Etex Annual Report 2017

etex
inspiring ways of living

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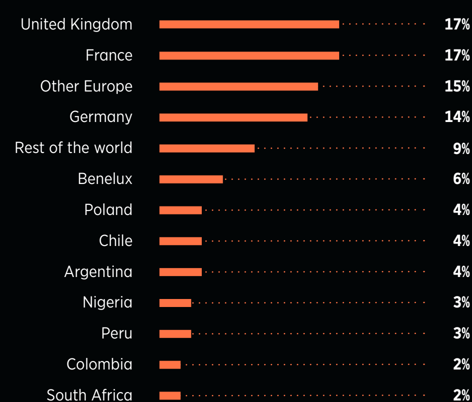
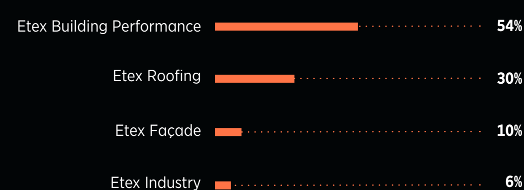
Key figures

Revenue by geographic area



Revenue by activity



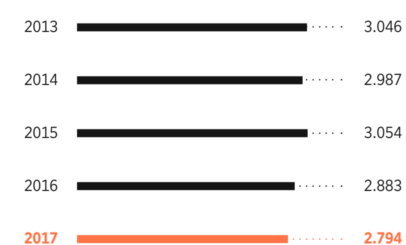
IN MILLION EURO	2013	2014	2015	2016	2017	%
Revenue	3,046	2,987	3,054	2,883	2,794	-3.1%
Recurring operating income (Rebit)	250	249	241	256	266	3.6%
Recurring operating cash flow (Rebitda)	415	413	409	417	420	0.6%
% of revenue	13.6%	13.8%	13.4%	14.5%	15.0%	-
Non-recurring items	-13	-67	-112	-19	3	-
Operating cash flow (Ebitda)	412	365	366	404	432	7.0%
Operating income (Ebit)	237	182	129	237	269	13.2%
% of revenue	7.8%	6.1%	4.2%	8.2%	9.6%	-
Net profit (group share)	124	92	36	127	148	16.5%
Capital expenditure	212	198	187	137	148	7.5
Net financial debt	977	904	833	630	633	0.4%
Working capital (1)	284	260	312	249	261	4.8%
Capital employed (1)	2,507	2,485	2,451	2,258	2,341	3.7%
Return on capital employed (ROCE) (1)	9.3%	7.3%	5.2%	10.1%	12.1%	-

IN EURO PER SHARE	2013	2014	2015	2016	2017	%
Net recurring profit (Group share)	1.67	1.69	1.61	1.72	1.80	4.7%
Net profit (Group share)	1.59	1.17	0.46	1.63	1.89	16.0%
Gross dividend	0.36	0.40	0.44	0.48	0.53	10.4%
Growth rate of dividend	0.0%	11.1%	10.0%	9.1%	10.4%	
Recurring distribution rate	21.6%	23.6%	27.3%	27.9%	29.4%	
Personnel	17,442	17,067	17,229	15,011	14,510	

NB: 2016 values are expressed before reclassifications and include discontinued operations disclosed separately in the financial report, i.e. the ceramics business in Peru, Colombia, Chile & Argentina.

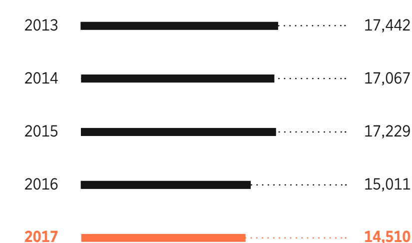
(1) These values are expressed excluding the favourable impact of the non recourse factoring program (note 16 disclose details on non recourse factoring); 2017 ROCE value excludes Pladur.

Revenue in billion euro 2.794

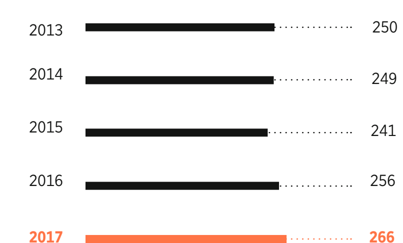


Recurring operating cash flow in million euro 420

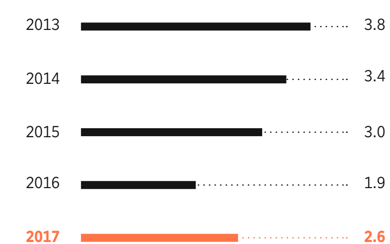
Personnel evolution 14,510



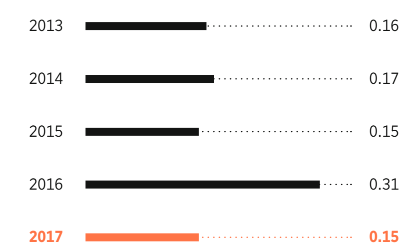
Recurring operating income in million euro 266

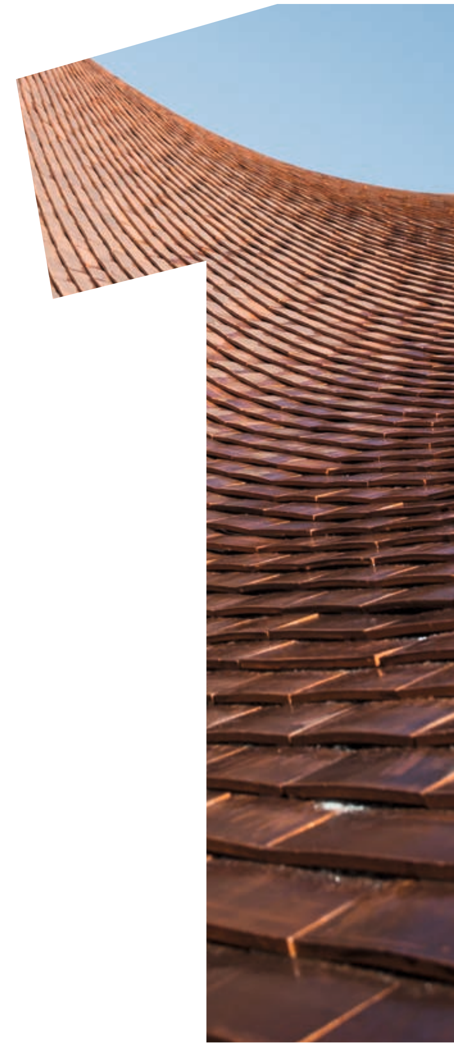


Frequency rate of accidents 2.6



Gravity rate 0.15





Dynamic performance in 2017 delivered another year of consistent results

Progression from building materials to solutions

- Strengthened our financial backbone with growth in Etex Building Performance, Façade and Industry divisions.
- Activated targeted market intimacy via our global divisional structure, signed joint venture with Arauco in Chile and launched affordable housing projects in Africa and Latin America.
- Reinforced division portfolios integrating Latin American business and acquiring Spanish plasterboard company Pladur.
- Rewarded by innovation and technical expertise efforts that significantly increased margins more than associated overheads.

Leveraging our global network to create lateral value

- Realised savings from realigned purchasing organisation and Shared Services Centres.
- Operational investments made in 2015 and 2016 supported growth without major capital expenditure projects in 2017.
- Implemented manufacturing improvements to increase productivity across all plants, including small targeted investments – coming online in 2018 – designed to quickly meet market needs.
- Achieved important digital milestones: created a digital workplace via Office 365 rollout, progressed in moving Etex IT infrastructure to a cloud-based platform, made significant headway in creating and using Building Information Management (BIM) platforms and systems.

Developing a high-performance culture

- Increased our focus to improve safe behaviour through accountable leadership by training 6,000 employees in SafeStart and training all managers to deliver quality safety conversations.
- Cultivated our blossoming Etex identity, further rolling out our values across the organisation.
- Enhanced our leadership model to link values with business objectives and continued specific investment in senior leaders through Etex training programmes co-developed with the INSEAD and Vlerick business schools.
- Made gradual yet steady progress towards establishing the Etex corporate brand with an identity and purpose.

ABOUT ETEX

Our company and strategy

1.1 Message to our stakeholders

1.2 Our stakeholders

1.3 Our three-pillar agenda

1.4 About Etex

1.5 Megatrends

Message to our stakeholders

In 2017, Etex was dynamic and proactive and delivered consistent results. We confirmed our ambition for accelerated profitable growth in line with financial expectations. Our business further progressed from materials manufacturer to solutions provider. We were rewarded by internal efforts to create lateral value, and see our high-performance culture taking shape. In short, Etex is a future-fit organisation that continues to inspire ways of living.

Our recurring operating cash flow (rebitda) remains stable at 420 million euro compared to 417 million euro in 2016. Sales came in at 2.794 billon euro compared to 2.883 billion euro in 2016. This, despite adverse exchange rates. We offset last year's divestment of our ceramics business and reduced our net debt. On a like-for-like basis, we grew 4.5% in sales.

Global picture of the Etex marketplace

In **Europe**, the UK market delivered excellent results, despite uncertainty surrounding Brexit. In France, we saw the first effects of the recovering market. The German market remained weak. While the Benelux and the Nordics were flat, business in southern and eastern Europe continued to gather momentum.

Latin America posted overall strong performance. The Brazilian market, which was struggling from difficult political and economic conditions, picked up. Argentina, Colombia and Peru all performed above expectations. In Chile, we remained resilient to the ongoing recession.

Our presence is growing in **Asia Pacific**. We set up new offices in India and Australia. Competition remains fierce but we are beginning to tap the full potential of these markets and expect future growth. While Indonesia remains a competitive landscape, we are encouraged by slight growth and increased production volumes.

Africa continues to suffer from economic difficulties and political unrest. Despite this, we saw organic growth in Nigeria. In South Africa, our performance was flat due to internal transition efforts and poor market conditions.

Building a value-driven, agile organisation

In 2017, we activated our global structure to enable greater focus and alignment on the business strategy. The result was confirmed, accelerated and profitable growth in three divisions. This was further supported by a ramp-up of the three production facilities inaugurated in 2015 and 2016.

Our Latin America business is now integrated and in September 2017, we sold Chilean brick producer Industrias Princesa.

Merger and acquisition objectives through 2020 are in place. A first success is our recent acquisition of Spanish plasterboard company Pladur, which is a well-established brand.

We started to deliver value-driven propositions to select markets. Our joint venture with Chilean wood frame producer Arauco enables us to provide a unique combined offering of affordable housing to the Chilean and, eventually, other Latin America markets.

We also brought affordable housing projects to markets in Colombia, Nigeria and Peru.

Creating lateral value

Newly established Innovation and Technology Centres ensure collaborative and integrated innovation efforts. Customer innovation days are proving valuable to position Etex as an innovation leader.

Further embracing digitalisation, we successfully built our own Building Information Management (BIM) platform. Work continues to move our IT infrastructures, applications and platforms to cloud-based solutions.

Enhanced collaboration between engineering, operations and purchasing has primed our manufacturing footprint to boost product capabilities without significant capital expenditure. We also laid the groundwork for eleven major capital expenditure projects that will become operational in 2018.

Our new production line in Lithuania now supplies several growing markets with Cedral sidings.

Further optimising our production footprint in Germany, we continued with the closure of our Heidelberg plant and channelled investment into existing facilities. We also sold our Weroth clay façade facility to a private investor.

Fostering a performance culture

In 2017, we raised the bar in terms of performance. We continue to groom our senior leaders to inspire and deliver highly engaged teams. This is reflected in our burgeoning corporate culture, as we see our Etex values coming to life throughout the organisation. The result is strong alignment on how to provide value.

To highlight three examples: we reinforced our sales teams, now aligned and boosted by improved digital tools and platforms; we put in place a new collaborative identity and structure for our R&D facilities; and we upgraded our global IT infrastructure.

To further this effort, we announced plans to introduce engagement as a non-financial indicator to be activated in 2018.

Our safety performance did not quite meet our ambitions, but we see clear long-term progress in our efforts to reach our zero accident target. By focussing on improving safe behaviour, becoming a world-class safety organisation in the future is within reach.

A trusted partner for the future

We are confident the actions taken throughout 2017 have primed our organisation to follow through on our potential in 2018.

We expect modest growth in all markets, as we fulfil the objectives set in place by our global and division strategies. Combined with internal investment efforts, this streamlines and enhances our sales, marketing, innovation and technical expertise.

Targeted production investments will come online in 2018. Their aim is to boost productivity and ensure we meet growing demand for our products.

In addition, we will make corporate social responsibility a more apparent priority for the organisation.

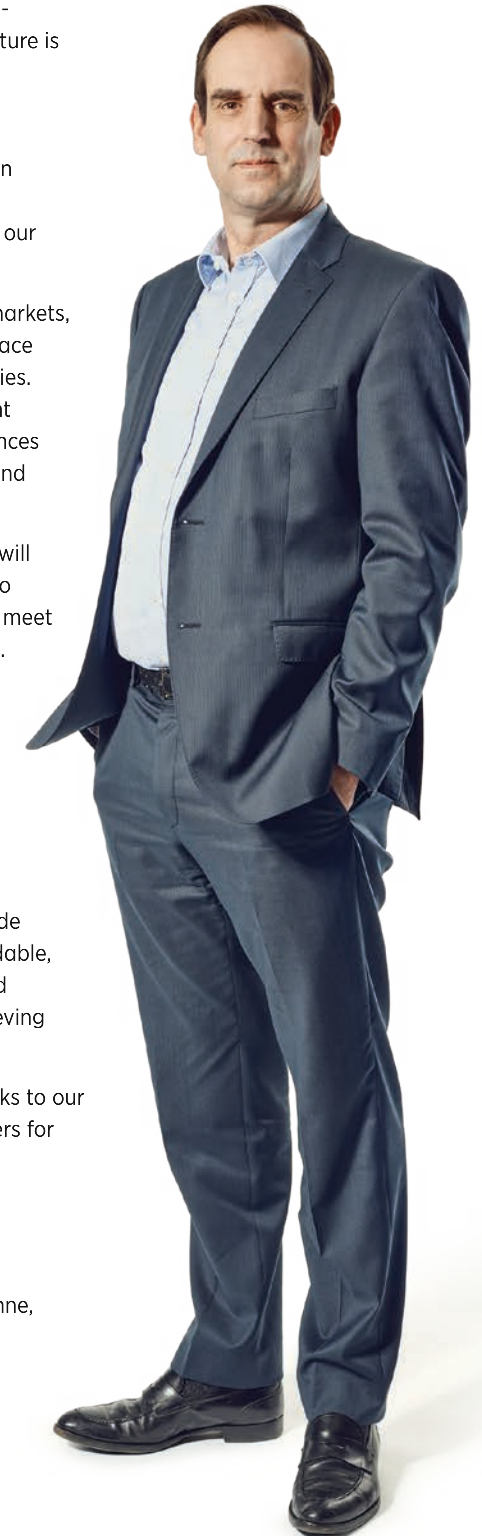
Our deepest gratitude

Our warmest thanks to our 14,510 employees. They perform with pride and purpose to help deliver affordable, sustainable, safe, comfortable and beautiful living spaces while achieving Etex's ambitions.

We also extend our heartfelt thanks to our board of directors and shareholders for their steadfast trust and support.

Paul Van Oyen, CEO

Jean-Louis de Cartier de Marchienne, Chairman

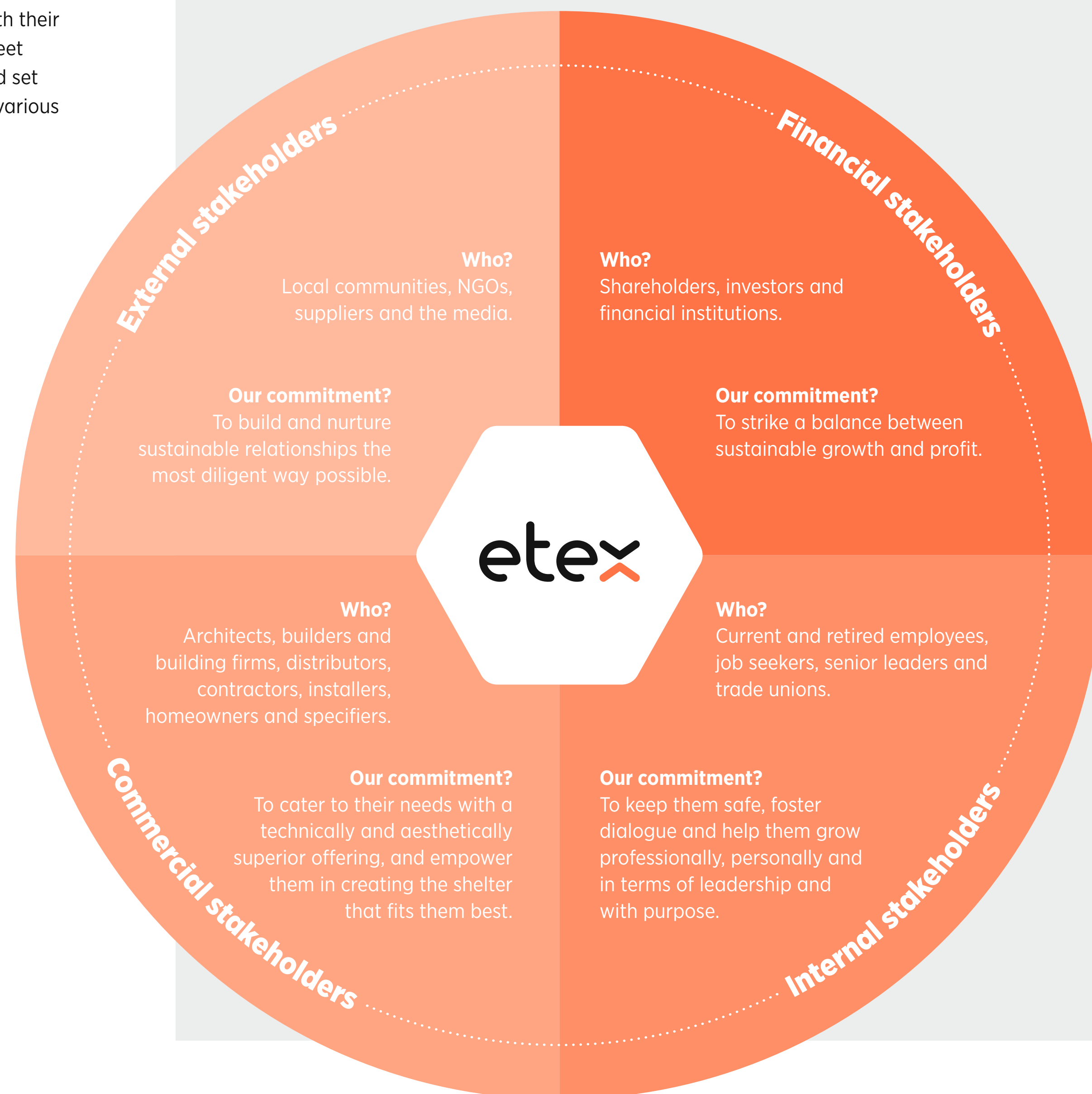


Our stakeholders

From our shareholders and employees to our suppliers and customers, neighbours and trade unions: our stakeholders are the reason why we do what we do and strive to do it well. Our stakeholders help us determine the steps we take towards creating a sustainable future. Our aim is to provide them with reliable and relevant insights into the workings of Etex.

