation at 1 January 2016	–	–	(6.4)	(1.0)	(7.4)
Net book value at 1 January 2016	3.1	2.1	0.6	3.4	9.2

Included in the net book value of intangible assets is £4.4m (2016: £3.5m) relating to internally generated development costs.

In the income statement, amortisation of £0.4m (2016: £0.3m) is included in cost of sales and £0.6m (2016: £0.6m) in administrative expenses.

The group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The group's goodwill entirely relates to the acquisition of PV Industries B.V. which was completed during 2015, and represents a single cash generating unit. The recoverable amount of this cash generating unit is determined from value in use calculations, and the key assumptions are those regarding the discount rate, profit margin and sales growth rates. The group prepares cash flow forecasts for the next five years derived from the most recent financial budgets approved by management, based on expected market growth rates and prior experience, with an estimated long-term growth rate of 3.0% per annum assumed at the end of the five year forecast period. The rate used to discount the forecast cash flows is 9.0% (2016: 8.7%). Based on these calculations there is sufficient headroom over the book value of goodwill.

Notes to the financial statements continued
for the year ended 31 December 2017

14. Intangible assets continued

Company	Computer software £'m	Development costs £'m	Total £'m
Cost			
At 1 January 2017	3.8	0.4	4.2
Additions	–	1.1	1.1
At 31 December 2017	**3.8**	**1.5**	**5.3**
Accumulated amortisation			
At 1 January 2017	(3.5)	–	(3.5)
Charge for year	(0.1)	–	(0.1)
At 31 December 2017	**(3.6)**	**–**	**(3.6)**
Net book value at 31 December 2017	**0.2**	**1.5**	**1.7**
Cost			
At 1 January 2016	3.6	0.1	3.7
Additions	0.2	0.3	0.5
At 31 December 2016	3.8	0.4	4.2
Accumulated amortisation			
At 1 January 2016	(3.4)	–	(3.4)
Charge for year	(0.1)	–	(0.1)
At 31 December 2016	(3.5)	–	(3.5)
Net book value at 31 December 2016	0.3	0.4	0.7
Cost at 1 January 2016	3.6	0.1	3.7
Accumulated amortisation at 1 January 2016	(3.4)	–	(3.4)
Net book value at 1 January 2016	0.2	0.1	0.3

15. Investments

Company	2017 £'m	2016 £'m
Interest in group undertakings		
Cost and net book value at 1 January	**204.0**	199.5
Additions	**1.7**	4.5
Cost and net book value at 31 December	**205.7**	204.0

Additions in 2017 relate to Performance Share Plan charges for employees within subsidiaries which will be settled with the company's shares.

Additions in 2016 have arisen due to the company's investment in its China subsidiary in order to fund the group's investment projects and Performance Share Plan charges.

The company's subsidiary undertakings at 31 December 2017 are shown below:

Name of undertaking	Country of incorporation or registration	Nature of business	Class of shares held	Proportion of nominal value of issued shares & voting rights held by: Group	Company	Registered office address
Devro (Scotland) Limited	Scotland	Casings	Ordinary		100%	Moodiesburn, Chryston G69 0JE, Scotland
Devro New Holdings Limited	Scotland	Holding	Ordinary		100%	Moodiesburn, Chryston G69 0JE, Scotland
Devro Acquisition Corp	USA	Holding	Common	100%		2711 Centerville road, Suite 400, City of Wilmington 19808, County of New Castle, United States
Devro US Finance LLP	USA	Finance	Common	100%		2711 Centerville road, Suite 400, City of Wilmington 19808, County of New Castle, United States
Devro Asia Limited	Hong Kong	Casings	Ordinary	100%		7/F CKK Commercial Center 289 Hennessy Road Wanchai, Hong Kong
Devro Pty Limited	Australia	Casings	Ordinary	100%		139 Sydney Road, Kelso NSW 2795 Australia
Devro KK	Japan	Casings	Ordinary	100%		Yasuda Shibaura Bldg., No.2, 3-2-12 Kaigan Minato-Ku, Tokyo
Devro Inc	USA	Casings	Common	100%		2711 Centerville road, Suite 400, City of Wilmington 19808, County of New Castle, United States
Devro s.r.o	Czech Republic	Casings	Ordinary	100%		Vochovska 830, Hrabacov, 51401, Jilemnice
Devro Trading (Beijing) Co. Limited	China	Casings	Ordinary	100%		Room 1404 Tower B, COFCO Plaza, 8 Jianguomennei Avenue, Dongcheng District, Beijing 100005, China
Devro (Nantong) Technology Co. Limited	China	Casings	Ordinary	100%		No. 329 Xinxing East Road NETDA Nantong Jiangsu China
Devro B.V	The Netherlands	Casings	Ordinary	100%		Willem Alexanderstraat, 96691 EE, Gendt, The Netherlands

Devro Pty Limited has a branch located in New Zealand.

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16. Inventories

Details of inventories relating to the group are as follows:

	2017 £'m	2016 £'m
Raw materials and consumables	**4.7**	4.8
Work in progress	**4.9**	4.0
Finished goods and goods for resale	**22.7**	25.0
	32.3	33.8

The amounts stated above are net of inventory provisions. A 10% increase in inventories provided for would increase provision charge by £0.6m (2016: £0.6m).

17. Trade and other receivables

	Group		Company	
	2017 £'m	2016 £'m	2017 £'m	2016 £'m
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	**–**	–	**128.9**	113.3
Other receivables	**4.5**	4.7	**–**	–
Amounts falling due within one year				
Trade receivables	**26.4**	26.2	**–**	–
Less: provision for doubtful debts	**(0.2)**	(0.2)	**–**	–
Trade receivables – net	**26.2**	26.0	**–**	–
Amounts owed by subsidiary undertakings*	**–**	–	**16.0**	13.8
Other receivables	**2.1**	1.7	**0.2**	–
Prepayments and accrued income	**2.3**	2.8	**1.3**	1.6
	30.6	30.5	**17.5**	15.4

* Amounts receivable from subsidiary undertaking include tax losses surrendered. These amount to £9.3m (2016: £8.0m).

Group

At 31 December 2017, trade receivables of £0.2m (2016: £0.2m) were impaired and fully provided. It was assessed that none of the impaired receivables would be recovered. The ageing of these receivables was as follows:

	2017 £'m	2016 £'m
Less than 30 days past due	**–**	–
Greater than 90 days past due	**0.2**	0.2
	0.2	0.2

Movements on the group's provision for impairment of receivables were as follows:

	2017 £'m	2016 £'m
At 1 January	**0.2**	0.6
Receivables impaired	**–**	(0.4)
At 31 December	**0.2**	0.2

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The group does not hold any collateral as security.