Who's who?

Numerous people and organisations have a vested interest in Etex, each with their own expectations. To meet these, we have a defined set of commitments to our various stakeholders.



Keeping our stakeholders up to date

At Etex, we aim to inform and engage in dialogue with our audiences in a transparent, meaningful way. We do this via several communication channels.

Financial stakeholders

Our shareholders are invited to Etex's annual shareholders' meeting to get the latest insights on the results and workings of our company. Twice a year, we hold an information meeting for our banking partners.

Customers

Worldwide, our local businesses inform and interact with customers and suppliers and provide them with tailored content. Our largest suppliers are kept informed by our purchasing team at group level.

To give just one example of a local customer interaction initiative, our Innovation and Technology Centres hold annual Innovation Days in Avignon and Tisselt. In 2017, over 120 customers gathered there to share ideas on how Etex can innovate in line with their needs.

Employees

Our local companies have communication channels and employee representation structures in place to keep our employees up to date and ensure two-way information flows.

At group level, we get in touch with our employees through our intranet platform espresso and our printed magazine Etex World. The magazine is translated into 12 different languages to inform our 14,510 employees in 42 countries.

Senior leaders

To align on our strategic approach, goals and priorities, Etex's senior managers from around the globe gather once a year and hold regular online meetings. This enables them to cascade important messages to their teams and throughout the organisation.

Local communities

We are confident that our local companies are best equipped to communicate openly with the communities in which they are present. We strive to empower them in organising charitable actions and fundraisers, projects to improve housing and working conditions and scholarship initiatives, to name a few.

In addition, Etex is an official partner of Selavip, an international NGO that supports housing projects for the poor in Africa, Asia and Latin America.

The media

Local press contacts are kept informed by our companies in the field. Belgian journalists receive information from Etex's corporate communication team.

Corporate communication of global proportions

To keep all our stakeholders informed on the latest news about Etex and its worldwide companies, we regularly update our corporate website at www.etexgroup.com.

There is ample time for questions and feedback during meetings and events, and via info@etexgroup.com.

Our three-pillar agenda

Our promise is to do more than simply produce and sell building materials. We endeavour to provide innovative, smart, sustainable and accessible products that are aesthetically and technically superior. This is how we can inspire ways of living and contribute to building a better, safer and more sustainable world.

← The world's structural landscape is changing shape to meet societies' demands for digitally driven, sustainable and socially responsible solutions.

Adapting to a rapidly changing world

Our world is going through rapid and disruptive changes that challenge the slow nature of the construction industry: increased urbanisation, digitisation, greater need for sustainable materials and a growing sense of shared global responsibility.

To seize upon these changes as opportunities and galvanise our business in smart and sustainable ways, we rely on our three-pillar agenda. This provides clear targets to ensure that we effectively adapt to the changing world.

Profitable growth: be intimate with the marketplace and our customers, innovating according to their needs to drive success.

Operational excellence: foster a culture of continuous improvement, enhance our ways of working and pledge to keep safety top of mind in everything we do.

Engaged people: enable employees to strengthen and develop their expertise and create inspiring leaders to help drive engagement.

To reach that level of performance, we look to our values: Passion for Excellence, Connect and Care and Pioneer to Lead. Our values and their associated behaviours enable our employees to align with our three-pillar agenda to achieve success.

Profitable growth

Capitalising on the global structure introduced in 2016, our divisions target well-defined business segments to capture growth pockets and meet specific challenges.

In 2017, we integrated our Latin America business into this structure. Consequently, we sold Chilean brick company Industrias Princesa, whose activities fall outside our core business.

From producing building materials to providing building solutions

To grow our business, we have an expanding merger and acquisition radar in place. In 2017, this was evident in our acquisition of Spanish plasterboard company Pladur.

Furthermore, thanks to increased market intimacy, we aim to bring value-driven propositions to market. Our joint venture for the production of composite wood panels with Chilean company Arauco is a significant first step in this direction. We also launched affordable housing initiatives in Nigeria and Peru.

An innovation-forward approach

In 2017, our innovation and technical expertise increased margins slightly more than associated overheads. We also developed a substantial pipeline of new products and solutions.

A complete review of our innovation processes and metrics enables our three Innovation and Technology Centres (ITCs) to collaborate more closely without boundaries. The ITC organisations also ensure that innovation activities are developed alongside the business.

To maintain close relationships with customers, these centres host open innovation days. Customers visit our centres, see and test new products and give their all-important feedback. This ensures we remain competitive and that our efforts target market and customer needs.

Operational excellence

Streamlined footprint

Increasing productivity and improving existing equipment and machinery at our plants is crucial. Prior investments made in 2015 and 2016 supported growth throughout 2017 without major capital expenditure. In addition, enhanced communication and collaboration between our engineering, operations and purchasing organisations has led to more effective project management in terms of timing, cost and deliverables.

Furthermore, our new Cedral line for fibre cement siding in Lithuania is fully operational. We also made smaller, targeted investments, building capacity to meet market needs more quickly. In total, 11 major projects will come online in 2018.

In Germany, we reassessed and consolidated our production footprint. We closed our facility in Heidelberg. We also sold our clay façade panel factory in Weroth, which is outside our portfolio scope.

Buy for best value

The integrated purchasing organisation set up in 2016 paid off in 2017. Harnessing the group's purchasing power, we continue to take advantage of the many opportunities to increase overall cost savings across the business to deliver benefits to all our local companies. We will continue to build upon this approach in 2018 as we seek not just to buy better, but also to spend smarter in terms of total cost of ownership.

Enhanced shared services

As they are further integrated across our activities, our shared services centres continue to enhance transactional support to the business. By introducing more automated and end-to-end processes, these centres are on course to further reduce costs, engage teams and improve customer satisfaction.

BIM for better buildings

We made headway integrating Building Information Management (BIM) technology into our projects. Using BIM helps boost demand for our products, increase efficiency and promote collaboration with customers. We aim to become an industry leader in using this digital tool.

← Our industrial facilities are always striving to do more with less. We continue to invest in increasing productivity and improving existing equipment and machinery at our plants.

Step-by-step transformation

In continuing to embrace digital transformation, we made progress toward moving our entire IT infrastructure to a cloud-based platform. Our IT teams also completed the first-phase rollout of Office 365 to all users. Not only has this put users on a common platform, it has created an active digital support community.

Even more, various newly launched website and mobile applications engage customers and provide detailed metrics to our sales and marketing teams. Shared internal platforms and applications powered by common content ensure that our local sales teams always have up-to-date and relevant content at their fingertips.

Finance and tax

Financial operations are managed on company, division and corporate level. This set-up partners Etex's corporate structure with our divisions to provide streamlined, relevant and up-to-date financial insights that support our three-pillar agenda.

We also aligned our finance and tax processes with Etex's global divisional structure. To combine profitable growth with a transparent role as a responsible corporate citizen, the key principles governing our global tax strategy are:

- well-defined policies for tax risk management;
- thorough risk assessments before entering any tax planning strategy;
- full compliance with all statutory obligations;
- good relations with tax authorities.

We proactively manage our tax affairs and seek to maximise shareholder value in accordance with applicable law.

A new legal community

Throughout 2017, we built a robust legal organisation for greater visibility into compliance and risk assessment. We adopted a group-wide anti-bribery and corruption policy and put dedicated resources into place to ensure Etex is compliant with the General Data Protection Regulation by May 2018.

→ In 2017, we increased our focus to improve safe behaviour through accountable leadership by training 6,000 employees in SafeStart and by training all managers to deliver quality safety conversations.

Engaged people

Passion for Excellence, Connect and Care and Pioneer to Lead: our three values are becoming ever more visible across our company. Our values act as guiding principles across the organisation. We are starting to see strong alignment on finding common value that supports our objective to build one Etex culture.

Creating a workplace that challenges and engages employees is how we help them develop their potential and achieve success. We look to our leaders to drive breakthrough performance and create strong and enthusiastic teams with a competitive edge. Developing their leadership skills and talent remains an important focal point for the future.

Safety is key

Every single employee should go home safely at the end of each day. Our zero accident target is testament to this commitment. To further this pledge, this year, we put a particular focus on improving behavioural safety. A range of safety initiatives and programmes remain high on our safety agenda, reinforced by our three-pronged safety strategy for safe machines, procedures and behaviours.

About Etex

Since its establishment in Belgium in 1905, Etex has grown from a family business into an international industrial company that manufactures and sells building materials and solutions worldwide. These are used in diverse projects: from large buildings to small houses, from modern apartments to historic structures, from small city compounds to countryside shelters. With our portfolio, we strive to provide affordable, sustainable, comfortable and beautiful living spaces that contribute to a better world.

Our history

The Etex story is one of geographic expansion combined with product and technology diversification. Over the past 100+ years, we expanded our footprint from Europe to Latin America, followed by Africa and Asia. Throughout our history, we have strengthened our business with acquisitions and investments.

Our assets

Etex is 14,510 employees strong and operates 113 factories in 42 countries. We rely on our people to achieve a high level of customer and local market intimacy. They are backed by our global businesses that target well-defined market segments to cater to the needs of architects, homeowners, installers, distributors and our local communities. We also receive strong support from our shareholders. They place their trust in Etex's governance structure, enabling us to make long-term decisions.

Our core businesses

Each of Etex's four global businesses has a clear ambition:

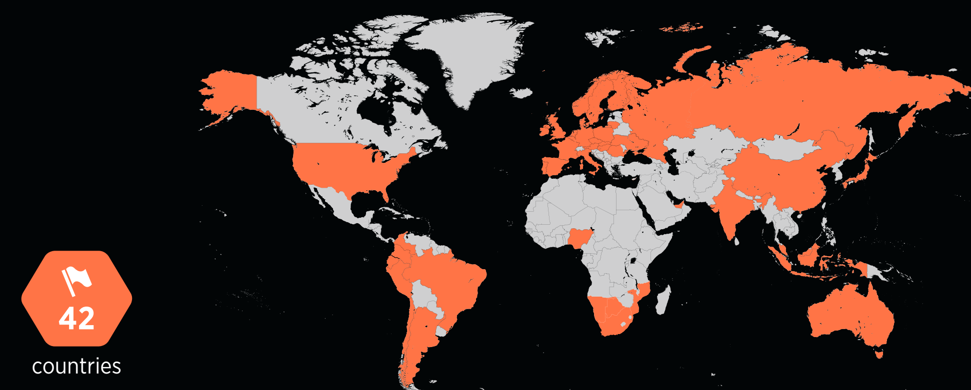
- Etex Building Performance will utilise its expertise in plasterboards, fibre cement boards and fire protection to strengthen its position as a global reference in dry construction.
- Etex Façade aims to continue its growth in architectural and residential façade materials by further enhancing the durability and aesthetic appeal of its products.
- Etex Industry is driven by science, technology and engineering to take its products and systems for high-performance thermal insulation and fire protection to the next level.
- Etex Roofing will leverage its expertise in fully-fledged products and systems for agricultural and residential roofing to pioneer the technologies of the roofing industry's future.

↑ Etex was founded over a century ago on the use of innovative fibre cement technology. Today, the material remains a relevant part of our portfolio. These moulded fibre cement sheets produced at our Skinco factory in Manizales, Colombia, are part of our newly branded Proteja range.

Our three-pillar agenda

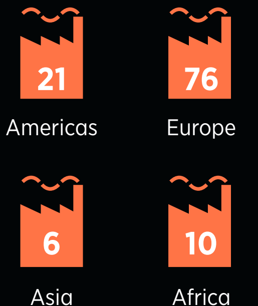
To secure our future success, Etex centres its efforts on three priorities: achieving profitable growth, enhancing our operational performance and empowering our people.

Worldwide network with locally anchored presence



42 countries

Strong manufacturing footprint



Family owned Belgian group

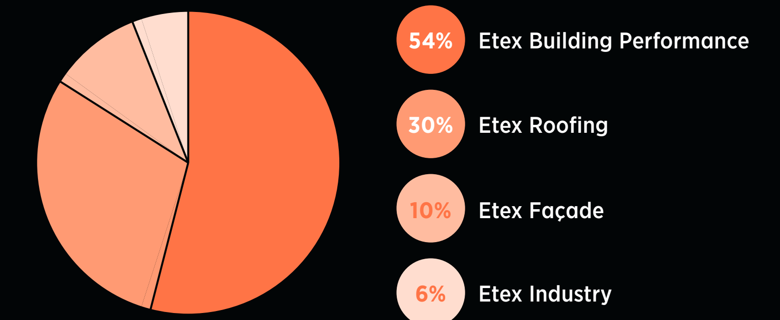
Business savvy CEO

Paul Van Oyen

Major employer

× 14,510

Four global businesses

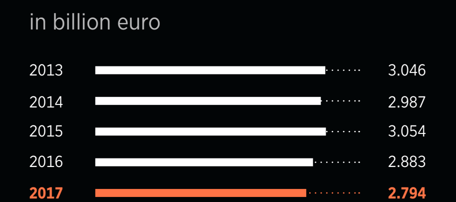


An excellent track record

- **1905** Founded in Belgium.
- **1905-1950** Geographic expansion across Europe followed by Latin America (1937), Africa (1949) and Asia (1950).
- **1951-1988** Product and technological diversification.
- **2002** Banned the use of asbestos in production processes worldwide.
- **2003** Split from sister company Aliaxis. Etex retained all building material activities. Aliaxis took over activities in plastics.
- **2013** Acquired gypsum plasterboard business from Lafarge.
- **2016**
  - Introduced global division structure targeting well-defined business segments.
  - Divested Latin America ceramics business to Mexican company Lamosa.
  - Launched three Etex values: Passion for Excellence, Connect and Care and Pioneer to Lead.
  - Launched behavioural safety programme SafeStart.
- **2017**
  - Acquired Spanish plasterboard company Pladur.
  - Entered into joint venture for the production of composite wood panels with Chilean company Arauco.

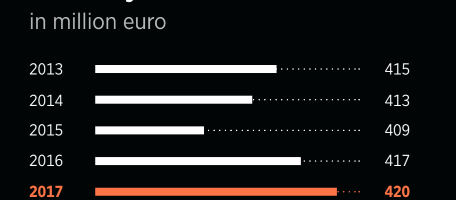
Solid revenue

in billion euro



Healthy rebitda

in million euro



Safety is key

frequency rate of accidents

Megatrends

How four megatrends are reshaping the construction industry

1 —

Rapid urbanisation

An increasing number of people are moving to live and work in urban areas. People want affordable, quality housing and the accompanying infrastructure that supports their way of life. Ageing cities in developed countries are strained by the higher population density and need upgrades. Energy-efficient, space-saving and sustainable materials are needed to assure that old buildings can cope with modern requirements. Meanwhile, emerging countries cannot build fast enough to keep up with demand. They turn towards dry construction, modular and prefabricated building solutions that are quick and easy to construct and meet the surging demand at an affordable expense.

2 —

Climate change and resource scarcity

Human activity is depleting our planet's resources at an alarming rate. The construction industry is the number one global consumer of raw materials. In addition, buildings are responsible for 30% of global greenhouse gases. Significant changes in the way we work are crucial to curb our drain on resources and reduce emissions. Construction projects should consider a building's complete life cycle—not just building costs. More efficient use and recycling of raw materials must evolve towards cradle-to-cradle solutions. Industrial processes must be optimised to ensure lean production.

3 —

Disruptive technology

Disruptive technology is changing the way businesses operate in industries across the globe. In the world of construction, they are driving process innovation to reshape how buildings are designed and constructed. One example is BIM, short for building information modelling. This technology facilitates collaboration throughout the building cycle from conception to demolition.

Furthermore, automation and robotics will speed up production and enhance quality assurance. While innovation will build smart cities where energy is harnessed through solar panels and conserved via high-performance insulation materials.

4 —

Sharing global responsibility

Social responsibility is high on the agenda worldwide. Companies must demonstrate they are committed to responsible, safe and sustainable business practices. They must also recognise the effect these have on their employees, customers and the communities in which they operate. Success is measured not just by profit but by making a positive and lasting impact. A company that acts responsibly and transparently is one that is preferred and trusted by its stakeholders and will assure a stable future.

ACTIVITY REPORT

Building on from a strong foundation

2.1 A general overview of our worldwide results

2.2 Etex Building Performance

2.3 Etex Façade

2.4 Etex Industry

2.5 Etex Roofing

A general overview of our worldwide results

Etex sales grew 4.5% in 2017 to 2.794 million euro on a like-for-like basis. Including unfavourable exchange rates and scope changes, this translates into a 2.1% increase of our sales as per the published income statement.

In Europe, growth was strongest in the United Kingdom, France, Poland and Spain. The German market remained weak, specifically affecting our roofing business.

In Latin America, Argentina and Peru were growth drivers, as was Brazil, which started to recover in 2017 despite the continued challenging economic and political circumstances. Sales in Chile and Colombia declined slightly.

Performance in Africa is mainly driven by our Nigerian business, which continues to grow. This was partially offset by the depressed economy in South Africa.

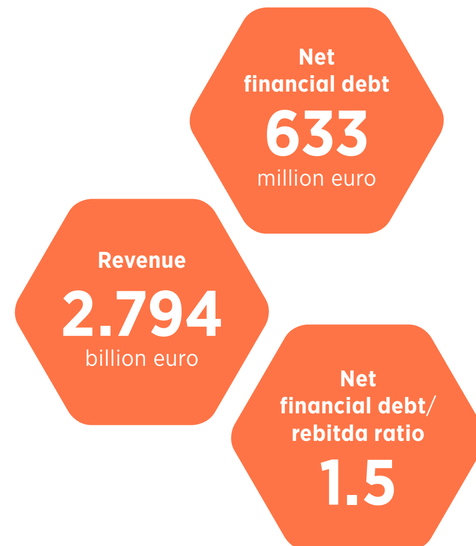
Our rebitda in 2017 amounts to 420 million euro, a like-for-like increase of 7.8% driven by top-line growth and improved manufacturing performance.