At 31 December 2017, trade receivables of £3.8m (2016: £5.5m) were past due but not impaired. The group believes the unimpaired amounts are collectable in full based on historical payment behaviour and an analysis of customer credit risk. The ageing of these receivables was as follows:

	2017 £'m	2016 £'m
Less than 30 days past due	**3.3**	4.8
30 to 90 days past due	**0.5**	0.7
	3.8	5.5

Formal procedures are in place to minimise, as far as possible, losses from non-collection of receivables. These procedures, which include designated levels of authority, cover the opening of new accounts, payment terms and the setting up and review of credit limits. Where considered appropriate, payment in advance or confirmed letters of credit are required before product is released to customers.

There have been no significant losses due to the impairment or non-collection of receivables in recent years.

The carrying amounts of the group's trade receivables were denominated in the following currencies:

	2017 £'m	2016 £'m
US dollar	**2.1**	2.1
Euro	**8.1**	7.2
Japanese yen	**6.1**	5.9
Sterling	**3.9**	3.4
Australian dollar	**2.3**	2.8
Czech koruna	**1.0**	1.2
Chinese renminbi	**0.8**	1.4
Other currencies	**1.9**	2.0
	26.2	26.0

Company

At 31 December 2017, trade receivables of £nil (2016: £nil) were neither past due nor impaired.

At 31 December 2017, receivables due from subsidiary undertakings of £144.9m (2016: £127.1m) were neither past due nor impaired.

The carrying amounts of the company's receivables due from subsidiaries were denominated in the following currencies:

	2017 £'m	2016 £'m
Sterling	**10.3**	8.3
Japanese yen	**4.5**	4.9
US dollar	**90.5**	86.6
Chinese renminbi	**34.2**	24.5
Euro	**2.2**	2.1
Other currencies	**3.2**	0.7
	144.9	127.1

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for the year ended 31 December 2017

18. Cash and cash equivalents

	Group		Company	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
Cash at bank and in hand	**10.3**	9.8	**0.3**	0.1
Short-term bank deposits	**0.5**	0.1	**–**	–
	10.8	9.9	**0.3**	0.1

19. Trade and other payables – current

	Group		Company	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
Trade payables	**11.0**	13.0	**1.1**	0.7
Tax and social security payable	**2.3**	3.0	**–**	0.1
Accruals	**17.9**	18.4	**4.2**	2.5
	31.2	34.4	**5.3**	3.3

Accruals include £0.2m (2016: £0.1m) in respect of government grants payable within one year.

20. Other payables – non-current

	Group		Company	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
Amounts owed to subsidiary undertakings	**–**	–	**27.3**	22.1
Accruals	**3.3**	3.4	**–**	–
	3.3	3.4	**27.3**	22.1

Accruals include £2.4m (2016: £2.5m) in respect of government grants payable after more than one year. Government grants are primarily used for the purpose of funding capital expenditure.

21. Provisions for other liabilities and charges

Group	**2017 £'m**	2016 £'m
At 1 January	**4.4**	6.0
Charge to the income statement during the year	**2.6**	1.0
Released	**(0.5)**	–
Utilised during the year	**(2.6)**	(3.5)
Foreign exchange	**(0.1)**	0.9
At 31 December	**3.8**	4.4
Non-current	**3.6**	3.6
Current	**0.2**	0.8
Total	**3.8**	4.4

The closing provision as at 31 December 2017 includes redundancy provisions of £0.2m (2016: £0.8m), which are expected to be paid before the end of 2018, and an estimated £3.6m (2016: £3.6m) for decommissioning costs for the sites that need to be made safe following the cessation of associated manufacturing activities, and to ensure food hygiene and environmental standards are maintained at those sites. The decommissioning provision has been determined based on independent advice.

22. Financial liabilities – borrowings

	Group 2017 £'m	Group 2016 £'m	Company 2017 £'m	Company 2016 £'m
Current				
Bank overdrafts due within one year or on demand	**1.5**	1.9	**1.2**	3.5
Non-current				
Unsecured bank loans	**69.8**	80.4	**34.4**	51.6
US dollar private placement	**74.4**	81.2	**74.4**	81.2
	144.2	161.6	**108.8**	132.8

Bank overdrafts and bank loans are denominated in a number of currencies, and bear interest based on the London Interbank Offered Rate ("LIBOR") as set by the Intercontinental Exchange or equivalent rates appropriate to the country in which the borrowing is incurred. The group is exposed to short-term interest rate changes on all of its bank borrowings.

The group issued a private placement of senior unsecured notes on 17 April 2014 for a total of US$100m, of which US$50m was received in April 2014 and the remainder was received in June 2014. The private placement notes provide funding with fixed terms maturing between 2021 and 2026, with an average fixed interest rate of 4.48%.

The effective interest rates at the balance sheet dates were as follows:

	Currency	Rate	2017	2016
Bank overdrafts:				
	Sterling*	Bank of England base rate plus 150 basis points	**2.00%**	1.75%
	US dollar	US 1 month LIBOR plus 200 basis points	**3.56%**	2.77%
	Czech koruna	PRIBOR plus 90 basis points	**1.54%**	1.10%
	Euro	EUR LIBOR plus 90 basis points	**0.90%**	0.90%
Bank borrowings:				
Floating rate	Sterling	LIBOR plus 140 basis points (2016: plus 160 basis points)	**1.90%**	1.86%
Floating rate	US dollar	US LIBOR plus 140 basis points (2016: plus 160 basis points)	**2.96%**	2.37%
Floating rate	Australian dollar	BBSW plus 140 basis points (2016: plus 160 basis points)	**3.11%**	3.22%
Floating rate	Chinese renminbi	CNH Hong Kong HIBOR plus 140 basis points (2016: plus 160 basis points)	**6.35%**	9.22%
Average bank borrowings rate			**3.55%**	3.40%
Other debt payable:				
Fixed rate	US dollar		**4.48%**	4.48%

* includes overdrafts in certain currencies pooled with sterling for interest calculation purposes.

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for the year ended 31 December 2017

22. Financial liabilities – borrowings continued
Borrowings were denominated in the following currencies:

	2017			2016		
Group	Bank borrowings £'m	Other debt £'m	Total £'m	Bank borrowings £'m	Other debt £'m	Total £'m
Sterling	34.4	–	34.4	51.7	–	51.7
Australian dollar	8.1	–	8.1	0.9	–	0.9
Chinese renminbi	27.3	–	27.3	27.9	–	27.9
Czech koruna	1.5	–	1.5	1.8	–	1.8
US dollar	–	74.4	74.4	–	81.2	81.2
	71.3	**74.4**	**145.7**	82.3	81.2	163.5
Company						
Sterling	35.6	–	35.6	55.1	–	55.1
US dollar	–	74.4	74.4	–	81.2	81.2
	35.6	**74.4**	**110.0**	55.1	81.2	136.3

23. Capital and financial risk management, and financial instruments
Financial risk management
The Board reviews and agrees policies for managing each of the risks associated with capital, interest rates, foreign exchange, credit, and liquidity. It is the group's policy that no speculative trading in financial instruments shall be undertaken. These policies have remained unchanged throughout the year, are consistent with the previous year, and are summarised below:

Capital
When managing capital, the group's objectives are to safeguard the business as a going concern, provide returns to shareholders and benefits for other stakeholders, and maintain an efficient capital structure. The group's capital structure consists of net debt and equity of the group. Net debt is total borrowings less cash and cash equivalents. Equity comprises issued share capital, reserves and retained earnings. In order to maintain its capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The covenants related to the group's bank loan facilities determine a minimum of underlying EBITDA to net interest payable ratio and a maximum covenant of net debt to underlying EBITDA ratio. These measures are defined, explained and reconciled to the equivalent statutory measures in the Financial Review on pages 18 to 23. The group had adequate headroom within both covenants throughout the years ending 31 December 2017 and 31 December 2016.