At the end of December 2017, Etex's net financial debt was stable at 633 million euro, compared to 630 million euro at the end of 2016. This includes the impact of the acquisition of leading Spanish plasterboard company and well-known brand Pladur, which was finalised in December 2017.

These figures contain the favourable effect of the non-recourse factoring programme that was set up in 2015, and which amounted to 167 million euro at the end of 2017 (154 million euro at the end of 2016). Without this programme, the net financial debt would have been 800 million euro (784 million euro at the end of 2016). Etex continued to lower its net financial debt/rebitda ratio, which fell from 1.6 in 2016 to 1.5 in 2017. Excluding the favourable impact of the non-recourse factoring programme, this ratio would have remained stable at 1.9.

Changes in the scope of consolidation

At the end of December 2017, Etex increased its ownership in the company Pladur, the leading plasterboard brand in Spain and Portugal, from 40.69% to 100%. The company was previously recognised in the consolidated balance sheet as an equity-accounted investee and is now fully consolidated, with income statement contribution from 2018.



Etex disposed of two non-core businesses in 2017. In September, we sold Industrias Princesa, a Chilean bricks and brick veneers manufacturer. In December, we sold German clay façade business Tonality and its Weroth facility to a private investor.

Income statement

Etex's profit after taxes further increased in 2017 to 153 million euro compared to 130 million euro in 2016.

Etex Building Performance

In 2017, our worldwide Etex Building Performance activities progressed in all regions. In Europe, the division recorded growth in all countries, specifically in the United Kingdom, central and eastern Europe, France and Germany.

In Latin America, the division realised growth mainly in Argentina and Peru. Performance in Brazil has stabilised and returned to a pattern of modest growth. Colombia and Chile suffered from harsher market conditions.

In Africa, our performance in Nigeria remained strong. In South Africa, there was no notable decrease in activity despite the weak economic environment.

Overall, Etex Building Performance, Etex's largest division, generated sales of 1.526 billion euro, compared to 1.449 billion euro in 2016. This corresponds to like-for-like growth of 7.4%.

Etex Roofing

Sales for Etex Roofing were impacted by the severe downturn of the German roofing market. In 2017, Etex continued the transformation started in 2016 and further restructured its roofing footprint, mainly in Germany.

Our roofing activities continued to perform well in the United Kingdom. This was supported by our continued growth strategy for roofing components. We recorded growth in Spain and the Netherlands, specifically in agricultural markets, and in Ireland, southern and eastern Europe. Outside Europe, the division performed particularly well in the corrugated sheets business in Peru and in Nigeria.

Group-wide sales in the Etex Roofing division amounted to 836 million euro versus 885 million euro in 2016. This corresponds to a like-for-like decrease of 1.9%.

Etex Façade

The Etex Façade division continued to grow in 2017. Overall sales reached 267 million euro, compared to 245 million euro in 2016. This corresponds to like-for-like growth of 9.7%. The division's Equitone brand is driving growth throughout all regions.

Etex Industry

With generated sales of 164 million euro in 2017, Etex Industry grew by 8.5% on a like-for-like basis. The division performed strongly in the oil and gas and original equipment manufacturing (OEM) segments, and was able to compensate for the decrease in energy-related projects.

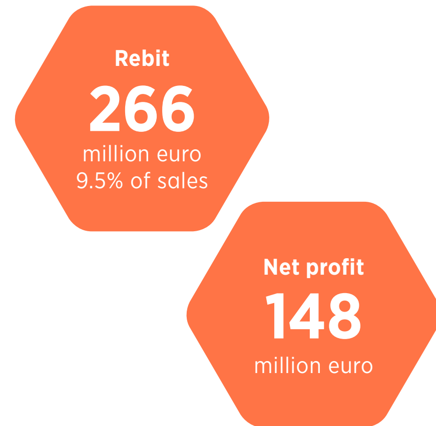
Total Etex sales came in at 2.794 billion euro.

This includes the impact of unfavourable exchange rates, decreasing our sales figures by around 49 million euro. This impact was offset by organic growth, which represented an increase of around 122 million euro. On a like-for-like basis, our revenue went up by 4.5%.

The gross profit on sales ratio amounts to 30.8%, compared to 29.9% in 2016. The total **gross profit** amounts to 862 million euro.

The overhead on sales ratio amounted to 21.5% versus 21.0% the previous year.

The operating income before non-recurring items (rebit) totalled 266 million euro, representing 9.5% of sales. In 2016, rebit amounted to 256 million euro or 8.9% of sales.



Net non recurring items accounted for 3 million euro, generating an operating income (ebit) of 269 million euro, compared to 237 million euro in 2016.

The group's net profit (group share) thus increased from 127 million euro to 148 million euro.

The recurring group net profit increased from 135 million euro to 141 million euro.

The group's net financial debt amounted to 633 million euro, compared to 630 million euro the year before. The evolution of the net debt was impacted by the acquisition of Pladur. This net debt also includes the positive effect of a non-recourse factoring programme set up in 2015, which amounted to 167 million euro at the end of 2017 (from 154 million euro in 2016). Without this non-recourse factoring programme, the net debt would have been 800 million euro, an increase of 16 million euro. The 400-million-euro retail bond due for redemption was reimbursed in March 2017, and was already refinanced in 2016 through a 300-million-euro Schuldschein loan.

Consolidated statement of financial position (balance sheet)

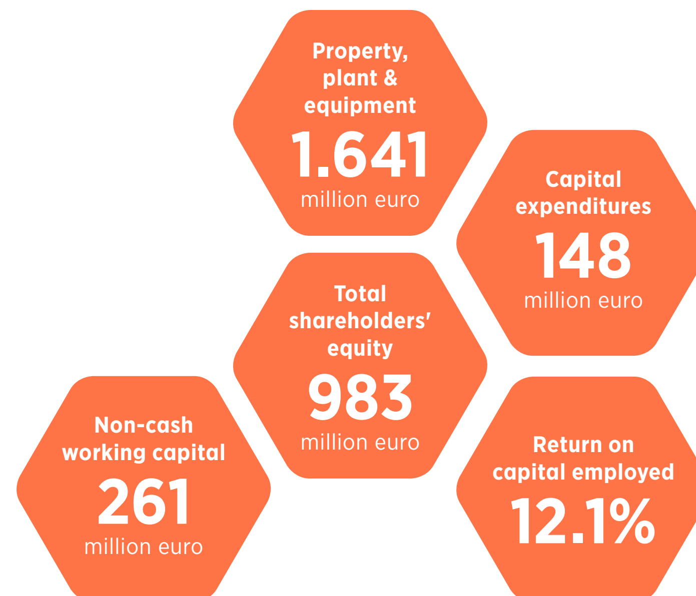
The value of Etex's property, plants, and equipment increased slightly to 1.641 million euro, versus 1.581 million euro in 2016. Capital expenditures (including intangible assets) reached 148 million euro, compared to a recurring depreciation of 154 million euro.

The increase in property, plants, and equipment is mainly explained by the Pladur acquisition.

This is also the reason for the net increase of goodwill and intangible assets, which amounted to 412 million euro after regular amortisation, compared to 397 million euro at the end of the prior year.

In nominal terms, our non-cash working capital increased from 249 million euro in 2016 to 261 million euro in 2017. This excludes the favourable impact of the non-recourse factoring programme (167 million euro). Our actual return on capital employed went from 10.1% to 12.1%. Excluding the impact of non-recurring items, the recurring return on capital employed would have increased to 11.9% in 2017, compared to 10.9% in 2016.

The total shareholders' equity was 983 million euro, an increase of 123 million euro. In contrast to 2016, the impact of employee liabilities was positive in 2017. This is due to a change in actuarial assumptions, offset by negative translation differences and the impact of a capital reduction paid in December 2017 to the shareholders of the parent company Etex. Other factors impacting shareholders' equity include the dividend payment in July 2017 and the year profit of 148 million euro (attributable to Etex shareholders).



Risk profile

Etex is exposed to the normal range of general business risks. We take measures to cover these risks through insurance and internal policies. Fully operational since 2011, our internal audit department reviews our companies over a three-year cycle.

Typical risks include third-party and product liability, property damage, business interruption, employer's liability and in certain instances, credit risk.

Etex is active around the world. As such, the group is exposed to the impact of currency fluctuations on revenues, costs, assets and liabilities arising outside the Eurozone. In 2017, we continued to follow our well-thought-out policies for addressing these risks.

Demand for building materials is mainly driven by growing populations and increasing prosperity. Changing macroeconomic parameters are another important factor and include GDP growth, public spending, interest rates and government policies.

We achieve risk diversification through our geographic spread and diverse portfolio. An additional element contributing to this diversity is Etex's broad involvement in residential, commercial, and industrial building, as well as renovation and new housing developments.

Etex uses a variety of raw materials to manufacture its products. Cement, for instance, is a key ingredient. It is usually broadly available from several suppliers. Furthermore, the fibres we use to reinforce some of our products are sourced from a limited number of Japanese and Chinese companies. Etex has built long-term relationships and contracts with each of these businesses. For natural resources such as clay and gypsum, we either own raw material supplies or we secure them by means of long-term contracts.

Our energy costs are significant. This is true for the production of specific products as much as for the manufacture of raw materials we receive from our suppliers. That is why we constantly review measures to reduce our energy consumption.

In the past, some Etex companies regrettably used asbestos as a raw material. These businesses are exposed to claims from people having developed asbestos-related diseases. We are committed to ensuring fair compensation for those suffering from an illness caused by our former use of asbestos. The compensation costs are covered by state social security schemes, insurance companies and our own resources. Given the long latency of some of these diseases, we will remain exposed to this risk in the medium term.

Subsequent events

On 28 March 2018, the group entered into an asset-backed contribution scheme (ABC) with regards to pensions funds for Eternit and Marley UK (the Plans) for an aggregate amount of 82 million GBP. The backed contribution will be recognised as a commitment in the Etex consolidated financial statement, since it cannot be recognised as part of the Plans' asset plan in accordance with IAS 19, the contributions will be made progressively over the coming years.

Prospects for 2018

After two years of growth in revenue (+3% like-for-like on average), rebitda (+8% like-for-like on average), and net recurring profit (+6% on average), we expect a third year of growth in sales, rebitda and net recurring profit in 2018.

The European construction markets should continue to rebound progressively, more specifically in France, the Benelux and central Europe. The United Kingdom may experience slower growth than previous years due to developments surrounding Brexit.

Growth is expected to continue in the Latin American countries where we operate with some uncertainties in Chile.

In addition to these like-for-like evolutions, in 2018, Etex will benefit from the full acquisition of Spanish plasterboard company Pladur and its strong brand.

Etex Building Performance

A worldwide reference for plasterboards, fibre cement boards and fire protection products and systems, Etex Building Performance is the largest of Etex's divisions. Combining its knowhow and technical expertise in these fields, the division also offers an extensive dry construction portfolio. Etex Building Performance posted sales of 1.526 billion euro in 2017 compared to 1.449 billion euro the year before.

A unique blend of expertise

Etex Building Performance develops a broad portfolio in three key areas:

- plasterboards and fibre cement boards for internal and external applications;
- passive fire protection systems;
- dry construction systems.

The division holds the number three market position in Europe in plasterboards and the number one position in fibre cement boards. It is one of the leading players in Latin America.

Plaster- and fibre cement boards

Sold under the brand name Siniat and now also Pladur (since December 2017) in Europe, and Durlock, Gyplac, Gypsum Drywall and Romeral in Latin America, our plaster- and fibre cement boards are known for their acoustic performance, structural strength and humidity resistance. They are used in a range of applications such as partitions, ceilings and floating floors.

Fire protection

Branded under Promat, our fire protection products and systems enjoy a strong market presence, with varying positions in niche segments where they are active. These materials are used to safeguard the critical structures of a building to add time for evacuation in the event of a fire. They are mainly applied in non-residential buildings, from hospitals and schools to airports and tunnels.

Dry construction

A leader in dry construction methods, our expertise combines interior building boards and exterior cladding boards on steel or timber frames to develop prefabricated and modular buildings. This leads to faster, lighter and more cost-effective methods over those that use concrete or other wet trades.

↓ The Moreira Salles Institute building in São Paulo is a cultural space used for photography exhibitions. Around 10,000 m² of Gypsum Drywall products and systems were used for the interior walls and ceilings.

Strengthening our success factors

In 2017, we expanded capacity, increased internal synergies and evolved in innovation and digital. These measures are crucial to ensuring our competitiveness.

Geographic footprint and capacity

Adding to our market coverage in Europe, we acquired full control of Pladur, a major Spanish manufacturer of gypsum products. The transaction enables us to utilise Pladur's strong brand name, local production, quarries and export activities.

Furthermore, in 2018, we will expand our capacity in Tisselt (Belgium) by building a new filter press line.

Planned investment to increase capacity will resolve the sporadic supply delivery issues we faced in 2017.

Internal synergies

We integrated our Promat and Siniat offerings in most European markets. Working with aligned sales organisations and customer relationship management systems, these companies deliver optimised single-sourced solutions to market.

Innovative and digital

Regrouped under our three Innovation and Technology Centres set up in 2017, innovation remained a main growth engine for the division.

We rolled out individual innovation plans at local companies. This resulted in 110 new products and systems in 2017. Our innovation ratio—the percentage of sales generated by products under five years old—was up by 20%.

To highlight just two innovations:

- SolidTex—successfully launched in Italy, this board with enhanced structural stability will be introduced to other European markets.
- SecureTex—this new board was the result of one of our open innovation days with customers in Avignon coupled with insights from a technology benchmark.

Furthermore, we outlined a digital roadmap. Integrating BIM technology is one success story that illustrates how we digitise our offering. Short for Building Information Management, BIM puts every element of the building process into a virtual 3D model. Some of our companies have achieved a leading position in the use of BIM technology on projects.

+20%

In 2017, our innovation ratio went up by 20%. This ratio is the percentage of sales generated by products under five years old.

Going steady in Europe

In Europe, 2017 marked a year of sustainable growth for Etex Building Performance.

Strong performance in top three markets

In the **United Kingdom**, our sales figures went up greatly. We still enjoy the success of a thriving market where we hold a strong position in commercial building.

Our business in **France** recorded growth and gained market share in 2017. The French construction industry is picking up, and we are ready to capitalise on this uplift in the coming years.

The market in **Germany** also recovered. We restored our market share for plaster- and fibre cement boards, and grew our passive fire protection business. The main drivers were the strong economy and a rising need for housing.

Targeting growth in the Benelux

The market in **the Netherlands** was on the rise in 2017. This resulted in a big sales increase for our business in the country. To boost our performance in **Belgium**'s relatively stable construction market, we are streamlining our commercial organisation.

Moving forward in eastern Europe

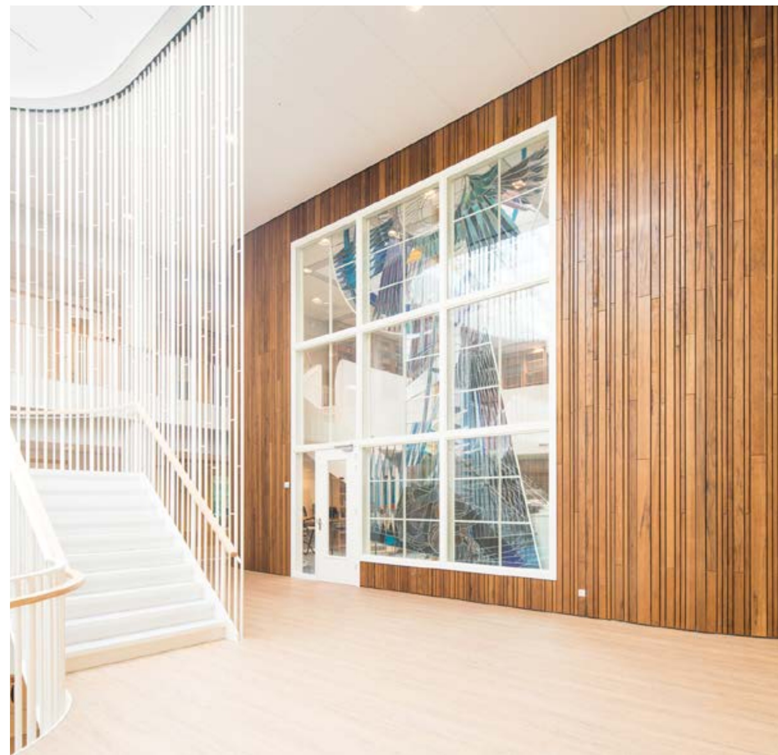
In **Poland**, we profited from favourable market conditions and a strong commercial approach recording solid growth.

Our export business from **Romania** to countries such as **Greece**, **Montenegro**, **Serbia**, **Croatia**, **Bosnia and Herzegovina**, **Slovenia and Macedonia**, did very well. We also capitalised on earlier workforce-related investments in the region.

Despite adverse economic and political conditions, our sales increased in **Ukraine**, particularly in the second half of 2017.