Another measure used to monitor the strength of the group's balance sheet is the gearing ratio, which expresses the group's net debt as a percentage of its equity. The covenant and gearing ratios at 31 December 2017 and 31 December 2016 were as follows:

	Note	2017 £'m	2016 £'m
Total borrowings	22	**145.7**	163.5
Less: cash and cash equivalents	18	**(10.8)**	(9.9)
Net debt	31	**134.9**	153.6
Equity		**127.2**	109.0
Bank loan covenant ratios: Covenant net debt to underlying EBITDA		**2.1**	2.7
Underlying EBITDA to net interest payable		**7.7**	7.6
Gearing ratio		**106.1%**	140.9%

Financial risk management

Market risk

a) Interest rate risk

The group's interest rate risk arises from borrowings, cash and short-term deposits, together with currency swaps used to hedge intercompany loans.

The group borrows in the desired currencies at both floating and fixed rates of interest and may use forward rate agreements or interest rate swaps to generate the desired interest rate profile and manage the group's exposure to interest rate fluctuations. The US dollar private placement completed during 2014 means that around half of the group's debt is currently at a fixed rate of interest.

Cash is held in interest-bearing current accounts where practicable, with any excess cash placed on deposits. Any deposits made are for periods of less than three months.

The sensitivity of net finance costs to a movement in interest rates is restricted by the level of fixed rate borrowing now in place. A variation of, for example, 100 basis points in interest rates, applied to the group's borrowings, cash and short-term deposits at 31 December 2017, would result in a movement in finance costs of £0.7m (2016: £0.8m) and finance income of £nil (2016: £0.1m). This would result in an adverse post-tax impact on the group's income statement of £0.6m (2016: £0.6m) and a post-tax impact on the group's equity of £0.6m (2016: £0.6m).

b) Foreign exchange risk

The group has several significant overseas subsidiary undertakings whose revenues and expenses are denominated in a variety of currencies. Group policy dictates that foreign currency exposures arising from future commercial transactions are reviewed by Group Treasury and hedging activities are undertaken as appropriate in order to manage the net foreign exchange risks arising. Group policy permits the hedging of up to a maximum of 80% of the net external currency transaction exposures for periods of up to a maximum of fifteen months forward. It is not group policy to routinely hedge translation exposures apart from those created by inter-company loans or where foreign currency denominated assets are planned to be returned to the UK in the form of a dividend. Specific Board approval is required for any other translation exposure hedging.

A portion of the group's investment in its Czech subsidiary, Devro s.r.o., is hedged by a Czech koruna foreign exchange forward contract which mitigates the foreign currency risk arising from the subsidiary's net assets. The forward contract is designated as a net investment hedge. No ineffectiveness was recognised from the hedge in 2017. The group's investments in other subsidiaries are not hedged.

The table below details the impact changes in foreign exchange rates would have had on the group's underlying operating profit and post-tax profit for the years ended 31 December 2017 and 31 December 2016 due to the translation of both subsidiary profits from their functional currency into sterling, and also underlying currency transactions net of hedging arrangements and balances within group companies which are denominated in currencies other than the reporting currency of that group company. The movements in equity as at 31 December 2017 and 31 December 2016 includes the impact changes in foreign exchange rates would have on the translation of subsidiary net assets, as well as the effect of cash flow currency and net investment hedges.

In each case, it is assumed that the named currency is strengthening or weakening against all other currencies, while all the other currencies remain constant. The percentage foreign currency movement is based on the maximum annual percentage movement against sterling during the previous four years. Results are shown for all currencies where the impact on group post-tax profits would be significant.

Notes to the financial statements continued
for the year ended 31 December 2017

23. Capital and financial risk management, and financial instruments continued
Financial risk management continued

Foreign currency movement	Impact on group operating profit before exceptional items gains/(losses)		Impact on group profit after tax and exceptional items gains/(losses)		Impact on equity increase/(decrease)	
	Strengthening £'m	Weakening £'m	Strengthening £'m	Weakening £'m	Strengthening £'m	Weakening £'m
2017						
Australian dollar: 16%	1.6	(0.5)	1.1	(0.2)	5.5	(3.6)
Czech koruna: 14%	3.2	(1.0)	2.5	(0.8)	13.7	(9.2)
Euro: 14%	4.1	(3.1)	3.2	(2.4)	1.5	(1.4)
Japanese yen: 19%	1.4	(1.0)	1.1	(0.8)	1.2	(0.9)
US dollar: 17%	3.8	(2.7)	1.7	(1.1)	1.6	(1.3)
2016						
Australian dollar: 19%	1.4	(0.7)	0.9	(0.3)	9.1	(5.7)
Czech koruna: 14%	3.1	(1.7)	2.4	(1.3)	14.4	(9.8)
Euro: 14%	3.1	(2.3)	2.4	(1.8)	0.3	(0.2)
Japanese yen: 25%	2.2	(1.3)	1.7	(1.0)	1.2	(0.7)
US dollar: 17%	3.2	(2.3)	(0.4)	0.3	5.7	(4.3)

Credit risk
The group considers its exposure to credit risk at 31 December to be as follows:

	2017 £'m	2016 £'m
Cash and cash equivalents	**10.8**	9.9
Derivative financial instruments	**1.8**	1.4
Trade receivables	**26.2**	26.0
Other receivables	**2.1**	1.7
	40.9	39.0

The group monitors its credit exposure using credit ratings, where applicable, and through its policy of requiring appropriate credit checks on potential customers before sales commence. These procedures limit the group's exposure to any one party to approved levels. Exposure to banking counterparties is only permitted with approved banks which have one minimum short-term rating of A1/P1/F1 with rating agencies S&P, Moody's or Fitch. At the reporting date no single banking exposure was greater than £3.5m (2016: £2.7m). The group does not hold any collateral as security.

Liquidity risk
Alongside the longer-term funding provided by the US dollar private placement completed during 2014, which was put in place to support the group's two major investment projects, the group has medium-term loan facilities which are regularly reviewed to ensure that they provide adequate liquidity for the group. The facilities are managed on a centralised basis with appropriate local availability. Details of the undrawn committed borrowing facilities available at 31 December 2017 and 31 December 2016 are shown below:

	2017 £'m	2016 £'m
Expiring in more than two years	**40.2**	29.6

At 31 December 2017, the group had in place unsecured floating rate committed loan facilities totalling £110.0m (2016: £110.0m). These facilities consist of a single syndicated revolving credit facility with four banks, negotiated in December 2014 and expiring on 19 December 2019.