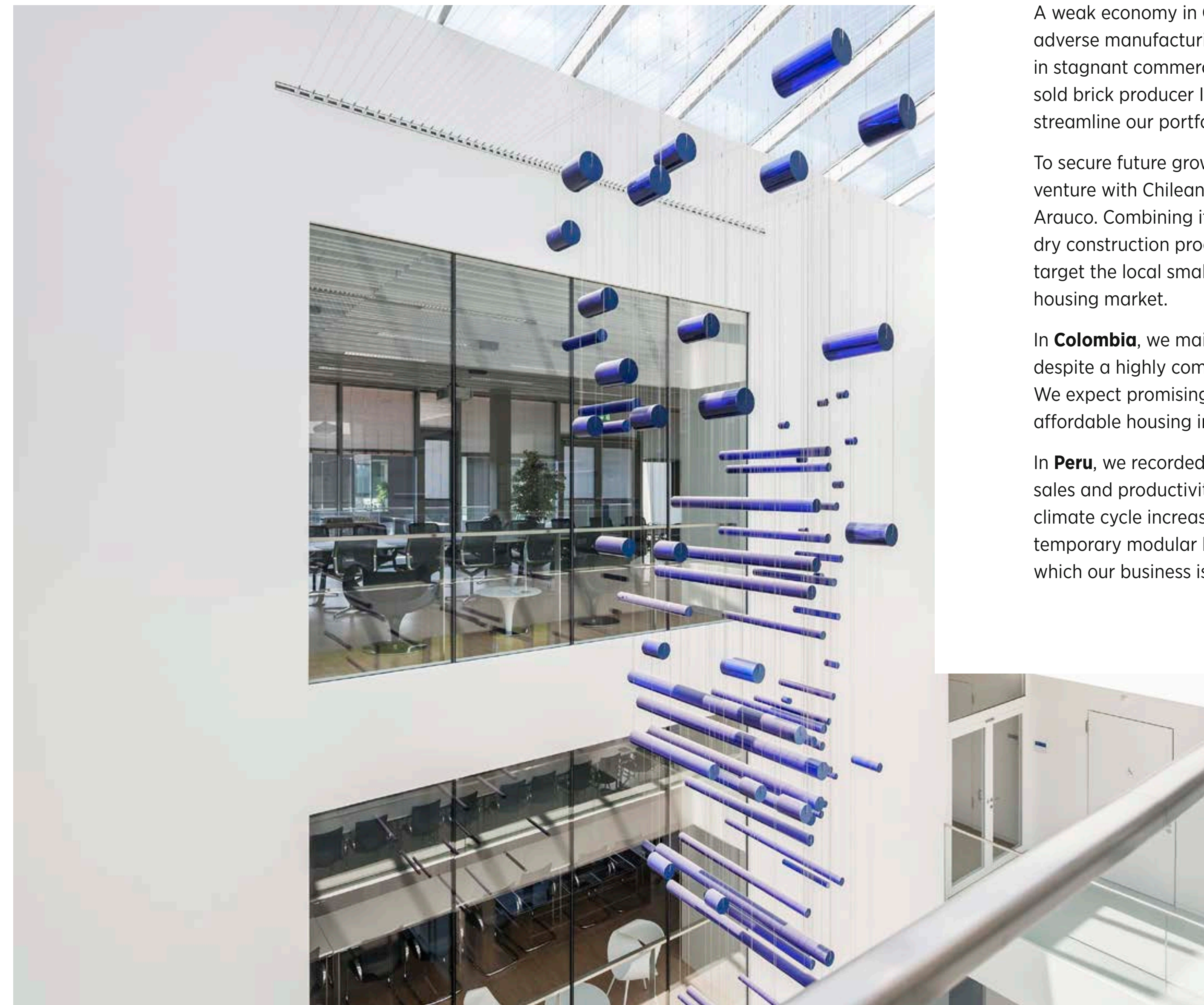
A good year in Scandinavia

Our business in the Nordic region recorded slight overall growth. To expand our local footprint, we acquired Silicon Trading—a Sweden-based original equipment manufacturer in the fireproofing segment.



↑ Siniat products were an ideal solution to accommodate the Revius Lyceum's new school building's curved interior walls while also providing fire protection, impact resistance and sound insulation.

→ Our dry construction Moduplak kits provide an easy to construct solution for rural housing. The houses are built using wooden or steel frames and finished with corrugated sheet roofs.



→ The TUM Catalysis Research Center in Munich used Promat glass for fall and fire protection to create the bespoke design of the building's interior atrium.

On the rise in Latin America

Despite the political and economic uncertainty in some markets, Etex Building Performance grew considerably in Latin America.

In **Argentina**, we recorded one of our highest growth rates to date thanks to better commercial performance. A new fibre cement production line will open in 2018 to accommodate further growth.

Although **Brazil**'s construction sector declined in 2017, we increased our plasterboard sales and boosted our results through a comprehensive commercial approach, reduced overhead costs and lean operations.

A weak economy in **Chile** coupled with adverse manufacturing variances resulted in stagnant commercial performance. We sold brick producer Industrias Princesa to streamline our portfolio.

To secure future growth, we sealed a joint venture with Chilean wood frame expert Arauco. Combining its offering with our dry construction products, we can aptly target the local small to medium-sized housing market.

In **Colombia**, we maintained our position despite a highly competitive environment. We expect promising results from our affordable housing initiative piloted in 2017.

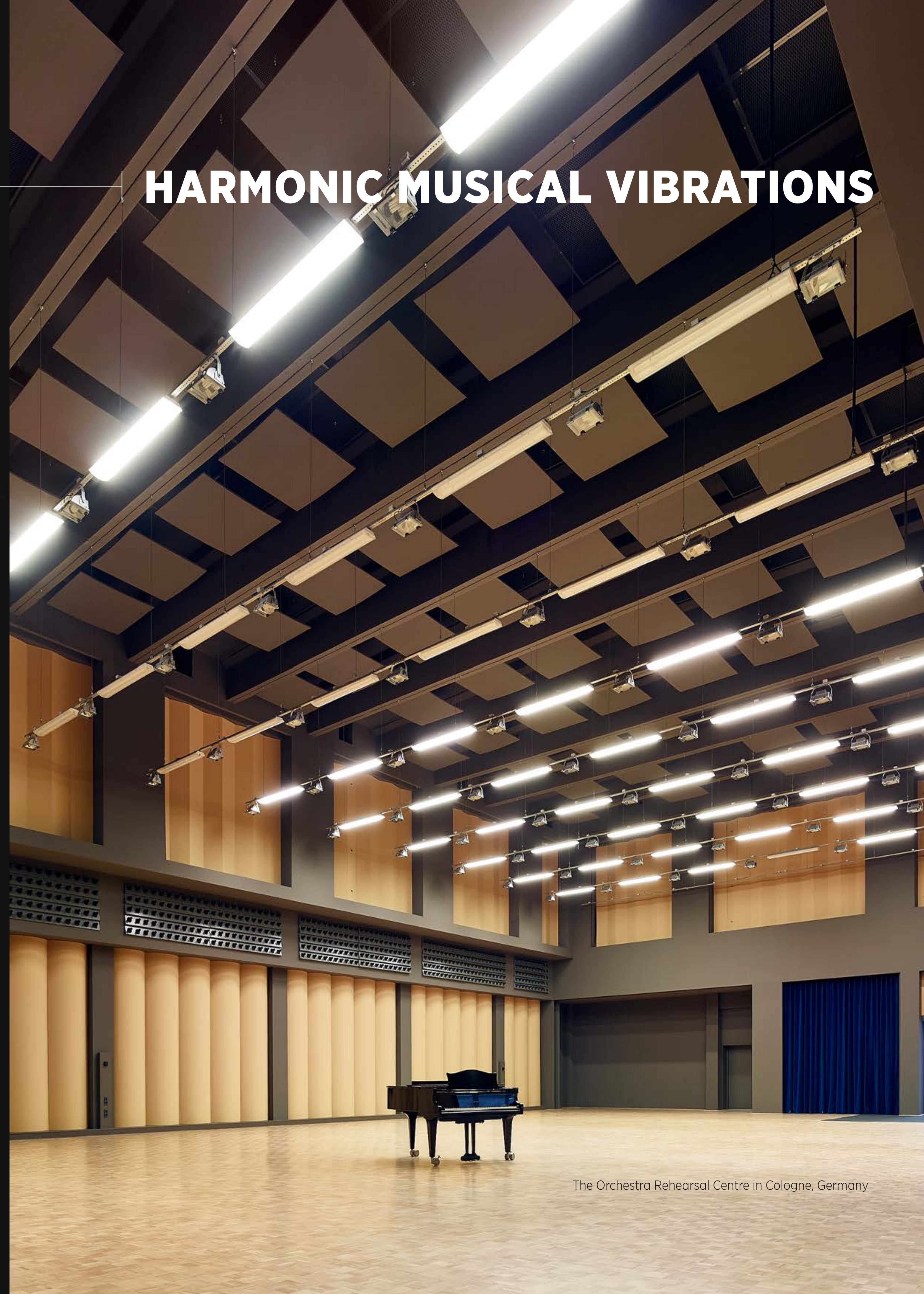
In **Peru**, we recorded a sharp increase in sales and productivity. The local El Niño climate cycle increased the need for temporary modular housing materials, which our business is poised to supply.

INSPIRING HARMONIC MUSICAL VIBRATIONS

Gypsum

"A room that resonates and emphasises vivid, beautiful music is a complex feat of acoustic and architectural engineering. Thanks to Etex Building Performance's Siniat prefab design elements (half shells) and gypsum ceiling canopies, musicians at the Orchestra Rehearsal Centre in Cologne are guaranteed the perfect sound experience at every rehearsal."

— Frank Eickelpoth, Technical Sales Consultant, Siniat Germany



The Orchestra Rehearsal Centre in Cologne, Germany

Preparing for tomorrow in Africa

Etex Building Performance faced adverse market conditions in Africa. Concrete plans are in place to gain market share and enhance our local operations.

In **Nigeria**, the economic recession continued. Still, we boosted our sales thanks to a new and effective route-to-market strategy with reinforced sales teams in combination with product portfolio innovation. The earlier optimisation of our industrial network brought us profitability gain.

In **South Africa**, the country's economic and political instability endured. We aim to recover profitability through a series of cost-reducing measures. We will also develop new products for select market segments, redesign our route-to-market and optimise our distribution.

↑ Our Aquaboard gypsum-based panels were widely used in the construction of the Bacau Airport in Romania.

↓ The Hong Kong-Zuhai-Macau Bridge (HZMB) and tunnel system is one of the world's longest undersea vehicular tunnels. A substantial number of Promat solutions have been used to construct this challenging civil engineering project making it one of the largest fire-resistant board construction jobs for the Promat tunnel segment business worldwide.

Varying results in Asia Pacific

In the Asia Pacific region, our biggest markets are Australia, China, Hong Kong, Indonesia and Singapore. Our results for 2017 vary in line with local economic conditions.

The high-rise residential market in **Australia** is gradually slowing down. While sales for our fire protection products and systems did well, our goal is to safeguard our position in the fireproofing market through product innovations.

In **China**, heightened local competition impacted our sales in 2017. We finalised the closure of our production facility in Shanghai.

In **Hong Kong**, government administration is stagnating the local construction market. The outlook remains positive, as we expect public spending on infrastructure to continue.

Our business faced increased competition in a weakening economy and construction market in **Singapore**. Developing new products and systems will prove crucial in safeguarding our market share.

In **Indonesia**, we increased our domestic sales and exports to nearby markets such as **India, Malaysia, Myanmar, the Philippines, Taiwan** and **Vietnam**. Our new fibre cement factory in Karawang doubled volume output and will operate at full speed in 2018. Despite tough competition, growth prospects are promising.

Etex Façade

With the vision of leading the global façade market by providing beautiful and durable materials, Etex Façade targets two main market segments - architectural façades via architects and residential façades via homeowners. The division offers a unique range of fibre cement façade materials, from large panels to sidings that are available in a variety of textures, colours and styles. In 2017, Etex Façade generated sales of 267 million euro in 2017 versus 245 million euro the year before.

→ This family home in Belgium created a standout design using Equitone [tectiva] façade panels across the exterior facade.

Architectural façade

Equitone is our main brand on the global architectural façade market. We work with and for architects to design smart and resilient façade materials with reduced environmental impact. Each of our materials has its own natural character that shows the raw, untreated texture of the fibre cement base material. Main applications are in public and commercial mid- to large-sized buildings.

Residential façade

Cedral is our main brand in Europe for residential façades, offering a portfolio of fibre cement sidings. Outside Europe, Etex Façade is also developing its sidings activities in Chile and other Latin American countries. Fibre cement sidings are used in the renovation and new construction of single family homes and apartments. Durable and low-maintenance, they are a compelling alternative to wood and plastic.

Growth in architectural façade markets

Propelled by our Equitone brand, Etex's architectural façade business is primarily active in western Europe and central and eastern Europe. We also have a presence in selected international markets across Latin America, North America and Asia Pacific.

On the rise in Europe

Across the European continent, Etex Façade achieved overall growth in 2017.

In the **United Kingdom**, Equitone continued to grow. The recovering economy and construction industry in **France** supported our sales performance. In **Germany**, the market had a challenging start, but recovered well in the second half of 2017.

INSPIRING

ENGAGED AND OPEN LEARNING

Cellulose fibres

"The Central Auditorium for Research and Learning (C.A.R.L.) in Aachen is one of Europe's largest research centres. For the external façade, Architect Schmidt-Hammer-Lassen used two colours of Etex Façade's Equitone [natura] fibre cement façade panels.
A darker colour clads the introverted auditoriums to contrast with the lighter coloured panels used for the dynamic open social areas that connect them. To complete this hub for learning and knowledge sharing with a modern and stylish look, the external façade is accented with coloured deposited joints."

— Carsten Neise, Sales Manager, Eternit Germany

Central Auditorium for Research and Learning (C.A.R.L.) in Aachen, Germany

Fortifying our footprint outside Europe

Outside of Europe, growth is supported by further regional expansion and reinforcement of our local organisations.

Progressing in Latin America

Chile is currently our main market for Equitone. Despite the recession in the country in 2017, we kept up our sales volumes.

↑ Equitone [tectiva] fibre cement façade panels lend a distinct, modern and streamlined finish to the John J. Bowen Center for Science and Innovation of Johnson & Wales University in Rhode Island, USA.

> **“ Etex Façade aspires to continue its path of double-digit growth in the years to come.**

Spotting opportunities in Asia Pacific

Australia is a strong market for Equitone sales in Asia Pacific. Although the Australian market kicked off slowly at the beginning of the year, it later picked up.

Outside Australia, our main markets for architectural façade materials are **Hong Kong, Singapore, South Korea** and **Thailand**. In **Japan**, our Equitone sales figures improved in 2017.

In **China**, Etex's architectural fibre cement façade materials are produced and branded under the name JiaMei, which continued to generate positive sales figures. At the end of 2016, we launched a second brand, JiaLai, which posted growth in 2017.

↑ The new building for the Maris College Kijkduin in Den Haag provides a contemporary but still warm and student-friendly construction. Equitone [tectiva] panels were used for the external façade.

← The new Centenary Theatre in Taronga Zoo in Sydney, Australia, was constructed using only materials that demonstrate the zoo's commitment to the environment and wildlife conservation. Equitone panels were used to clad the exterior walls.

Growth in residential façade markets

In Europe, Cedral continued to post strong growth driven by the residential renovation market and large housing projects. In addition to growth in underlying construction markets, Cedral sidings benefit from a positive substitution trend versus sidings in plastic and wood.

Steady in Europe

Throughout 2017, the **United Kingdom** experienced growth in the residential façade segment. Strong demand for housing projects continues to fuel this market.

In **France**, we posted stable results in a recovering market. In **Germany**, our siding business generated strong growth.

We achieved more modest growth in **the Netherlands** and **Sweden**. Elsewhere in the **Benelux** and the **Nordics**, market conditions were more challenging and resulted in a stable performance compared to the previous year.

In **Lithuania**, our newly built Cedral sidings production line became fully operational and is primed to support our European growth ambitions.

Demand for our fibre cement sidings in **Russia** grew significantly in 2017. The residential renovation market continues to strengthen. We expect this trend to continue over the coming years and plan to act accordingly.

Strongly rooted in Latin America

Our residential sidings business has a long-standing track record in Latin America.

While 2016 was a record sales year in **Chile**, 2017 proved to be more challenging due to the economic recession in the country. Still, our Chilean business maintained high sales volumes throughout the year. In **Argentina**, we continued to record growth.

→ 17 apartments built around a local school building make up De Hooistoof in Strijen. To keep a village-like characteristic, the buildings were built in farmhouse style. Cedral façade panels were used to clad the external walls.

Our vision is to lead the global façade market with beautiful and durable materials.

Facing the future with confidence

For the years to come, the division aims at realising double-digit growth rates. To harness the growth potential that Etex Façade offers, we will accelerate our sales excellence over the next year. In addition, we will also revamp our marketing approach to ensure it is fit for progress.

Expanding our portfolio, in 2017, we launched Equitone [linea] in white. Etex's range of fibre cement façade materials is unique in its diversity.

For 2018, we also have a variety of product launches in the pipeline, both in residential and architectural market segments.

Etex Industry

Etex Industry offers thermal insulation and fireproofing products and systems for industrial applications. The division caters to the highly-specialised needs of original equipment manufacturers (OEMs), and the transportation, marine, petrochemical, heavy industry and renewable energy sectors. In 2017, Etex Industry posted sales of 164 million euro, compared to 152 million euro in 2016.

A sharp focus to meet high demands

Etex Industry is unique from other Etex divisions as it focusses on a broad range of industrial customers and niche segments. We tailor our high-performance thermal insulation and fireproofing portfolio to their specific needs, backed by an extensive range of test certificates and a network of application specialists.

At the core of Etex Industry are its products based on calcium silicate, cementitious sprays, microporous and intumescent materials. They are mainly sold under the brand names Promat and Microtherm.

Thermal insulation

Our thermal insulation products are high-performance solutions made to enhance energy efficiency. Our materials are used when the need for temperature management is high, the space to insulate is small or weight considerations are critical. Typical application areas include pipe systems in oil and gas refineries, fuel cells, exhaust systems and the insulation of furnaces and mechanical equipment.

Fireproofing

Our fireproofing products are used for diverse applications, from fire doors and petrochemical sites, to cruise boats and stayed cable bridge suspensions. Their physical and mechanical characteristics also make them well-known references among original equipment manufacturers (OEMs).

Responding to global trends

2017 marked a year of robust organic growth for Etex Industry. Worldwide market conditions were in our favour, driven by the following megatrends:

- **Urbanisation** creates the need for greater efficiency in the use of space and energy, along with more stringent fireproofing regulations.
- **Energy efficiency** drives demand for state-of-the-art equipment insulation and thus the replacement of existing insulation materials.
- The rise in mass **transportation** also boosts demand for our high-performance acoustic and thermal insulation and fire protection products.

Revenue growth in 2017 was also thanks to a gain in market share and a stronger focus on OEM markets. This was particularly evident in home construction, where we see more demand for fire-stopping and thin vacuum insulation.

↓ Processes used by petrochemical facilities are extremely energy intensive and controlling heat loss is critical. Etex Industry provides thin and lightweight insulation for the complex piping structures and supports.

Strong performance around the globe

The Etex Industry portfolio reaches a selection of markets in Europe, North America, the Middle East and Asia.

In **Europe**, our industrial business posted solid results in 2017. Our strong market performance in the United Kingdom, France and Italy stood out, particularly in the fields of OEM and heavy industry. We finalised the implementation of a regional management structure to create a simplified and more agile customer-focussed organisation.

In **North America**, the division experienced a weaker-than-expected first half of the year. This was due to lower investments in the sustainable energy sector, rising oil prices and political uncertainty following the presidential elections. Despite these challenging conditions, Etex Industry sustained its sales activities in the country.