In addition to the committed facilities, local uncommitted working capital facilities of £5.0m (2016: £5.0m), US dollars 2.0m (2016: US dollars 2.0m), and Czech koruna 175m (2016: Czech koruna 175m) were also in place at 31 December 2017. These facilities are renewable within one year.

Financial instruments
Disclosures regarding financial instruments are set out below:

Fair value of derivative financial instruments
The fair values of derivative financial instruments were as follows:

	Group		Company	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
At 31 December 2017				
Forward foreign exchange contracts				
– cash flow hedge	1.6	0.1	1.6	0.1
– cash flow hedge held with subsidiaries	–	–	0.1	1.6
– net investment hedge	–	–	–	–
– other	0.2	0.3	0.2	0.4
	1.8	**0.4**	**1.9**	**2.1**
At 31 December 2016				
Forward foreign exchange contracts				
– cash flow hedge	0.9	1.9	0.9	1.9
– cash flow hedge held with subsidiaries	–	–	1.9	0.9
– net investment hedge	–	0.5	–	–
– other	0.5	0.2	0.5	0.7
	1.4	2.6	3.3	3.5

Forward foreign exchange contracts – other, shown in the table, relate to currency swaps used to hedge exposures in respect of intercompany loans.

Derivative financial instruments that are measured at fair value are disclosed by level of the following fair value measurement hierarchy:

Level 1	Quoted prices (unadjusted) in active markets for identical assets and 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)
Level 3	Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

All of the group and company's derivative financial instruments that are measured at fair value were classified as Level 2 as at 31 December 2017 (2016: Level 2). They have been valued using publicly available data, such as forward foreign exchange rates. There are no financial instruments measured as Level 3.

At 31 December 2017, the net fair value losses on open forward foreign exchange contracts that hedge the foreign currency risk of anticipated future sales and purchases amounted to £1.5m (2016: £1.0m). These will be transferred to the income statement and recognised in other operating income or expense when the forecast sales and purchases occur during 2018.

At 31 December, the principal amounts of the outstanding financial instruments were:

	2017 £'m	2016 £'m
Forward foreign exchange contracts	**70.4**	59.7
Currency swaps	**105.9**	87.7

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23. Capital and financial risk management, and financial instruments continued

Financial instruments continued

Fair values of non-derivative financial assets and liabilities

Group	Note	2017 Book value £'m	2017 Fair value £'m	2016 Book value £'m	2016 Fair value £'m
Fair value of non-current borrowings					
Other financial liabilities at amortised cost					
Long-term borrowings	22	**(144.2)**	**(144.2)**	(161.6)	(161.6)
Fair value of other financial assets and liabilities					
Primary financial instruments held or issued to finance the group's activities:					
Loans and receivables					
Trade and other receivables	17	**28.3**	**28.3**	27.7	27.7
Short-term bank deposits	18	**0.5**	**0.5**	0.1	0.1
Cash at bank and in hand	18	**10.3**	**10.3**	9.8	9.8
Other financial liabilities at amortised cost					
Trade and other payables	19	**(28.9)**	**(28.9)**	(31.4)	(31.4)
Short-term borrowings	22	**(1.5)**	**(1.5)**	(1.9)	(1.9)
Provisions for other liabilities and charges	21	**(3.8)**	**(3.8)**	(4.4)	(4.4)

The fair values of the group's bank borrowings are equivalent to the carrying values reported in the balance sheets as they are floating rate borrowings where interest rates are re-set to market rates at intervals of up to six months.

The fair values of trade and other receivables, short-term deposits and trade and other payables are equivalent to the carrying values because of the short-term nature of these instruments.

Maturity of financial liabilities

The tables below analyse the group's and company's financial liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period to the contractual maturity dates at 31 December 2017 and 31 December 2016. The amounts disclosed in the tables are the relevant undiscounted cash flows.

Group	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
At 31 December 2017				
Bank borrowings	4.0	72.3	–	–
US dollar private placement	3.3	3.3	26.9	60.0
Derivative financial instruments	0.4	–	–	–
Trade and other payables	28.9	–	–	–
Provisions for other liabilities and charges	0.2	3.6	–	–
At 31 December 2016				
Bank borrowings	4.7	2.7	83.1	–
US dollar private placement	3.6	3.6	30.6	69.2
Derivative financial instruments	2.6	–	–	–
Trade and other payables	31.4	–	–	–
Provisions for other liabilities and charges	0.8	3.6	–	–

Company	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 Years £'m
At 31 December 2017				
Bank borrowings	0.7	35.1	–	–
US dollar private placement	3.3	3.3	26.9	60.0
Derivative financial instruments	2.1	–	–	–
Trade and other payables	5.3	–	–	–
At 31 December 2016				
Bank borrowings	5.1	1.5	53.1	–
US dollar private placement	3.6	3.6	30.6	69.2
Derivative financial instruments	3.4	–	–	–
Trade and other payables	3.2	–	–	–

The amounts shown as borrowings in the above tables include the capital outstanding at each balance sheet date, together with the estimated interest thereon calculated at the effective interest rates at these dates for the periods until the contractual maturity of the relevant borrowing facilities. There is no certainty that these amounts will be outstanding for all of the period involved or that these interest rates will be applicable during these periods.

The amounts showing as trade and other payables in the above tables exclude tax and social security payable.

Maturity of derivative financial instruments
The table below shows the group's and company's derivative financial instruments, which will be settled on a gross basis. The amounts disclosed in the tables are the contractual undiscounted cash flows.

As at 31 December

Group	2017 Less than 1 year £'m	2016 Less than 1 year £'m
Forward foreign exchange contracts – cash flow hedges		
Outflow	**(76.7)**	(63.4)
Inflow	**78.2**	62.4
Forward foreign exchange contracts – net investment hedges		
Outflow	**(31.2)**	(28.5)
Inflow	**31.2**	28.0
Forward foreign exchange contracts – other		
Outflow	**(70.2)**	(57.6)
Inflow	**70.1**	57.9
Company		
Forward foreign exchange contracts – cash flow hedges		
Outflow	**(154.9)**	(125.8)
Inflow	**154.9**	125.8
Forward foreign exchange contracts – other		
Outflow	**(101.4)**	(86.1)
Inflow	**101.2**	85.9

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for the year ended 31 December 2017

24. Changes in liabilities arising from financing activities

Group	1 January 2017 £'m	Cash Flows £'m	Foreign exchange movement £'m	Movement in fair values of derivative financial instruments £'m	31 December 2017 £'m
Current interest-bearing loans and borrowings	(1.9)	0.6	(0.2)	–	(1.5)
Non-current interest-bearing loans and borrowings	(161.6)	9.8	7.6	–	(144.2)
Derivative financial instruments	(2.6)	–	–	2.2	(0.4)
Total liabilities from financing activities	**(166.1)**	**10.4**	**7.4**	**2.2**	**(146.1)**

The group uses an invoice discounting facility to support management of working capital in the US.

25. Deferred tax

	Group		Company	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
Net asset at 1 January	**20.9**	10.7	**0.5**	0.4
Exchange differences	**(1.2)**	1.3	**–**	–
Credit for the year to profit	**6.1**	3.6	**0.1**	0.1
(Charge)/credit to equity or other comprehensive income	**(8.9)**	5.9	**–**	–
UK corporation tax rate change	**0.3**	(0.6)	**–**	–
Net asset at 31 December	**17.2**	20.9	**0.6**	0.5

Group
Deferred tax assets can be analysed as follows:

	Pension obligations £'m	Losses and other £'m	Accelerated capital allowances £'m	Total £'m
At 1 January 2017	22.1	16.3	1.9	40.3
Exchange differences	(0.8)	–	–	(0.8)
Credit for the year to profit before US federal rate change	0.6	7.5	0.5	8.6
Charge to equity or other comprehensive income before US federal rate change	(4.4)	(0.5)	–	(4.9)
US federal rate change – exceptional charge to profit	–	(4.2)	–	(4.2)
US federal rate change – charge to other comprehensive income	(4.0)	–	–	(4.0)
UK corporation tax rate change	0.3	–	–	0.3
At 31 December 2017	**13.8**	**19.1**	**2.4**	**35.3**
At 1 January 2016	14.5	9.4	1.6	25.5
Exchange differences	1.9	2.1	–	4.0
Credit for the year to profit	0.5	4.7	0.3	5.5
Charge to equity or other comprehensive income	5.8	0.1	–	5.9
UK corporation tax rate change	(0.6)	–	–	(0.6)
At 31 December 2016	22.1	16.3	1.9	40.3

Deferred tax liabilities can be analysed as follows:

	Accelerated capital allowances £'m	Other £'m	Total £'m
At 1 January 2017	(17.8)	(1.6)	(19.4)
Exchange differences	(0.5)	–	(0.5)
Charge for the year to profit	0.4	1.4	1.8
At 31 December 2017	**(17.9)**	**(0.2)**	**(18.1)**
At 1 January 2016	(13.4)	(1.4)	(14.8)
Exchange differences	(2.7)	–	(2.7)
Credit for the year to profit	(1.7)	(0.2)	(1.9)
At 31 December 2016	(17.8)	(1.6)	(19.4)

Deferred tax assets and liabilities are only offset to the extent that there is a legally enforceable right to do so, as permitted by IAS 12.

A deferred tax asset of £11.0m (2016: £6.6m) has been recognised in respect of US and Chinese losses carried forward at 31 December 2017. This amount has been calculated by estimating the future taxable profits, against which the tax losses will be utilised, and applying the tax rates substantively enacted as at the balance sheet date. The estimate of future taxable profit reflects expected operational improvements and changes in the business' funding structure. Remaining gross losses of £17.4m (2016: £39.3m) have not been recognised at 31 December 2017 due to uncertainty over the timing of future taxable profits against which these losses can be recovered.

No deferred tax has been recognised in respect of any withholding or other taxes that would be payable on the unremitted earnings of subsidiaries. There are no unremitted earnings on which UK tax is expected to become payable if repatriated (2016: Nil).

Company	Temporary differences £'m
Asset at 1 January 2017	**0.5**
Credit for the year to profit	**0.1**
Asset at 31 December 2017	**0.6**
Asset at 1 January 2016	0.4
Credit for the year to profit	0.1
Asset at 31 December 2016	0.5

The company deferred tax asset can be analysed as follows:

	2017 £'m	2016 £'m
Due after more than one year	**0.6**	0.5

Notes to the financial statements continued
for the year ended 31 December 2017

26. Pension obligations
The amounts recognised as charges in the income statement are as follows:

	2017 £'m	2016 £'m
Defined benefit schemes:		
– Current service cost	**1.6**	1.5
– Scheme administrative expenses	**1.6**	1.4
Defined benefit costs included within operating profit	**3.2**	2.9
Net finance cost	**2.8**	2.3
Total deferred benefit scheme costs	**6.0**	5.2
Defined contribution schemes	**3.1**	3.0
Total pension obligation costs	**9.1**	8.2

The amounts recognised as non-current liabilities in the balance sheet are as follows:

	2017 £'m	2016 £'m
Fair value of scheme assets	**247.6**	254.8
Present value of scheme liabilities	**(329.6)**	(350.8)
Pension obligations	**(82.0)**	(96.0)

The group operates a number of pension schemes throughout the world. The major schemes are of the defined benefit type and, with the exception of Germany where book reserves are supported by insurance policies, the assets of the schemes are held in separate trustee-administered funds. The defined benefit schemes are closed to new entrants. The total pension obligation cost for the group was £9.1m (2016: £8.2m), of which £4.2m (2016: £4.0m) related to the overseas schemes. On the advice of the actuaries, total cash contributions to the group's defined benefit schemes are expected to be £6.5m for the year ending 31 December 2018.

The most significant defined benefit scheme within the group is the Devro Limited (UK) Pension Plan, which operates in the UK. The latest triennial valuation of the UK scheme as at 31 March 2017 was finalised during 2017, with deficit funding levels remaining consistent with prior periods. The other major defined benefit schemes operate in Australia and the US.

Actuarial assumptions appropriate for each country have been used.

The last formal actuarial valuations of the group's material defined benefit schemes have been updated to 31 December 2017 by qualified independent actuaries. The major assumptions used by the actuaries in the following principal countries were:

	Australia		**UK**		**US**	
%	**2017**	2016	**2017**	2016	**2017**	2016
Discount rate	**3.60**	4.05	**2.45**	2.60	**3.40**	3.85
Rate of increase in salaries*	**3.25**	3.50	**1.00**	1.00	**–**	–
General inflation	**2.25**	2.50	**3.10**	3.25	**–**	–

* As part of the changes to the UK plan agreed in 2010, future pensionable salary increases are capped at 1% per annum. No rate of increase in salaries has been assumed in respect of the US plan as the plan is now frozen.

Demographic assumptions, such as mortality rates, are set having regard to the latest trends in life expectancy plan experience. These assumptions are under continual review. The mortality assumptions at 31 December 2017 are based on the following tables:

	Years of life expectancy for current pensioners aged 65			
	2017		2016	
	Male	**Female**	Male	Female
UK – SAPS 'Normal' (YOB)*	**21.2**	**24.1**	22.5	24.8
US – RP-2014 and projection scale MP-2017	**20.6**	**22.6**	21.1	23.3

* Adjusted by 110% for male non-pensioners (113% for male pensioners) and 94% for female non-pensioners (99% for female pensioners) with CMI 2016 improvements using a long-term rate of 1.5% per annum.

The Australian defined benefit scheme provides only for a lump sum payment on retirement.

In addition to the above schemes, the group operates a defined benefit pension plan in Germany which, in common with typical practice in that country, is supported by insurance policies. At 31 December 2017, the value of the insurance asset was £2.0m (2016: £2.2m) and the value of the liability was £3.7m (2016: £3.8m). A proportion of the assets and liabilities of the German plan, relating to the period when the business operated as a branch of Devro Inc or Devro (Scotland) Limited, was retained by the group after the sale of Devro GmbH in September 2011.