In **Asia** and the **Middle East**, Etex Industry continued on its path of steady growth. Our performance in the oil and gas market experienced a boost as we secured multiple new projects in the petrochemical industry. Overall, we increased our sales network, particularly in the field of OEM.

Capacity in the making

In the United Kingdom, we completed the consolidation of our operations and moved all production and workshop activities to our site in Heywood. In Italy, we moved our workshop to our Filago calcium silicate factory to add more finishing capacity.

We also expanded heat treatment capacity for high density calcium boards at our plant in Tisselt, Belgium.

To meet growing demand for low-density microporous boards, we approved investment in additional press capacity, also in Belgium.

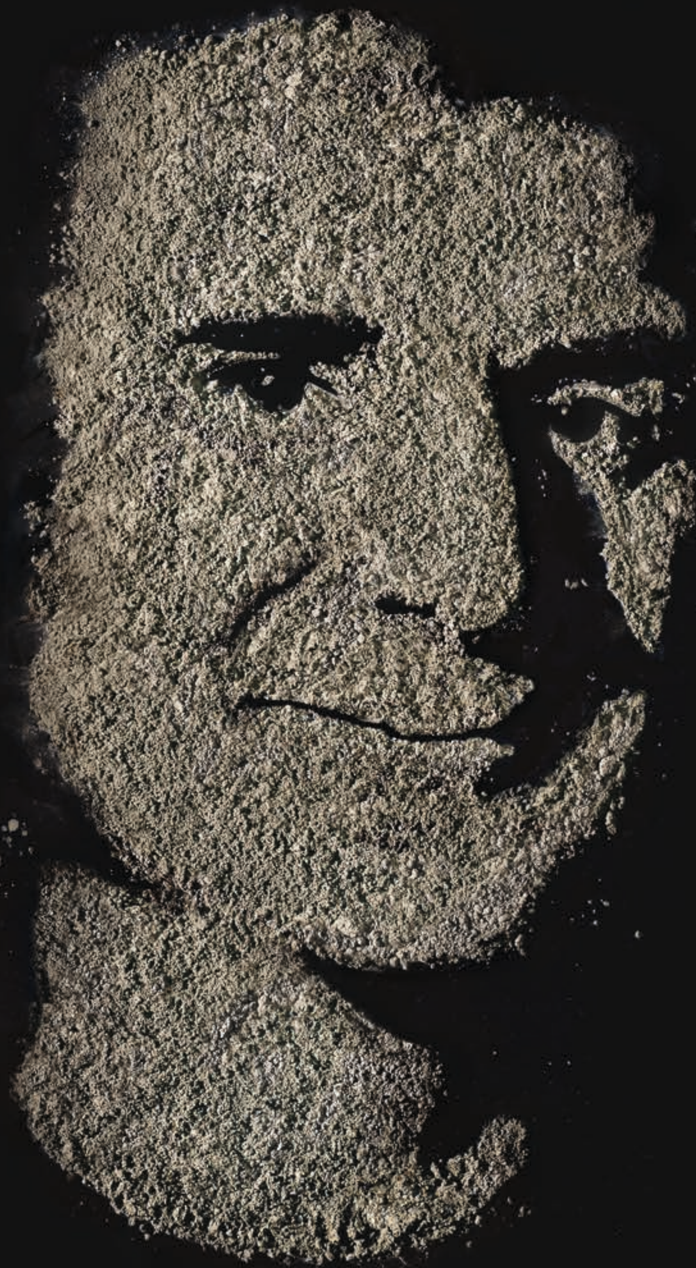
Effectiveness for the win

In 2017, we started to see the payoffs of operational improvements made the year before. We continue to steer our production in the direction of lean manufacturing and best-in-class safety.

→ Our high-temperature insulation materials are engineered for use in furnaces to insulate the fuel source and prevent heat loss.

2017 marks a year of robust organic growth for Etex Industry.

INSPIRING NEW LEVELS OF PROTECTION



Fumed silica

"Combining expertise in fire-stopping and high-performance insulation, Etex Industry is poised to co-develop solutions with original equipment manufacturers that strike a balance between performance and total cost of ownership. We like to innovate with customers to develop creative, high-performance materials that provide efficient and environmentally friendly fire stopping and thermal insulation. We are well-positioned to respond to market needs and megatrends impacting the way people build, move and manage energy."

— Steven Heytens, Head of Etex Industry

Offering high-performance fire barrier systems, Etex Industry provides its customers with a flexible solution for fire doors.

A targeted strategy to guide the way

To secure the agility and competitiveness of our industrial business, 2018 will focus on the following areas:

- **Market drive**

To ramp up market and product development capabilities, we added a Market Development and Innovation function to coordinate all lateral support functions and drive innovation initiatives worldwide.

- **Brand leadership**

We will continue to invest in extensive testing programmes. This ensures our products meet all relevant standards and regulations. Digital platforms will be the main channels for communication and promotion.

- **Sales and operational excellence**

More team members will attend the Etex Industry Academy – our divisional e-learning platform – to complete training on sales excellence, best-in-class operational practices and leadership development.

← The rise in mass transportation boosts demand for our high-performance acoustic and thermal insulation, and fire protection products, which have been instrumental in improving the speed, economy, and comfort of rail travel.

Strategic partnerships

Shortening development cycles for new products and applications through close collaboration with suppliers, and focussing on key customers and technology leaders, proved successful to achieving growth in 2017. It is our intent to further leverage these relationships.

Looking ahead

Demand for technical insulation and fire proofing materials is linked with the performance of the various markets in which we are active and to a lesser degree, with increases or decreases in construction activities. As overall market conditions remain favourable, we expect to keep making headway, especially in the fields of industrial OEM, oil and gas and marine.

Etex Roofing

Our roofing business is the foundation of our century-old company. Today, our portfolio of agricultural and residential roofing products and components has positioned Etex Roofing as a strong player in pitched roofs in Europe and various markets worldwide. In 2017, Etex Roofing achieved sales of 836 million euro compared to 885 million euro in 2016.

One model, two segments

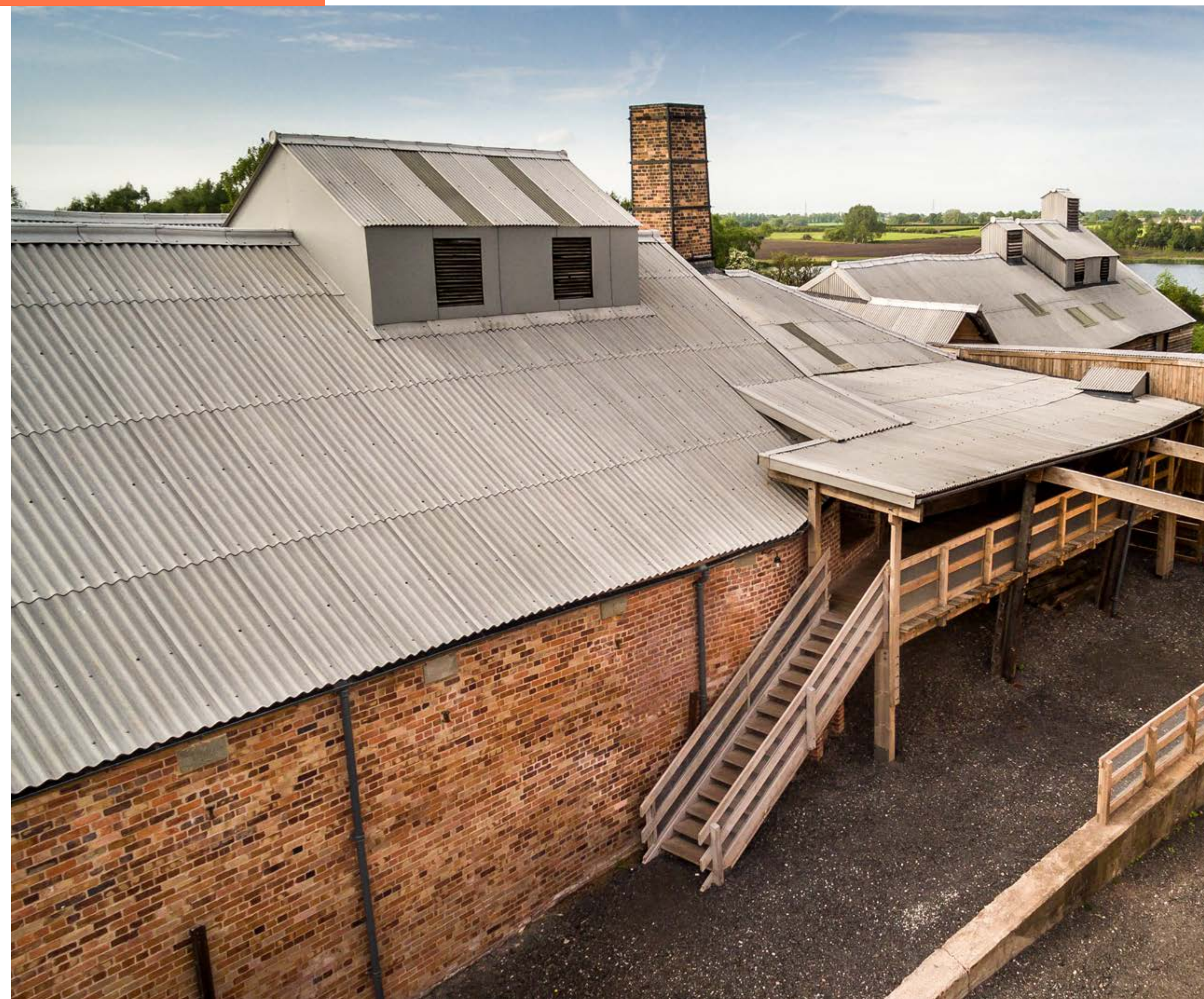
Etex Roofing targets two main market segments: residential pitched roofs and agricultural roofs and construction.

Comprehensive offering

To fit the needs of both segments, we offer a complete portfolio of tiles, slates, corrugated sheets and roofing accessories and components. Our country-specific and specialised sales teams advise different types of clients—from architects and installers to homeowners and farmers—and tailor our offering to their specific requirements.

In Europe, the division holds a strong position in the pitched roof residential sector and is a frontrunner in most agricultural markets. In Latin America, we maintain a solid presence in corrugated sheets.

Our roofing business is backed by strong brands with established names, such as Eternit, Marley and Creaton.



↓ Corrugated sheets provided by Marley Eternit were used to restore and convert the UK's last remaining open-pan salt works into The Lion Salt Works visitor centre and museum.

Delivering on our business model

Due to this two-pronged business model, 2017 resulted in growth across the majority of our markets in Europe and beyond. The exception was in some countries where the underlying economic or market conditions were less favourable.

Operational management

Optimising our operational footprint and further strengthening our overall roofing business approach, we enhanced our industrial platform in specific markets to boost efficiency, automation and quality where required.

Sales and digital

In 2017, Etex Roofing launched a common web platform across western Europe. Aimed to increase our customer focus and sales excellence, the platform enhances our visibility toward existing and potential customers in both segments. Throughout 2018, we will continue to further develop the platform to align with the customer journey and increase lead generation.

Incremental innovation

2017 was a year of intense incremental innovation for Etex Roofing around the world. We significantly enhanced, upgraded or expanded numerous existing products and roofing components.

One major product launch was Tecta: a unique UV-coated slate with a flat surface, higher durability and stability, and increased resistance to dirt and moisture. The slate also boasts great aesthetics. After a successful launch at the Batimat exhibition in France at the end of 2017, the new slate will soon debut on other European markets.

European leader

Etex holds a strong footprint for residential pitched roofing products in Europe, a mature roofing market. We are also a frontrunner in the agricultural segment across the continent.

Great results in the UK

2017 marked another good year for Etex's residential roofing business in the **United Kingdom**. As the need for housing projects continues to grow, previous investments in our existing operational footprint have started to provide us with the additional capacity needed to unlock local market potential. While unfavourable exchange rates did have an impact on our margins, we offset this effect with our strong industrial performance.

In addition, we fully integrated our 2016 acquisition of timber products supplier John Brash & Co, divesting those assets not in line with our core activities.

Well on track in Ireland

Our results for 2017 continued to improve. The roofing market in **Ireland** is recovering rapidly. As a result, pressure from competition—especially from imports—is likely to continue in the years to come. Investment in our Irish operations is progressing well, and we expect to see a ramp-up in activities in 2018.

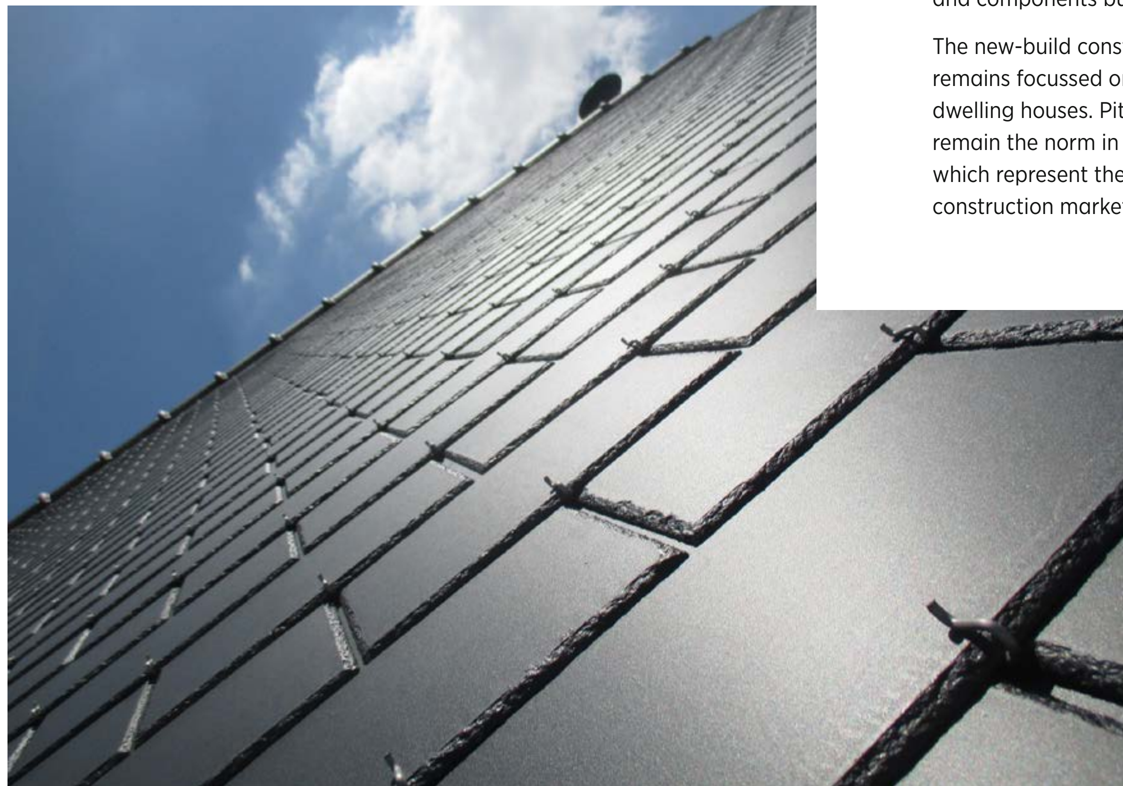
Reaping rewards in the Netherlands

Sales figures for our agricultural roofing business in **the Netherlands** were again positive in 2017. Previous efforts to optimise capacity and increase lean production activities has enabled us to serve the Dutch market more effectively.

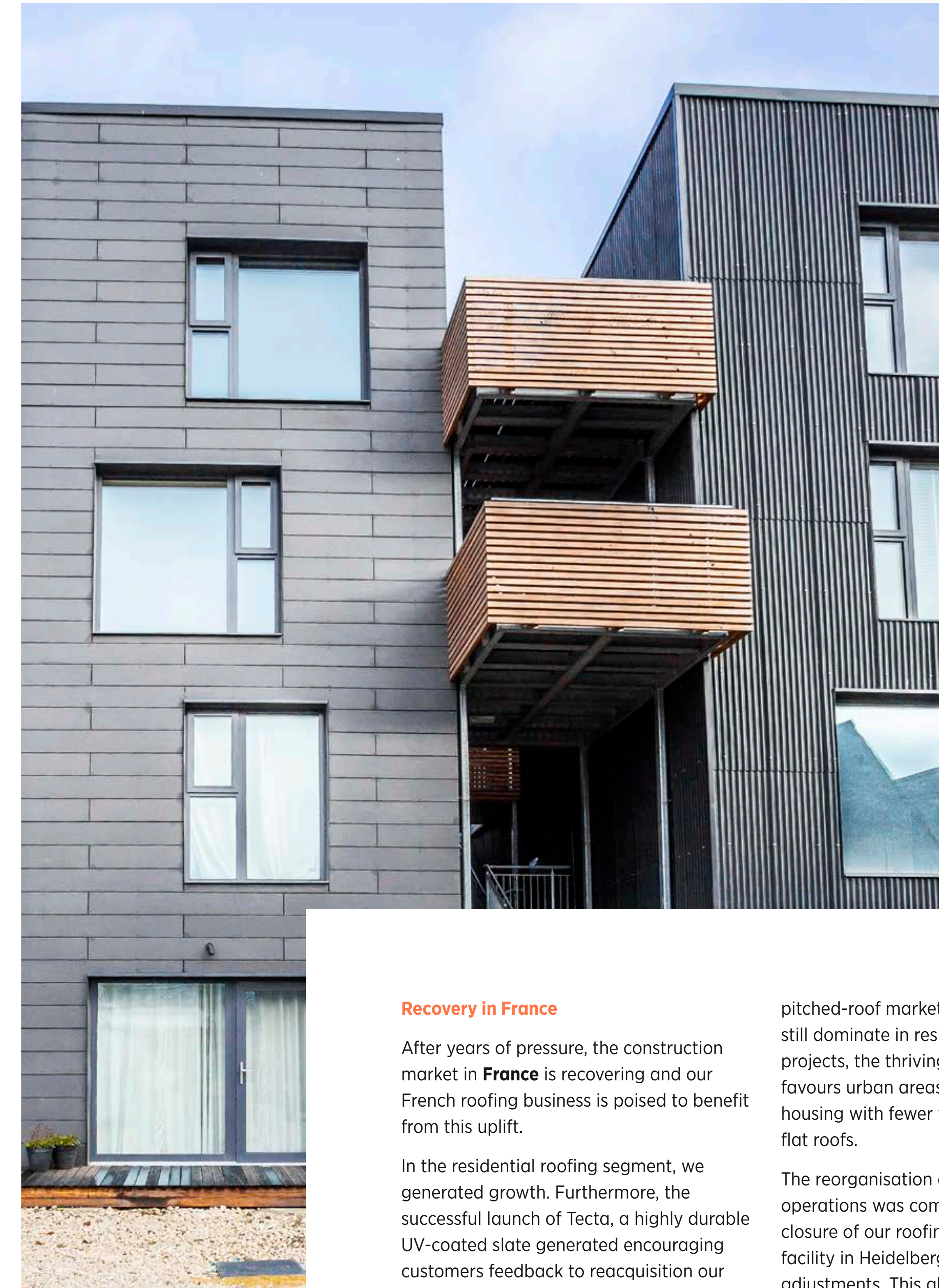
Good grades in Belgium

Belgium has been a stable and profitable market for our residential roofing business for years—and 2017 was no exception. Our local approach successfully grew our tile and components business.