In addition, the group has benefit arrangements in respect of two former executives in the US for which the group has made adequate provisions on the advice of the actuaries. There is also an individual pension arrangement in Japan in respect of which appropriate contributions are made annually. The plan in Germany and these additional arrangements in the US and Japan are included under the "other" heading in the table note.

The aggregate fair values of assets in the group's defined benefit schemes at 31 December 2017 were estimated to be:

	Australia		UK		US		Other		Total	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Equities	**6.0**	5.9	**38.6**	38.2	**14.2**	15.3	**–**	–	**58.8**	59.4
Bonds	**2.0**	2.1	**95.8**	95.1	**32.7**	35.5	**–**	–	**130.5**	132.7
Diversified growth funds	**–**	–	**48.3**	50.4	**–**	–	**–**	–	**48.3**	50.4
Other	**2.1**	2.6	**5.4**	7.0	**0.5**	0.5	**2.0**	2.2	**10.0**	12.3
	10.1	10.6	**188.1**	190.7	**47.4**	51.3	**2.0**	2.2	**247.6**	254.8

All equities and bonds have quoted prices in active markets. The diversified growth funds also have quoted prices.

Investments in each of the main schemes are well diversified. Strategy is split between liability matching and return generating assets with the split determined depending on the duration of the scheme, the funding position and the relevant country's pension rules. For the UK, the scheme invests 60% of the portfolio in growth assets with the remainder in UK government bonds matched to scheme liabilities. For the US scheme a defensive approach is taken given the shorter maturity of the scheme liabilities with around 70% of the portfolio invested in fixed income assets and the remainder in growth assets, principally equities. For the Australian scheme the strategy is for 70% of the portfolio to be invested in growth assets, with the remainder invested in defensive, primarily fixed income assets. In all three schemes, the investment approach will be de-risked over time as the funding position improves and market conditions allow.

Net pension assets and liabilities at 31 December 2017 were as follows:

	Australia		UK		US		Other		Total	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Total fair value of scheme assets (as above)	**10.1**	10.6	**188.1**	190.7	**47.4**	51.3	**2.0**	2.2	**247.6**	254.8
Present value of scheme liabilities	**(10.1)**	(10.6)	**(235.3)**	(251.8)	**(80.4)**	(84.4)	**(3.8)**	(4.0)	**(329.6)**	(350.8)
Deficit	**–**	–	**(47.2)**	(61.1)	**(33.0)**	(33.1)	**(1.8)**	(1.8)	**(82.0)**	(96.0)
Related deferred tax assets	**–**	–	**5.8**	10.4	**7.3**	11.2	**0.7**	0.5	**13.8**	22.1
Net pension liabilities	**–**	–	**(41.4)**	(50.7)	**(25.7)**	(21.9)	**(1.1)**	(1.3)	**(68.2)**	(73.9)

The decrease in net pension liabilities during the year largely reflects the return on plan assets and a change in the demographic assumptions for the UK scheme, partially offset by a decrease in discount rate assumptions across the schemes. The group continues to pay contributions to pension schemes in accordance with local regulatory requirements and on the advice of qualified independent actuaries. The latest triennial valuation of the UK scheme as at 31 March 2017 was finalised during 2017 and resulted in no change to contributions.

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for the year ended 31 December 2017

26. Pension obligations continued

Changes in the fair value of scheme assets and in the present value of defined benefit scheme liabilities were as follows:

	2017			2016		
	Liability	Asset	Net	Liability	Asset	Net
At 1 January	(350.8)	254.8	(96.0)	(281.8)	225.4	(56.4)
Interest income	–	7.0	7.0	–	8.5	8.5
Interest cost	(9.8)	–	(9.8)	(10.8)	–	(10.8)
Service cost	(1.6)	–	(1.6)	(1.5)	–	(1.5)
Scheme administrative expenses	–	(1.6)	(1.6)	–	(1.4)	(1.4)
Employer contributions	–	4.4	4.4	–	4.2	4.2
Member contributions	(0.2)	0.2	–	(0.2)	0.2	–
Benefits paid	20.5	(20.5)	–	14.1	(14.1)	–
Re-measurements – return on plan assets (excluding interest income)	–	7.8	7.8	–	21.2	21.2
Re-measurements – changes in financial assumptions	(9.5)	–	(9.5)	(55.6)	–	(55.6)
Re-measurements – experience adjustments	1.2	–	1.2	1.3	–	1.3
Re-measurements – restriction of surplus	(0.7)	–	(0.7)	0.1	–	0.1
Re-measurements – changes in demographic assumptions	13.9	–	13.9	–	–	–
Exchange losses/gains	7.4	(4.5)	2.9	(16.4)	10.8	(5.6)
At 31 December	(329.6)	247.6	(82.0)	(350.8)	254.8	(96.0)

Amounts charged/(credited) to the income statement were as follows:

	Australia		UK		US		Other		Total	
	2017 £'m	2016 £'m	2017 £'m	2016 £'m	2017 £'m	2016 £'m	2017 £'m	2016 £'m	2017 £'m	2016 £'m
Current service cost	0.5	0.4	1.1	1.1	–	–	–	–	1.6	1.5
Scheme administrative expenses	0.2	0.2	0.7	0.6	0.7	0.6	–	–	1.6	1.4
Net charge to operating profit	0.7	0.6	1.8	1.7	0.7	0.6	–	–	3.2	2.9
Interest income on pension scheme assets	(0.4)	(0.4)	(4.8)	(6.3)	(1.8)	(1.8)	–	–	(7.0)	(8.5)
Interest on pension scheme liabilities	0.4	0.4	6.3	7.3	3.0	3.0	0.1	0.1	9.8	10.8
Net interest cost	–	–	1.5	1.0	1.2	1.2	0.1	0.1	2.8	2.3
Net charge to profit	0.7	0.6	3.3	2.7	1.9	1.8	0.1	0.1	6.0	5.2

Amounts (charged)/credited to other comprehensive income were as follows:

	Australia		UK		US		Other		Total	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Return on plan assets less interest income	**1.3**	0.3	**2.8**	19.8	**3.7**	1.1	**–**	–	**7.8**	21.2
Experience gains/(losses) on liabilities	**–**	(0.3)	**1.2**	1.6	**–**	–	**–**	–	**1.2**	1.3
Changes in demographic assumptions	**–**	–	**14.0**	–	**(0.1)**	–	**–**	–	**13.9**	–
Changes in financial assumptions	**(0.3)**	–	**(4.4)**	(54.3)	**(4.9)**	(1.0)	**0.1**	(0.3)	**(9.5)**	(55.6)
Restriction of surplus	**(0.7)**	0.1	**–**	–	**–**	–	**–**	–	**(0.7)**	0.1
Re-measurements	**0.3**	0.1	**13.6**	(32.9)	**(1.3)**	0.1	**0.1**	(0.3)	**12.7**	(33.0)

Movements in the deficit during the year were as follows:

	Australia		UK		US		Other		Total	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Deficit in scheme at beginning of year	**–**	–	**(61.1)**	(29.3)	**(33.1)**	(25.9)	**(1.8)**	(1.2)	**(96.0)**	(56.4)
Movement in year:										
Pension charge	**(0.7)**	(0.6)	**(3.3)**	(2.7)	**(1.9)**	(1.8)	**(0.1)**	(0.1)	**(6.0)**	(5.2)
Employer contributions	**0.4**	0.4	**3.6**	3.8	**0.4**	–	**–**	–	**4.4**	4.2
Re-measurements	**0.3**	0.1	**13.6**	(32.9)	**(1.3)**	0.1	**0.1**	(0.3)	**12.7**	(33.0)
Exchange gains/(losses)	**–**	0.1	**–**	–	**2.9**	(5.5)	**–**	(0.2)	**2.9**	(5.6)
Deficit in scheme at end of year	**–**	–	**(47.2)**	(61.1)	**(33.0)**	(33.1)	**(1.8)**	(1.8)	**(82.0)**	(96.0)

The actual return on plan assets in 2017 was £14.8m (2016: £29.7m).

The cumulative re-measurements in other comprehensive income are £88.5m loss (2016: £101.2m loss).

The weighted average duration of the defined benefit obligation is 19 years, with benefit payments over the next ten years expected to be as follows:

	2017 £'m
In the next year	**12.8**
In years 2-5	**55.3**
In years 6-10	**72.3**
	140.4

The schemes' funds have been invested in a range of assets which are due to be realised in line with the associated liabilities. The trustees review the schemes' assets and adjust the weighting between short-term and long-term assets to combine security and growth with the liquidity required to meet the obligations as they fall due.

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26. Pension obligations continued

Sensitivity analysis of the principal assumptions used to measure defined benefit obligations:

Assumption	Change in assumption	Indicative impact on defined benefit obligation (before deferred tax)
Discount rate	Increase by 0.25%	Decrease by £14.7m
	Decrease by 0.25%	Increase by £15.7m
Rate of salary increase	Increase by 0.25%	Increase by £0.2m
	Decrease by 0.25%	Decrease by £0.1m
General inflation	Increase by 0.25%	Increase by £4.8m
	Decrease by 0.25%	Decrease by £4.4m
Life expectancy	Increase by 1 year	Increase by £11.0m

The above sensitivity analyses are based on the same change in assumption in each of the group's schemes (except where changes are limited through the individual scheme rules), while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the projected unit credit method is applied in the same way as for the calculation of the pension liability recognised in the financial statements.

Risks
Through its defined benefit pension obligations, the group is exposed to a number of risks, the most significant of which are detailed below:

Market volatility	The accounting estimate of net pension obligations is very sensitive to changes in market conditions. The discount rate used to estimate the defined benefit obligation is linked to yields on AA-rated corporate bonds, or similar, whilst scheme assets are invested in a range of other assets, which are themselves subject to fluctuations in value. Changing market conditions and movements in the discount rate will lead to volatility in the net pension obligation on the group's balance sheet, in other comprehensive income and in the income statement.
Choice of accounting assumptions	The value of the defined benefit obligation is determined by actuarial valuations over long-term cash flows. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future inflation. Due to the long-term nature of these schemes these estimates are subject to significant uncertainty, and the final outcome could be significantly different to the assumptions used. However, the risk is limited in certain respects for some schemes. The Australian scheme allows for a lump sum payment on retirement, so is not sensitive to changes in mortality assumptions, whilst the US scheme is frozen so that it is not sensitive to inflation or salary rises. Similarly the rate of increase in UK salaries is limited to 1% per annum.

27. Ordinary Shares

Group and company	**2017 £'m**	2016 £'m
Issued and fully paid		
166,949,022 (2016: 166,949,022) Ordinary Shares of 10 pence each	**16.7**	16.7

No Ordinary Shares were issued during the year.

28. Share-based payments

Under the Devro plc Performance Share Plan (PSP), the Executive Directors' Remuneration Committee made provisional allocations of ordinary shares in the company to employees of the group, including Executive Directors. No payment for an allocation is made by a participant. Allocations normally vest over a three-year period, are conditional on the continued employment of the participant and are subject to certain performance conditions. These performance conditions relate to growth in the company's earnings per share and the company's Total Shareholder Return in comparison to its peer group. For the 2017 awards, a performance condition relating to ROCE was added.

For awards where vesting is subject to the growth in earnings per share, the fair value of an allocation represents the market value of the ordinary shares in the company on the date of the provisional allocation, less the discounted value of estimated dividends expected to be paid during the vesting period. A participant is not entitled to receive dividends during this period. The fair value of awards subject to the company's Total Shareholder Return performance is determined using a Monte Carlo option valuation methodology. The weighted average fair value of options granted during the year using this method was £1.83 (2016: £1.92) with the significant inputs to the model being the share price at the grant date, an expected volatility in the share price of 25.5% (based on historic trends), the term of three years, risk free interest rate of 0.31% and expected dividend yield.

Amounts provided in the accounts are based on an estimate of the probability of the targets in respect of allocations being achieved.

During the year no shares vested under the PSP or its predecessor (2016: 16,490).

At 31 December 2017, the maximum number of shares which may vest under the PSP is as follows:

			Number of shares						
Grant date	Fair value per share	Normal vesting date	As at 1 January 2017	Awarded	Vested and exercised	Forfeited	Lapsed	As at 31 December 2017	Weighted average share price at exercise
9 June 2014	£1.690	9 June 2017	776,840	–	–	–	(776,840)	**–**	–
25 March 2015	£2.005	25 March 2018	963,289	–	–	(14,944)	–	**948,345**	–
8 April 2016	£1.915	8 April 2019	1,136,226	–	–	(54,926)	–	**1,081,300**	–
2 August 2017	£1.827	2 August 2020	–	1,265,687	–	(130,245)	–	**1,135,442**	–
			2,876,355	1,265,687	–	(200,115)	(776,840)	**3,165,087**	–

A more detailed summary of the performance conditions of the PSP is included in the Director's Remuneration Report on pages 47 and 61.