The new-build construction market remains focussed on flat roofs and multi-dwelling houses. Pitched roofs, however, remain the norm in renovation projects, which represent the bulk of the Belgian construction market.



← Our newly launched Tecta roof slate has a unique UV-coating with a flat surface, higher durability and stability, and increased resistance to dirt and moisture.



← The Little Kelham low-carbon housing development in Sheffield, UK used Marley Eternit's fibre cement sales, cladding and corrugated sheets to create a distinctive urban aesthetic. Slates are increasinly being used to clad building façades in addition to the roofs.

Recovery in France

After years of pressure, the construction market in **France** is recovering and our French roofing business is poised to benefit from this uplift.

In the residential roofing segment, we generated growth. Furthermore, the successful launch of Tecta, a highly durable UV-coated slate generated encouraging customers feedback to reacquisition our position on the residential market.

While the agricultural segment did not yet pick up in the same way as the overall construction market did in France, the first signs of recovery are on the horizon.

Shaping up in Germany

In **Germany**, Etex's roofing business continues to consolidate its leading presence in a difficult context in the pitched-roof market. While pitched roofs still dominate in residential renovation projects, the thriving new-build market favours urban areas, hence multi-dwelling housing with fewer total roofs and more flat roofs.

The reorganisation of our German operations was completed with the closure of our roofing sheets production facility in Heidelberg and various capacity adjustments. This allowed for substantial investment in the rejuvenation of our clay tile portfolio and the acquisition of new technologies for roof system components development and production.

The focus in 2018 is to develop excellence in service and accelerate our efforts towards a digital route to market.

INSPIRING EXCEPTIONAL CRAFTSMANSHIP

Clay

"The undulating roofline of the Quintain House disguises the complex and challenging roofing structure underneath. Etex Roofing's Acme Double Camber clay tiles deliver a highly textured, curved and seamless finish that highlights the roof's dramatic rises and falls, pushing the boundaries of traditional roofing. The result is a unique building that fits in with houses in nearby traditional villages, and exudes beauty and comfort."

— Andrew Rowlands, Roofing Contractor, Rowlands Roofing

Quintain House, Gloucestershire, UK

Performing well in southern Europe

In **Spain**, Etex Roofing is predominantly active in the agricultural segment, where we have been successfully targeting niche activities to expand our footprint. Our tailored offering for the booming pork industry generated great results in 2017, for instance.

Despite a significant raw materials price increase for our insulated offering, our team successfully managed scarcity and cost constraints and maintained a high level of service to end users.

In **Portugal**, our roofing business is mainly focussed on the residential market offering clay tiles. In 2017, we succeeded in penetrating the agricultural segment with our insulated corrugated sheets. Our Portuguese operations also serve markets in Africa and the Middle East, which we suitably balance to maintain a good level for our export activities.

Progressing in eastern Europe

In 2017, our residential roofing business again benefited from the flourishing renovation building markets in southeast Europe, including **Croatia**, **Hungary**, **Romania** and **Serbia**. **Poland** also performed well. To support further expansion in the area, we will direct additional resources into expanding our local production capacity.

In the **Baltic region**, we continued our solid performance in small yet profitable markets. In 2017, we significantly grew our local industrial footprint by successfully transferring volume from operations in western Europe. Our factory can now efficiently serve different European markets on a larger scale.

← This riding arena in Tuttlingen, Germany, used corrugated sheets provided by Creaton Germany to cover the approximately 3,000 m² roof area.

Taking the worldwide stage

→ To capture a rustic blockhouse style, the Timberjack's Bar & Grill in Göttingen, Germany used Creaton's Futura roof tiles to cover the 1,700 m² roof area.

Etex has built a strong position in select roofing markets in Latin America, Asia and Africa. Here, our agricultural and residential roofing portfolios are closely connected. Corrugated sheets are often used to construct and renovate residential houses in these regions, whereas they are mainly found in agricultural applications in Europe.

We faced a challenging market in **Chile** but expect the construction sector to recover in 2018. We are planning to relaunch our roofing business under the company Tejas de Chena, which will include material, industrial and commercial restructuring.

We recorded strong performance in **Peru**, where we have an established brand presence in the low- to mid-end roofing market. Heavy rainfall due to the El Niño climate cycle led to higher activity in the Peruvian building and renovation industries.

We also benefited from a remodelled and targeted business approach.

In **Colombia**, the economy suffered its worst year since 2009. Here, we also changed course with our business model. We adopted a pull marketing strategy that targets major building companies.

In **Nigeria**, our local roofing business achieved growth in 2017. Nigeria remains a tough market to operate in. The country is dealing with the aftermath of the economic recession and political unrest from the previous year.

In **South Africa**, 2017 was a year of progress: we revamped our local roofing production, modernised our back-office organisation and strengthened our local management teams. The year started off slowly in terms of market performance due to political unrest in the country but improved as the year progressed.

ENVIRONMENTAL REPORT

3

Protecting our planet

Protecting our planet

Respect for the environment is embedded in the way we work. To minimise the impact of our operations on air, land and water, Etex has ambitions and procedures in place across our global organisation.

Two main principles shape our environmental mindset:

1. enhance the efficiency of our production processes to limit the use of natural resources and energy;
2. innovate and develop products and systems that can empower our customers and other stakeholders in reducing their own impact on the environment.

Eliminating production waste

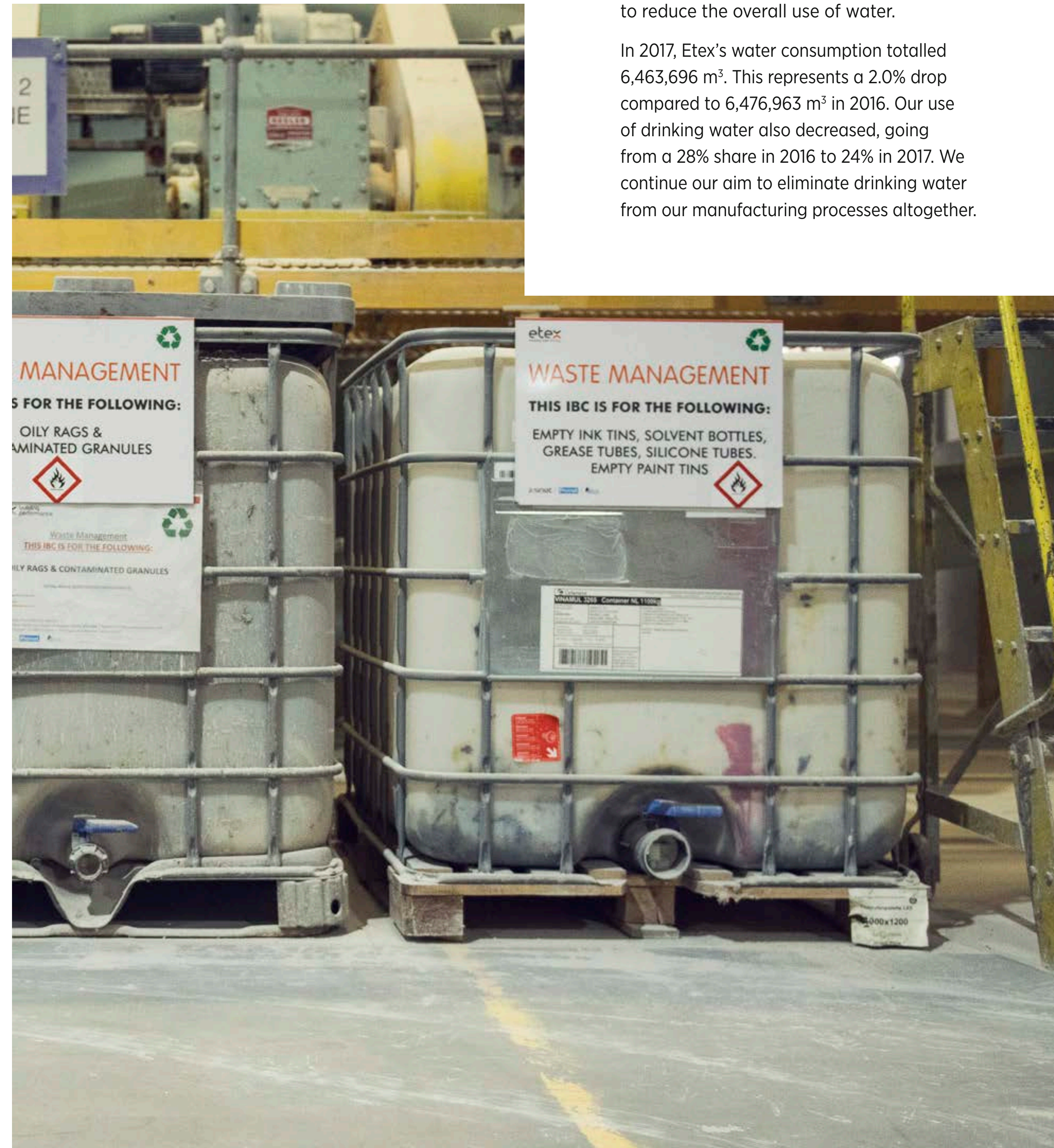
In 2017, the total hard waste dumped per metric ton of raw materials was at 0.76%, compared to 0.58% the year before. One reason for this increase was due to accumulated waste carried over from 2016. Overall, the total waste generated remains consistent with the past five years. Ultimately, our goal is to produce zero production waste, an objective we continue to strive for.

Furthermore, we recycled 76% of our total production waste in 2017. Recycling will continue to be an important focal point, as it helps us conserve resources as well as improve the efficiency of our production processes.

Every Etex company has programmes in place for internal recycling. The aim is to recover waste materials that result from producing our products — such as paper, cement and water — and channel these back into our own manufacturing processes or supply them to external partners.

When possible, we use recovered secondary raw materials produced by other companies. For example, our plant in Romania uses gypsum that results from the desulphurisation process of a nearby power plant. Using this secondary raw material the factory ensures a secure and sustainable gypsum supply.

↓ To accommodate the collection process and enable a good work flow for separating and capturing recyclable materials, recycling bins are placed in appropriate locations around our factories.



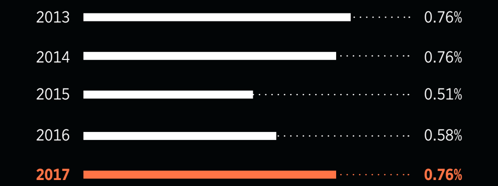
Efficient use of water

Water is a precious resource, and we aim to minimise our water use. The amount of water we need is different for every Etex factory and can vary greatly depending on the type of production activity.

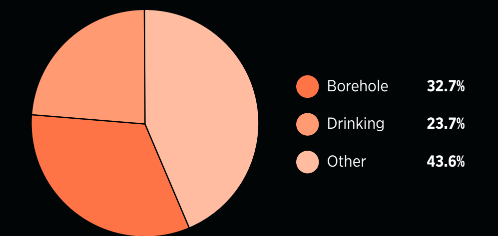
Plants across Etex have programmes to enhance water reuse and use alternatives to drinking water. Installing monitoring systems, such as flow regulators also helps to reduce the overall use of water.

In 2017, Etex's water consumption totalled 6,463,696 m³. This represents a 2.0% drop compared to 6,476,963 m³ in 2016. Our use of drinking water also decreased, going from a 28% share in 2016 to 24% in 2017. We continue our aim to eliminate drinking water from our manufacturing processes altogether.

Dumped production waste per metric tonne of raw materials



Water consumption per source



% of drinking water in relation to total water consumption

Total water consumption (m³)

Energy management

Working to improve our energy management processes and systems, we aim to reduce the amount of energy we use across the globe. In 2017, we continued to work towards using energy in the most efficient way possible and towards reducing our carbon emissions.

As such, 587 kWh of energy was consumed per metric tonne of raw material in 2017. A stable result compared to 587 kWh the year before. There was a drop in our CO_2 emissions per metric ton produced, which went from 100 kilograms in 2016 to 93 kilograms in 2017.

The decrease in energy used and CO_2 produced is partly due to the previous sale of our ceramics business in 2016, which used a heat-intensive production process. Another contributing factor is that we used less diesel fuel compared to the year before. Of the total amount of direct energy used in 2017, 84% was gas, 13% was electricity and 3% was diesel fuel.

New ways of using energy

In addition to energy management, we search for alternative ways to use energy efficiently with the lowest possible impact on the environment.

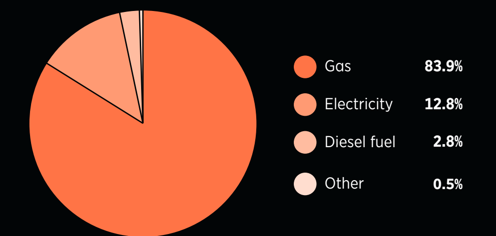
Our Eternit Guangzhou factory in China delivers a telling example in this respect. Not only does it auto-generate 15% of its electricity through solar panels, it also recovers steam coming from a nearby power plant. This waste heat is used to power our Chinese factory's autoclave and drying processes, cutting its carbon footprint by 7,000 metric tonnes in 2017. In addition, the factory recycles condensates from the dryer installation. Once cooled down, the condensates are recovered in a pond and reused for production. This reduces the site's water consumption by 24,000 m³ per year.

→ Using solar panels helps to maximize the use of natural resources and prevent energy waste.

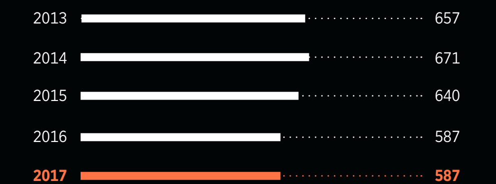
Development of environmental objectives

To ensure continuous and effective management of waste, water and energy in 2018, we will place a renewed focus on our environmental reporting. This includes evaluating and realigning the reporting scope and setting measurable objectives that will lay the foundation for a sustainable future.

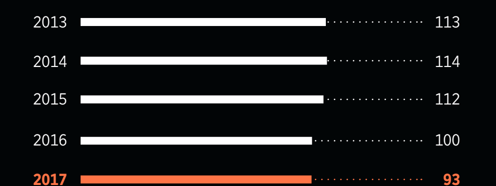
Direct use of energy



Energy consumption per metric tonne of raw material (kWh)



Carbon emissions per metric tonne produced (kg)



SOCIAL REPORT

Empowering our people

4.1 Human resources

4.2 Safety

4.3 Carefully managing our asbestos past

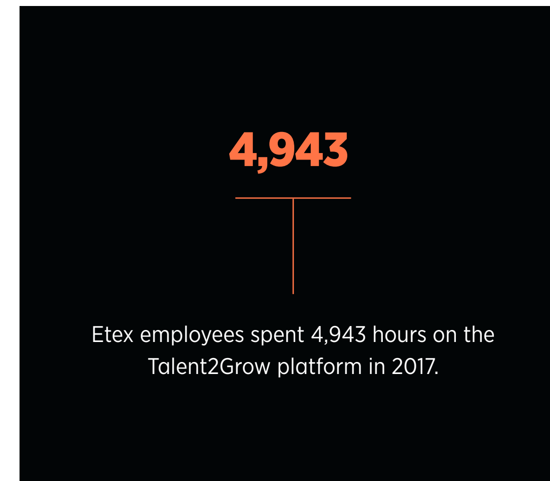
4.4 Community relations

Human resources

Human Resources at Etex aims to be an enabler that works in two ways: help our people develop and unlock their full potential, while simultaneously boost the agility and performance of our worldwide organisation.

Our HR Roadmap 2020 ties together Etex's strategic priorities and company values. It outlines tangible projects to deliver on three ambitions:

1. encourage a cohesive Etex culture that strengthens our employees' engagement in support of business goals.
2. identify and develop our leaders and enable them to be drivers of success and excellence.
3. empower employees by providing highly effective and responsive HR services.



One Etex culture

Throughout 2017, we upped the ante in further integrating our three Etex values: Passion for Excellence, Connect and Care and Pioneer to Lead. Launched the previous year, these values form the backbone of our identity and culture. Their inspiring energy helps employees around the globe to grow personally and professionally. The values promote shared ways of working, behaving and setting expectations to deliver on our three-pillar agenda of profitable growth, operational excellence and engaged people.

The goal for 2017 was to put every employee in contact with the Etex values during at least one interactive, face-to-face session. The Etex Values Box game has been a great success in introducing employees to the values and helps translate them into expected behaviours. Now available in blue- and white-collar versions, the game asks employees to apply the values to navigate common workplace scenarios.

We also embedded the values in Etex's leadership model. Doing so empowers our senior leaders and managers to nurture the Etex identity within their teams and link these behaviours with business objectives.

Induction programme

To give newly arriving employees a clear understanding of and sense of belonging to Etex's culture, values and priorities, we developed an Etex induction programme. The programme will be rolled out by local management at all our companies worldwide in the coming year.

Measuring engagement

In 2017, we announced that engagement will become a non-financial performance indicator. As such, throughout 2017, we prepared the rollout of a company-wide engagement survey. This exercise will measure employees' commitment to the company's goals and objectives. An indicator for defining further action, the engagement survey will be carried out mid-2018.

PIONEER TO LEAD

The Ajaccio Hospital project in Corsica was a significant achievement for Siniat France, as we developed our own collaborative Building Information Management or BIM technology to use for its construction. BIM technology is redefining how buildings are designed, built and operated. We are excited to be leading the way in using this digital solution."

FREDERIC PLASSERAUD,
MARKETING DIRECTOR, SINIAT FRANCE

↓ The Etex values promote shared ways of working. Adding the Etex values to the leadership model assures Etex leaders have the relevant tools to help develop their teams and be drivers of success and excellence.

← Seniors leaders participating in an Etex training programme developed in collaboration with INSEAD, donated their expertise and Etex materials as part of a team building exercise to construct a playground for a special needs childcare centre in France.

Talent management

Talent management is high on our HR agenda. After all, enabling our employees to develop personally and professionally empowers them on our road towards performance-driven growth.

In 2017, we designed our global talent review process, which is the mainstay for identifying and evaluating leadership talent. It proposes individual development and succession plans through opportunities such as training, career moves, promotion, and so on. The programme will roll out across the organisation throughout 2018-2019.

Leadership and performance

We integrated the Etex values and leadership competences into our individual performance review conversations. This exercise helps identify both low- and high-potential performers within our global organisation and enables us to define targeted actions.

To further enrich the review and development process, we introduced the i-DID methodology to all HR personnel and to senior leaders. This model puts actionable feedback at the core of performance-based assessments. Creating a feedback culture further underlines our aim to cultivate our employees' strengths the best way possible.

Effective programmes

Setting up effective talent programmes is another important way we nurture the skills and competences of our employees as well as enhance internal mobility between our different companies and divisions.

In 2017, we set out on our sixth career development session with the Brussels campus of Vlerick Business School. In total 25 mid-level managers followed the programme. In addition, 106 senior leaders completed a leadership programme hosted by graduate business school INSEAD.

Both initiatives were attended by leaders and managers from different nationalities and backgrounds.

Learning

The learning culture at Etex continued to thrive throughout 2017. Our internal Academies provided additional learning opportunities across Etex's divisions. We also made progress in enhancing our digital and community platform Talent2Grow.

This resource portal offers access to courses and provides around 10,000 employees with the knowledge and tools to develop a range of skills.

CONNECT AND CARE

Our ITC open innovation days are an ideal opportunity to showcase our latest innovation efforts and demonstrate our expertise. They also show our customers how committed we are to finding solutions for their problems, and we get immediate, valuable feedback in return!"

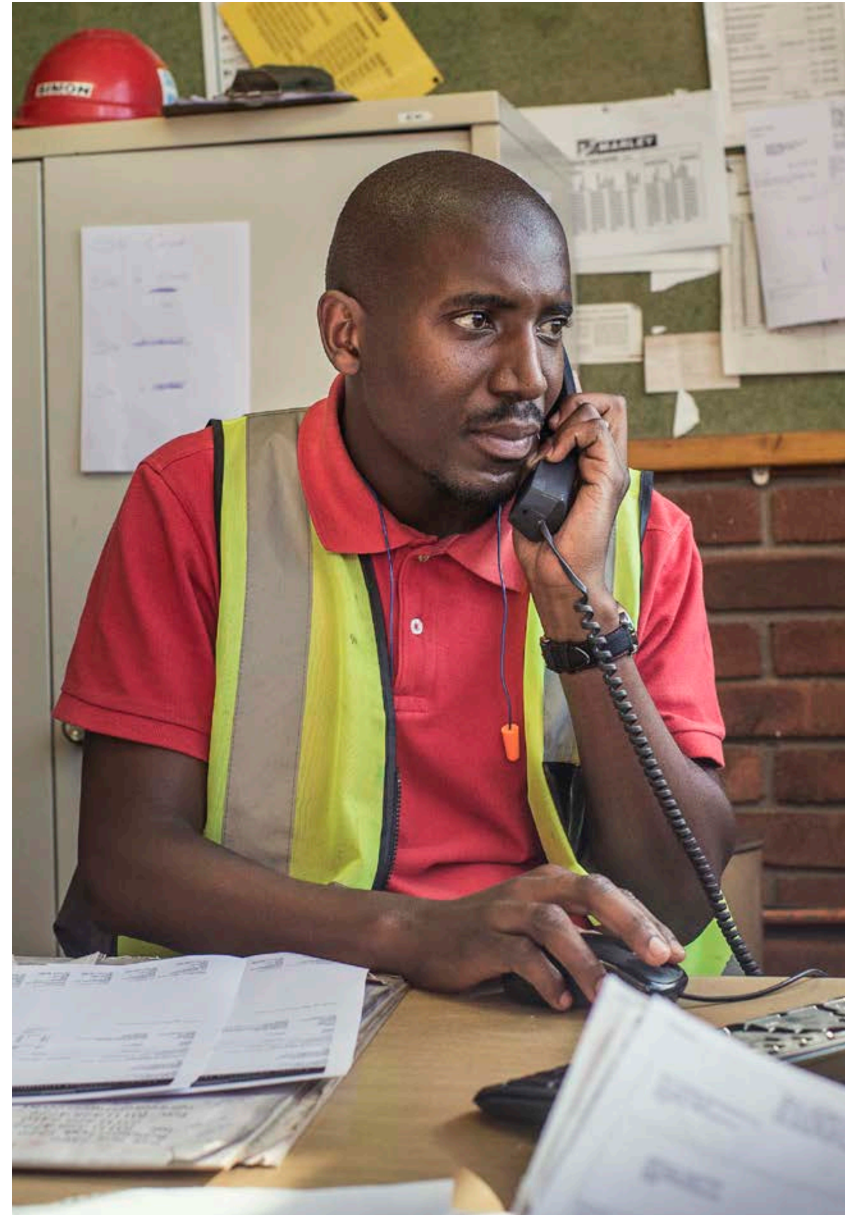
ERIC BERTRAND,
HEAD OF INNOVATION, ETEX BUILDING PERFORMANCE

→ Looking after our employees' wellbeing is important. Our Gyplac company's canteen provides an informal space to have meals and relax. It's also an ideal place to promote workplace cooperation.

Empowering employees through high-quality HR services

Enhancing the competences of our HR professionals remains key to placing our employees at the helm of their careers. The launch of our Human Resources Information System (HRIS) at the end of 2017 is one example of how we made headway in this domain.

Called Etex Talent, this platform supports Etex managers and HR professionals to optimally carry out aligned key people processes such as performance reviews and development plans. It also provides visibility into the organisational structure. The tool will be further developed as the principle platform that supports additional core people processes across the organisation, such as building effective succession pipelines and workforce analytics to improve organisational effectiveness.

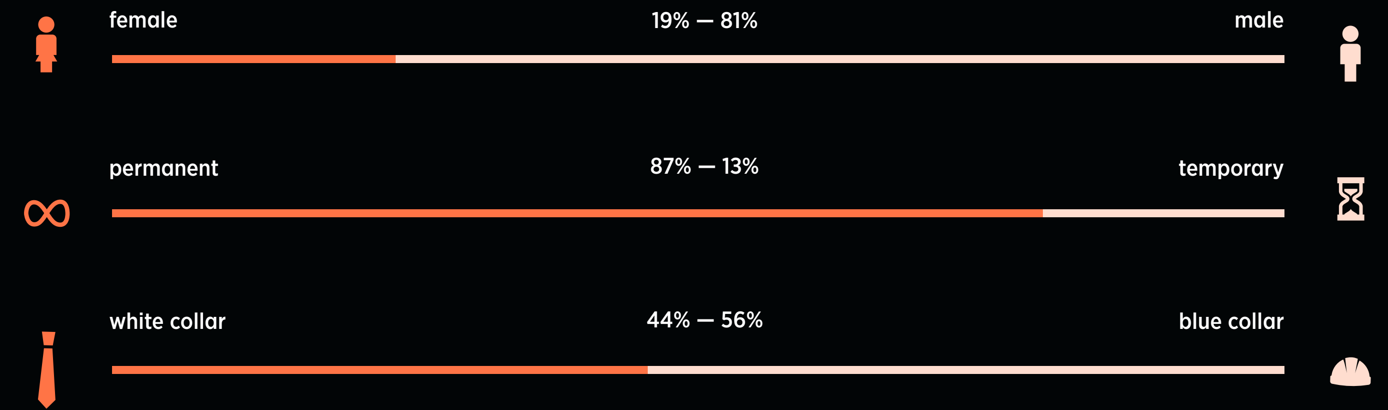


↑ One of our 14,510 passionate employees at work at our Marley South Africa facility.

PASSION FOR EXCELLENCE

Our colleagues at our Santa Cruz facility showed their commitment and perseverance to understand the scientific phenomena causing a production problem that resulted in cracked plasterboards. Not only did they fix the problem without significant capital expenditure, they used the specific knowledge gained from the exercise to implement relevant standards and specific training plans to avoid future recurrence."

STEPHANE METTAVANT,
HEAD OF CONTINUOUS IMPROVEMENT,
ETEX BUILDING PERFORMANCE INTERNATIONAL



59% of employees are covered by collective bargaining agreements

3% **Overall absenteeism** the overall absenteeism rate was 1,77% for white collars and 5,11 for blue collars in 2017

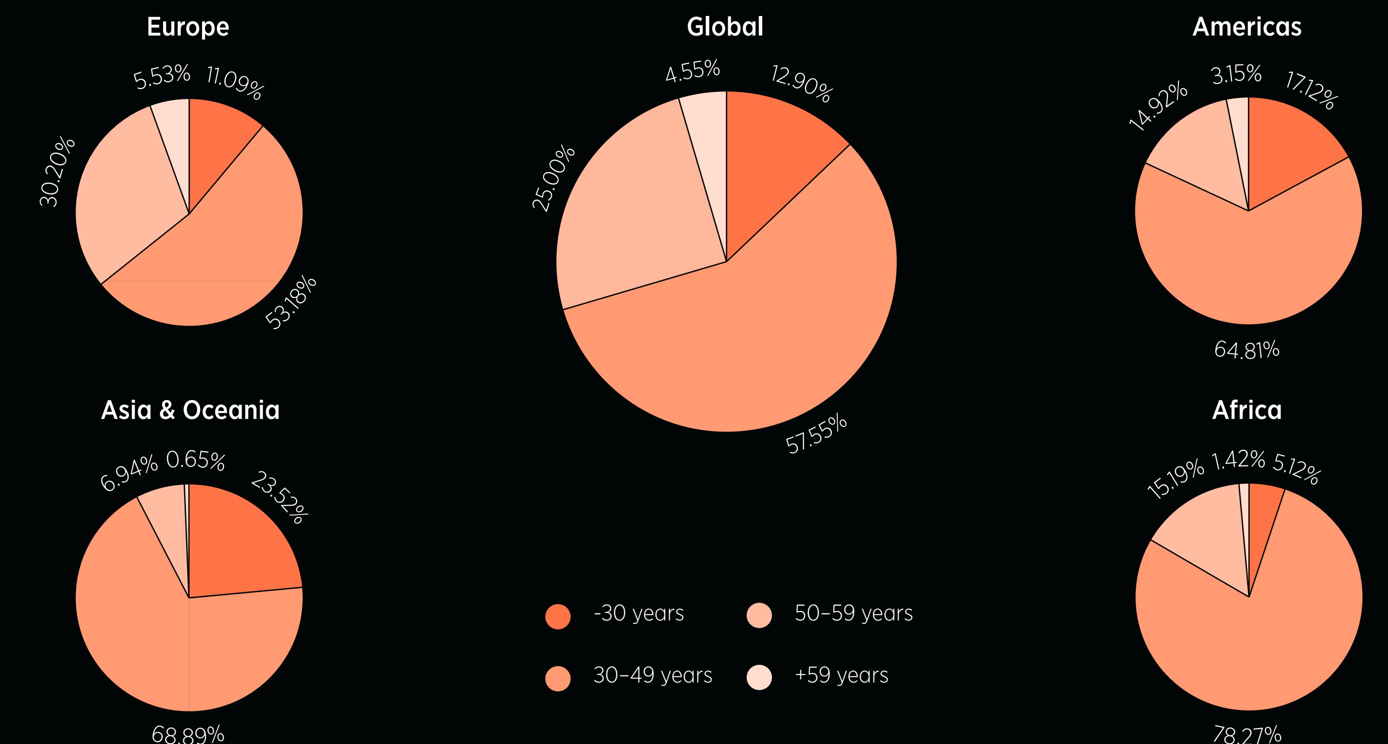
17% **Employee turnover** includes retirements, the end of temporary contracts, dismissals and resignations

No incidents of child labour or discrimination were reported

White collar
28.1 hours of training/year

Blue collar
32 hours of training/year

14,510 employees



Safety

Zero accidents is the target we work toward every day in our ambition to be a world-class organisation in safety. To make it a reality, we strive to continuously improve through our safety strategy for safe machines, safe procedures and safe behaviours.

While 2017 was Etex's second-best year in terms of safety, results were in fact a step back versus 2016. This performance creates an immediate sense of urgency across our company to do better. Safety at Etex is about systematically enhancing our processes and our equipment, and instilling a sense of personal responsibility for and commitment to preventing accidents. Having a safe workplace is never something that is taken for granted.

Unsafe behaviour is the main contributing factor to 95% of accidents. While some accidents can be avoided by ensuring safe machines or by having formal processes in place, behavioural change was the focal point of our safety strategy in 2017.

61%

61% of our factories worldwide were accident-free in 2017.

↓ Wearing the correct personal protective equipment at all times is an important part of our safety culture. A colleague working with our newly launched Proteja range of moulded fibre cement sheets in our factory in Colombia.

Measure to improve

To help improve safety performance, our health and safety teams track two types of metrics: **leading** and **lagging indicators.**

Following up on lagging indicators

Measuring lagging indicators—such as accident frequency and gravity—enables us to evaluate progress towards our safety goals.

In 2017, we recorded 79 lost-time accidents, compared to 65 the year before. Consequently, our frequency rate went from 1.9 to 2.6. But while accidents were more frequent, they were also less severe, and our gravity rate decreased from 0.31 to 0.15.

In total, 61% of our factories were accident-free in 2017 versus 72% in 2016.

No Etex facility experienced a fatality. Despite our visible safety culture and consistent efforts, we regret that five third-party contractor fatalities occurred off-site in 2017. While transporting deliveries and supplies, these contractors were involved in three separate road accidents. These were rigorously analysed by external parties. A standard for contractor safety is in place at Etex, and we do everything in our power to make safety as much a priority among the companies working for us as it is within our own.

Setting targets for leading indicators

Leading indicators are pre-incident metrics that reflect the day-to-day actions we take to drive good safety habits. They help indicate where and how we can fine-tune our safety approach.

Some leading indicators we concentrate on include:

- **safety conversations** where managers engage employees in a positive dialogue about safety at work. In 2017, we launched a safety conversation training programme to teach all Etex managers and supervisors how to improve the quality and effectiveness of safety talks.
- encouraging **near-miss reporting** of unsafe situations as well as incidents that did not result in injury but had the potential to do so.
- taking **corrective actions** to prevent potentially dangerous situations.

Safe machines

We continuously work to improve the safety of our machines to reduce risks and assure the health and safety of our operators as well as colleagues. A group-wide policy lays out all the requirements for new and existing equipment to comply with European directives and international standards.

Setting standards

Machine safety is a priority at all times. In 2017, we introduced a global standard for safely inspecting, maintaining and managing lifting equipment.

Throughout the year, we made headway towards our goal to achieve OHSAS 18001 certification of every Etex entity. It serves as a guarantee to our stakeholders—including customers, suppliers and authorities—that we meet legal health and safety compliance requirements at our companies and factories.

→ During an Etex Roofing division convention, colleagues played a board game designed to trigger active discussions about how they can improve safety conversations and overall safety performance within their teams.

Safe procedures

Rolling out standard procedures across our companies protects our employees against unexpected events. Working according to well-defined procedures provides them with the same optimal and safe conditions worldwide.

Continued rollout of 5S

Launched in 2016, we continued to introduce the 5S method for workplace organisation to our facilities throughout 2017. This globally recognised approach centres on 5 Ss: sort, set in order, shine, standardise and sustain. It has already contributed to standardising internal auditing and scoring systems at various Etex companies.

Safe people

Encouraging safe behaviour, boosting safety awareness and enhancing individual responsibility among everyone at Etex are the key proactive attitudes that guide us on our road to zero accidents.

While we work to assure that every single employee has the knowledge and skills to always act safely, visible felt leadership (VFL) is a critical part of our safety culture. Our leaders are continuously reminded of the positive impact demonstrating good safety habits can have to drive safety performance.

SafeStart goes global

In 2017, over 6,000 employees completed SafeStart training. This global programme was launched in 2016, in collaboration with external safety consultant Dupont. SafeStart training teaches employees to identify potentially risky situations and use common-sense techniques to avoid and correct them. The programme ensures we convey a consistent message about the importance of correct and safe behaviour.

By the end of 2018, all our employees around the world will be SafeStart-trained.

Number of accidents

Frequency rate

This refers to the number of accidents per one million hours worked.

Gravity rate

Indicates level of absenteeism after an accident. The higher the rate, the more severe the incident.

Celebrating safety milestones

Safety is the work of many hands. We feel it is important to celebrate safety success stories and share them as best practices. Below are just a few examples of milestones reached by Etex factories and companies in 2017.

In **Brazil**, our **Araripina** factory reached the impressive milestone of 4,745 days or 13 years with zero lost-time accidents. At the heart of this success is a focus on analysing occupational hazards, standards and procedures, and constant training.

In **Australia**, our **Promat** company hit 1,000 days without accidents. “We promote a shared sense of ownership and understanding of personal and team safety through audits, safety talks and training”, highlights quality systems and environmental manager Darius Dabrowski.

1,000 days of zero accidents was the milestone reached by **Promat Middle East** in the **United Arab Emirates**. Monthly safety meetings and continuous training and hazard spotting introduced various ways to keep safety top-of-mind.

Our **Siniat Ferrybridge** plant in the **UK** also marked 1,000 days without an accident. “Shared goals like the OHSAS 18001 certification and SafeStart training helped us build foundations for a safe business”, says managing director Neil Ash.

Our **Microtherm** plant in **Belgium** reached 365 days of zero accidents. “We promoted reporting near miss incidents and unsafe behaviour to prevent hazardous situations from reoccurring. SafeStart training will help us improve even further”, says safety manager Kristel Ongena.

In **Scotland**, the team at **Marley Eternit** in Glasgow also celebrated one year without lost-time accidents. “We made a big effort on near-miss reporting, and more safety talks took place”, explains environment, health and safety manager Robert McEwan.

← Clearly marked pedestrian walkways contribute to providing a safe workplace, particularly in areas where there is vehicular thoroughfare such as delivery trucks and forklifts. Colleagues also know the importance of wearing the right protective clothing at all times.

6,000+

In 2017, over 6,000 employees received a total of 60,000 hours of SafeStart training across the globe.

Carefully managing our asbestos past

Asbestos is part of our past and we continue to manage our history with the material carefully. Our group-wide policy makes this commitment concrete.

Asbestos: key facts

Since its discovery, this naturally occurring, industrially relevant mineral was used, and is still used, around the globe by various sectors.