29. Other reserves

Group	Capital redemption reserve £'m	Special reserve £'m	Performance Share Plan £'m	Hedging reserve £'m	Cumulative translation adjustment £'m	Total £'m
At 1 January 2017	35.6	8.9	1.4	0.1	24.8	70.8
Exchange adjustments	–	–	–	–	12.5	12.5
Cash flow hedges, net of tax	–	–	–	1.8	–	1.8
Net investment hedges, net of tax	–	–	–	(1.8)	–	(1.8)
PSP charge, net of tax	–	–	0.5	–	–	0.5
PSP credit in respect of awards lapsed	–	–	(0.4)	–	–	(0.4)
At 31 December 2017	**35.6**	**8.9**	**1.5**	**0.1**	**37.3**	**83.4**
At 1 January 2016	35.6	8.9	1.1	2.3	5.0	52.9
Exchange adjustments	–	–	–	–	19.8	19.8
Cash flow hedges, net of tax	–	–	–	(0.9)	–	(0.9)
Net investment hedges, net of tax	–	–	–	(1.3)	–	(1.3)
PSP charge, net of tax	–	–	0.6	–	–	0.6
PSP credit in respect of awards lapsed	–	–	(0.3)	–	–	(0.3)
At 31 December 2016	35.6	8.9	1.4	0.1	24.8	70.8

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29. Other reserves continued

Company	Capital redemption reserve £'m	Special reserve £'m	Performance Share Plan £'m	Hedging reserve £'m	Total £'m
At 1 January 2017	35.6	8.9	0.8	–	45.3
Cash flow hedges, net of tax	–	–	–	–	–
PSP charge, net of tax	–	–	0.3	–	0.3
PSP credit in respect of awards lapsed	–	–	(0.2)	–	(0.2)
At 31 December 2017	**35.6**	**8.9**	**0.9**	**–**	**45.4**
At 1 January 2016	35.6	8.9	0.6	0.9	46.0
Cash flow hedges, net of tax	–	–	–	(0.9)	(0.9)
PSP charge, net of tax	–	–	0.5	–	0.5
PSP credit in respect of awards lapsed	–	–	(0.3)	–	(0.3)
At 31 December 2016	35.6	8.9	0.8	–	45.3

The balance on the capital redemption reserve represents the amount which arose at the time of the redemption of the preference share capital in 2002.

The balance on the special reserve account represents the remaining undistributable proportion of the amount which arose on the acquisition of Teepak International Inc in 1996 under the merger relief provisions of the Companies Act 1985.

The balance on Performance Share Plan reserve represents the cumulative net expense recognised through the income statement in respect of share awards under the plan which have yet to be vested by employees.

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective. The cumulative deferred gain or loss on the hedging instrument is recognised in the income statement only when the hedged transaction impacts profit or loss.

The cumulative translation reserve comprises all foreign currency differences arising from the retranslation of the balance sheets of foreign currency denominated subsidiaries.

30. Reconciliation of profit before tax to cash generated from operations

	Group		Company	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
Profit before tax	**21.6**	6.2	**54.1**	33.1
Adjustments for:				
Finance income	**–**	(0.1)	**(6.1)**	(4.7)
Finance cost	**8.6**	7.0	**6.8**	6.2
Dividends from subsidiaries	**–**	–	**(59.5)**	(40.2)
Net finance cost on pensions	**2.8**	2.3	**–**	–
Pension cost adjustment for normal contributions	**1.8**	1.1	**–**	–
Depreciation of property, plant and equipment	**25.0**	22.1	**0.1**	0.1
Amortisation of intangible assets	**1.0**	0.9	**0.1**	0.1
Release from capital grants balance	**(0.2)**	(0.2)	**–**	–
Pension deficit funding	**(3.0)**	(2.5)	**–**	–
Performance Share Plan	**0.5**	0.6	**0.3**	0.5
Changes in working capital:				
Decrease/(increase) in inventories	**0.9**	(1.1)	**–**	–
Decrease/(increase) in trade and other receivables	**0.4**	5.4	**(24.6)**	(18.7)
(Decrease)/increase in trade and other payables	**(0.9)**	(0.2)	**6.7**	(4.0)
Decrease in provisions	**(0.3)**	(2.5)	**–**	–
Cash generated from/(used in) operations	**58.2**	39.0	**(22.1)**	(27.6)
Of which:				
Cash generated from/(used in) underlying operations before pension deficit funding	**66.9**	64.4	**(19.3)**	(27.5)
Pension deficit funding	**(3.0)**	(2.5)	**–**	–
Exceptional items	**(5.7)**	(22.9)	**(2.8)**	(0.1)
Cash generated from/(used in) operations	**58.2**	39.0	**(22.1)**	(27.6)

31. Analysis of net debt

	Group		Company	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
Cash and cash equivalents	**10.8**	9.9	**0.3**	0.1
Bank overdrafts	**(1.5)**	(1.9)	**(1.2)**	(3.5)
Net cash and cash equivalents	**9.3**	8.0	**(0.9)**	(3.4)
Other bank borrowings	**(69.8)**	(80.4)	**(34.4)**	(51.6)
US dollar private placement	**(74.4)**	(81.2)	**(74.4)**	(81.2)
Net Debt	**(134.9)**	(153.6)	**(109.7)**	(136.2)

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32. Capital commitments
Capital expenditure contracted for but not provided in the group financial statements related to property, plant and equipment and amounted to £1.4m as at 31 December 2017 (2016: £0.8m). The company had no capital commitments as at 31 December 2017 (2016: Nil).

33. Contingent liabilities
In the opinion of the directors, the group has no material contingent liabilities as at 31 December 2017 (2016: Nil).

34. Financial commitments
Operating leases
At 31 December 2017, the future aggregate minimum lease payments were as follows:

	Group		Company	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
No later than one year	**0.7**	0.8	**0.1**	0.1
Later than one year and no later than five years	**1.1**	1.4	**0.5**	0.5
	1.8	2.2	**0.6**	0.6

35. Related party transactions
Key management are deemed to be the executive and non-executive directors and the Executive Management Team of the group as together they have the authority and responsibility for controlling group activities. The compensation paid or payable to key management for employee services is shown below:

	2017 £'m	2016 £'m
Emoluments payable to executive and non-executive directors		
Short-term employee benefits	**1.4**	1.2
PSP charge	**0.2**	0.2
Post-employment benefits	**0.1**	0.1
	1.7	1.5
Emoluments payable to remainder of the Executive Board		
Short-term employee benefits	**1.8**	1.5
PSP charge	**0.1**	0.1
Post-employment benefits	**0.2**	0.2
Compensation for loss of office	**–**	0.7
	2.1	2.5
Total emoluments payable to key management	**3.8**	4.0

Transactions with the group's pension schemes are disclosed in Note 26. Amounts due to the pension schemes at 31 December 2017 are £0.6m (2016: £0.4m).

The group had no further related party transactions.

Related party transactions carried out by the company during the year ended 31 December 2017 were as follows:

	2017 £'m	2016 £'m
Sale of services to subsidiary undertakings	**10.8**	8.2
Purchase of services from subsidiary undertakings	**0.1**	0.2
Interest received from subsidiary undertakings	**6.1**	4.7
Interest paid to subsidiary undertakings	**0.1**	0.1

Balances at 31 December arising from transactions with subsidiary undertakings:

	2017 £'m	2016 £'m
Derivative assets	**0.1**	1.9
Derivative liabilities	**1.6**	0.9
Receivables – current	**16.0**	13.8
– non-current	**128.9**	113.3
Payables – non-current	**27.3**	22.1

Current receivables from subsidiaries arise mainly on the sale of services and tax losses surrendered. The receivables are unsecured and do not bear interest. No provisions are held against receivables from subsidiaries, and all sales are made on an arm's length basis.

Non-current receivables and payables principally relate to loans to and from subsidiaries and interest is charged on them at commercial rates.