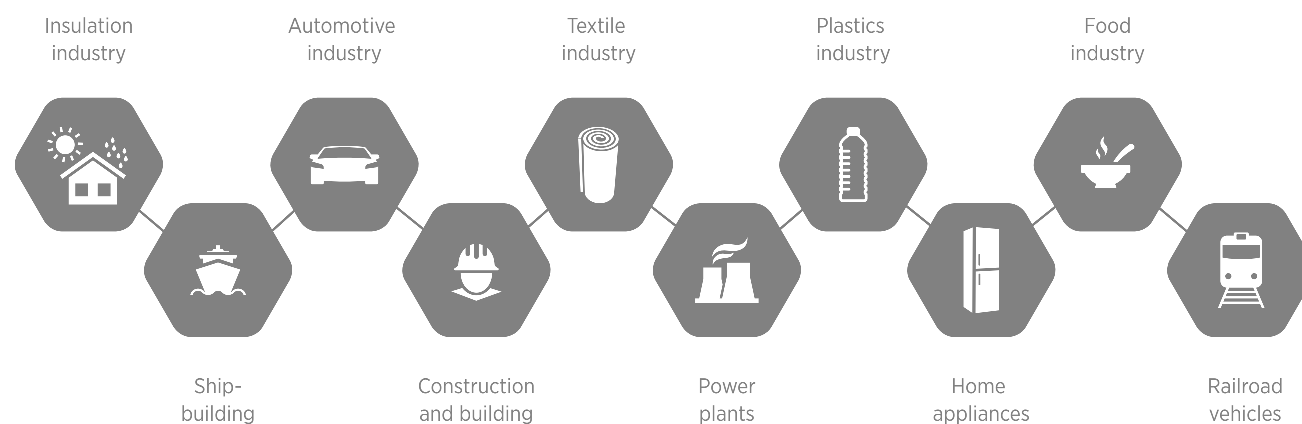
It was only after asbestos was firmly embedded in many industrial processes and products that the health implications of inhaling asbestos fibres became clear. Unfortunately, it has taken the world decades to fully understand the risks associated with asbestos exposure.

Asbestos occurs in nature

a set of minerals
that occur naturally
as bundles of fibres
that can be separated into threads

Asbestos has numerous industrially relevant properties

Asbestos has been used in various industries and applications since the late 1800s



Asbestos through the years

Prior to a complete ban in 2002, some of our companies used asbestos as a raw material in production.

Preventive measures

Starting in the 1970s, Etex companies took measures to reduce asbestos concentration levels in their factories. These include:

- masks and other protective gear
- dust extraction equipment
- a shift from dry to wet production
- automating production processes
- exploring alternative materials
- banning blue, brown and later white asbestos.

These measures were aligned with the legislation and scientific knowledge available at the time and were considered effective ways to prevent health risks. However, scientific and medical knowledge further evolved, indicating later that this was not sufficient and that some risks persisted. The fact that asbestos-related diseases take an average of 45 years from the start of the exposure to develop diseases has certainly slowed down or influenced the progression of scientific understanding.

Stringent regulations

Throughout the 1980s and 1990s, the use of asbestos was more strictly regulated and in 2005, the European Union completely prohibited its use.

The global picture

Despite the European ban, asbestos continues to be used elsewhere in the world. In some cases, it is used by companies bearing the Eternit brand name that are by no means part of Etex.

This is because Eternit is also the name of the technology used to make asbestos-reinforced cement. In the early 1900s, the technology patent was sold to individual companies, several of which adopted and have retained the name.

Health provisions

Since asbestos-related illnesses have a long latency period, Etex companies may still receive claims related to former asbestos exposure. Our companies provide for the settlement costs for past and future claims as part of our commitment to compensation.

Several variables affect how compensation is calculated, and these may change over time. We therefore regularly review our approach to accommodate any new information that may become available.

€6,000,000

donated to the Foundation Against Cancer between 2012 and 2020.

Group-wide policy

We cannot undo the past and we regret any victim of asbestos exposure.
To put adequate support systems in place, we established a mandatory policy in place that enables our companies to manage their pasts vigilantly. The policy is supported by four pillars: compensate victims, manage landfills, prevent exposure and support research.

It is our sincerest hope that treatment for asbestos-related illnesses will benefit from medical and scientific research in the future.

1 policy, 4 principles

Compensate victims

Etex companies have to ensure that those who become seriously ill due to the use of asbestos in their factories receive a fair financial compensation.

Manage landfills

To avoid possible exposure, landfill sites owned by Etex companies are managed skilfully and responsibly.

Prevent exposure

Etex companies regularly monitor for the presence of airborne fibres and safely manage all buildings.

Support research

Etex backs medical and scientific research into asbestos-related illnesses.

Community relations

Acting responsibly and building lasting relationships in the communities in which we operate is fundamental to our global business. Using what we know best — affordable and secure housing — we aspire not only to help those in need of shelter, but also to inspire better ways of living.

From global to local support

Our companies' strong regional roots are a real asset at local level. They know the ins and outs of their communities and where we can direct our initiatives to make the most impact. We support good causes on various fronts. Listed in this report are only a few examples from across the world.

Working with Selavip

Etex is a sponsor of international NGO Selavip, which we support through our local companies. Selavip works with local NGOs on housing projects for poor families living in extreme social conditions across Africa, Asia and Latin America.

Community projects

Our companies know these local communities and profoundly understand their needs. That is why our companies have the freedom and support to set up their own community initiatives.

Local community projects take many forms: from organising fundraisers and donating materials to delivering on-site advice and project management.

Emergency homes in Latin America

In Latin America, around one quarter of the population lives in slums characterised by substandard housing. The growing frequency and intensity of natural disasters such as floods and earthquakes due to climate change add to the region-wide housing deficit. Many people no longer have a roof over their heads. Consequently, governments and NGOs are increasingly looking for fast and affordable ways to construct houses and shelters.

Developed with care

Our companies in Latin America addressed this housing shortage head-on and developed two solutions:

- **temporary shelters** made from wooden frames, fibre cement boards and corrugated sheets. These do-it-yourself (DIY) kits provide quick and easy solutions in the aftermath of natural disasters or humanitarian crises.
- **permanent housing** with wooden or steel frames. These prefabricated, low-cost structures comply with governmental requirements, making them ideal for rural housing programmes.

In 2017, over 3,300 permanent and temporary shelters and housing units were constructed across Colombia, Ecuador, Peru and Chile.

Joint venture in Chile

To reach as many people as possible, our company in Chile worked with international NGO Selavip, youth-led volunteer programme TECHO and charity organisation Fundación Vivienda.

In doing so, we have challenged ourselves to take a long-term approach to develop modular solutions for emergency housing — with even greater emphasis on habitability and comfort.

→ The Moduplak dry construction packs are designed to be easy to assemble. They are a welcome solution for the many people in need of a roof over their heads and a place to call home.

3,300+

temporary shelters and emergency housing units were constructed in Latin America using kits and systems designed by our companies in Colombia, Ecuador, Peru and Chile.

Big Build in Romania: 36 homes for low-income families (in five days)

Organised by NGO Habitat for Humanity, the Big Build project in Romania was the biggest volunteer initiative for accelerated construction in Europe in 2017. Our company in Romania pitched in.

Pressing housing need

No less than 52% of the Romanian population is living in overcrowded homes. This figure is particularly high compared to the European average of 17.8%. What is more, around one fifth of all Romanian houses are in very poor condition and require urgent renovation.

Instant homes

From 2 to 6 October 2017, over 820 volunteers sprung to action in collaboration with Habitat for Humanity Romania. In just five days, they constructed 36 houses for low-income families, which a total of 118 parents and children now call home.

Our company in Romania donated 6,000 square metres of Nida plasterboards to the cause. In addition, 20 of our Romanian employees joined 100 other construction specialists to help guide and supervise the build.

118

Our company in Romania and 20 of its local employees contributed to the construction of 36 homes for a total of 118 parents and children.

→ Our Romanian employees joined 100 other construction specialists to help guide and supervise the five-day Big Build project to construct 36 houses for low-income families.

Group policies and guidelines

With a presence in over 40 countries across the globe we continually assess and take responsibility for the impact we have on the local communities where we operate. Where possible, we make for a better quality of life.

Our global code of conduct requires all our companies to operate in a responsible, sustainable and ethical way towards our stakeholders and communities.

All Etex companies must comply with the conventions of the International Labour Organisation (ILO). We do not engage in child labour and we respect freedom of association.

A stringent anti-discrimination policy ensures that no discrimination based on ethnicity, gender, sexual orientation, disability or age is tolerated.

↑ An inclusive art workshop invited children, staff, volunteers and visitors of the Rainbow Centre to create personalised art for an indoor wall built using Equitone panels donated by Etex.

Rainbow Centre: new wing at the special care centre in Singapore

The Rainbow Centre in Singapore is a place that empowers children and young adults with special development and learning needs. Think of autism and physical, visual and hearing disabilities.

In 2017, the Rainbow Centre added an extension wing that uses Etex's architectural façade brand Equitone.

Providing stimuli

Our local team donated Equitone façade panels to create an internal community art wall. Led by local inclusive arts movement Superhero Me, the children, staff, volunteers and visitors of the Rainbow Centre created artwork to decorate the Equitone wall panels. The finished wall represents each person's unique identity and celebrates a future filled with possibilities.

GOVERNANCE REPORT

Governance report

5.1 Corporate governance

5.2 Board of Directors

5.3 Our management

Corporate governance

Etex is committed to the principles of corporate governance and employs a sound approach to managing and steering our company in line with the best interests of our internal and external stakeholders.

The latest version of Etex's corporate governance charter was adopted in October 2017 and is available at www.etexgroup.com.

Our management structure and processes are designed to optimise our perfomance while reducing the possible risks and impact of our activities. Etex is managed by:

- the Chief Executive Officer (CEO);
- the Executive Committee; and
- the Board of Directors.

Executive Committee

Our day-to-day management is entrusted to the CEO and the Executive Committee. The members of the Executive Committee are the CEO, the Heads of the Etex Building Performance, Etex Façade and Etex Roofing divisions, the Chief Strategy Officer (CSO), the Chief Financial Officer (CFO), the Chief Performance Officer (CPO) and the Chief Human Resources Officer (CHRO).

An Winters, General Counsel, is the secretary of the Executive Committee.

Board of Directors

Etex's Board of Directors sets the overall group strategy, decides on major investments and monitors all corporate activities. Its composition is carefully balanced and includes representatives of Etex's shareholders and management as well as independent directors.

The Board of Directors has four dedicated committees to assist and advise on specific matters: the Strategy Committee, the Selection and Remuneration Committee, the Risk and Audit Committee and the recently created Sustainability and Corporate Social Responsibility Committee.

The Strategy Committee

The Strategy Committee evaluates the Executive Committee's strategic proposals and makes recommendations to the Board of Directors. It also reviews the Executive Committee's proposals for acquisitions, divestments and geographic diversification.

The Selection and Remuneration Committee

The Selection and Remuneration Committee selects potential board members. It also determines the remuneration and benefits structure for Executive Committee members. Its job is to ensure incentives reflect market practices and are optimally designed to support Etex's strategic goals.

The Risk and Audit Committee

This committee reviews Etex's financial reporting processes and the statutory audit of the group's annual accounts. Above all, the Risk and Audit Committee ensures the consistency and reliability of accounts and all other financial information submitted to the Board. Moreover, the Risk and Audit Committee monitors Etex's risk and internal control management systems.

The Sustainability and Corporate Social Responsibility Committee

This committee ensures that Etex effectively addresses the economic and societal challenges associated with its mission to offer construction solutions that contribute to a better world. The Committee will consider the impact of the group's businesses, operations and programmes from a social responsibility perspective, taking into account the legal framework and the interests of all stakeholders.

Board of Directors

Changes to the Board of Directors

J. Alfons Peeters came to the end of his mandate and left the Board of Directors on 24 May 2017. On the same day, Pierre Vareille joined the Board of Directors.

The Strategy Committee

The Strategy Committee met three times in 2017. A fourth meeting was replaced by and incorporated as part of a board meeting.

Its members are

- Jean-Louis de Cartier de Marchienne, chairman
- Walter Emsens
- Gustavo Oviedo
- Paul Van Oyen
- Philippe Vlerick
- An Winters, secretary

The Risk and Audit Committee

In 2017, the Risk and Audit Committee met four times.

Its members are

- Regnier Haegelsteen, chairman
- Teodoro Scalmani
- Guvo SPRL, represented by its permanent representative Mr. Guillaume Voortman
- An Winters, secretary

The Board of Directors

The Board of Directors met five times in plenary sessions throughout 2017.

Its members are

- Jean-Louis de Cartier de Marchienne, chairman
- Paul Van Oyen, managing director
- Walter Emsens, director
- Regnier Haegelsteen, director
- Gustavo Oviedo, director
- Teodoro Scalmani, director
- Christian Simonard, director
- Bernadette Spinoy, director
- Caroline Thijssen, director
- Pierre Vareille, director
- Philippe Vlerick, director
- Guvo SPRL, represented by its permanent representative Mr. Guillaume Voortman
- An Winters, secretary

The Selection and Remuneration Committee

In 2017, the Selection and Remuneration Committee met three times.

Its members are

- Philippe Vlerick, chairman
- Jean-Louis de Cartier de Marchienne
- Caroline Thijssen
- Paul Van Oyen
- Pierre Vareille
- Myriam Macharis, secretary

The Sustainability and Corporate Social Responsibility Committee

In 2017, the Sustainability and Corporate, Social Responsibility Committee met two times.

Its members are

- Bernadette Spinoy, chairman
- Jean-Louis de Cartier de Marchienne
- Paul Van Oyen
- Christian Simonard
- An Winters, secretary

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Auditors
EY, represented by Eric Golenvaux, for both the non-consolidated and consolidated accounts for the financial year ended on 31 December 2017.

Our management

On 1 April 2018, Etex's Executive Committee members are:

In 2017, we extended our Executive Committee to include the position of Chief Strategy Officer, a position we filled on 1 September 2017.
On 1 April, Per-Olof Algotsson assumes the role of Head of Etex Building Performance, a position that has been vacant since 31 December 2017.

Carla Sinanian
Chief Strategy Officer
At Etex since 2017

Michel Klein
Head of Etex Roofing
At Etex since 2016

Per-Olof Algotsson
Head of Etex Building Performance
At Etex since 2018

Michael Fenlon
Head of Etex Façade
At Etex since 1998

Mel de Vogue
Chief Financial Officer
At Etex since 2015

Alexander Carnevale
Chief Performance Officer
At Etex since 2015

Myriam Macharis
Chief Human Resource Officer
At Etex since 1983

Paul Van Oyen
Chief Executive Officer
At Etex since 1990

Financial report

6.1 Consolidated financial statements
6.2 Non-consolidated accounts of Etex S.A.
6.3 Glossary

Consolidated financial statements

Consolidated income statement

IN THOUSANDS OF EUR	NOTES	2016	2017
Revenue	(1)	**2,736,817**	**2,793,738**
Cost of sales	(2)	-1,902,330	-1,932,062
Gross profit		**834,487**	**861,676**
Distribution expenses	(2)	-395,444	-389,309
Administrative and general expenses	(2)	-171,075	-185,842
Other operating charges	(3)	-28,392	-28,777
Other operating income	(3)	8,774	7,914
Operating income before non recurring items		**248,350**	**265,662**
Gain and losses on disposal of assets and businesses	(4)	-2,198	38,114
Other non recurring items	(4)	-69,762	-35,153
Operating income (EBIT)		**176,390**	**268,623**
Interest income	(5)	3,462	4,687
Interest expenses	(5)	-63,599	-47,150
Other financial income	(5)	441	8,786
Other financial expense	(5)	-11,815	-19,922
Share of profit in equity accounted investees	(12)	1,250	1,220
Profit before income tax		**106,129**	**216,243**
Income tax expense	(6)	-17,027	-62,909
Profit for the year from continuing operations		**89,102**	**153,334**
Attributable to shareholders of Etex		86,337	148,036
Attributable to non-controlling interests		2,765	5,298
Profit from discontinued operations	(30)	40,861	-
Profit for the year		**129,963**	**153,334**
Attributable to shareholders of Etex		127,198	148,036
Attributable to non-controlling interests		2,765	5,298

The presentation of the 2016 consolidated income statement is impacted by the discontinued operations. Refer to note 30.

Consolidated statement of comprehensive income

IN THOUSANDS OF EUR	2016	2017
Profit for the year	**129,963**	**153,334**
Changes in employee benefits reserves	-122,895	80,674
Income tax effect	21,187	-14,247
Net other comprehensive income not to be reclassified to income statement in subsequent periods	**-101,709**	**66,427**
Changes in cash flow hedge reserves	1,351	2,519
Income tax effect	-316	-3,353
Changes in translation differences	-23,232	-52,945
Net other comprehensive income to be reclassified to income statement in subsequent periods	**-22,197**	**-53,779**
Other comprehensive income, net of tax	**-123,905**	**12,648**
Total comprehensive income for the period, net of tax	**6,057**	**165,981**
Attributable to shareholders of Etex	11,113	163,786
Attributable to non-controlling interests	-5,056	2,196

Consolidated statement of financial position

IN THOUSANDS OF EUR	NOTES	2016	2017
Non-current assets		**2,210,172**	**2,216,151**
Property, plant and equipment	(7)	1,581,014	1,640,978
Goodwill and other intangible assets	(8) (9)	397,557	411,736
Investment properties	(10)	23,657	23,376
Assets held for sale	(11)	6,375	3,406
Investments in equity accounted investees	(12)	37,197	8,186
Other non-current assets	(13)	14,110	8,033
Deferred tax assets	(24)	150,262	115,093
Employee benefits assets	(21)	-	5,343
Current assets		**1,041,507**	**898,081**
Inventories	(15)	431,876	468,279
Trade and other receivables	(14)	317,665	319,652
Other current assets	(14)	8,731	3,137
Cash and cash equivalents	(17)	283,235	107,013
TOTAL ASSETS		**3,251,679**	**3,114,232**
Total equity		**888,581**	**1,010,833**
Issued share capital		4,492	2,533
Share premium		3,724	743
Reserves and retained earnings		851,932	979,769
Attributable to the equity shareholders of Etex		860,148	983,045
Non-controlling interests		28,433	27,788
Non-current liabilities		**1,134,221**	**1,141,217**
Provisions	(19)	162,696	137,827
Employee benefits liabilities	(21) (22)	399,278	310,731
Loans and borrowings	(23)	398,934	529,735
Deferred tax liabilities	(24)	139,545	127,129
Other non-current liabilities	(25)	33,768	35,795
Current liabilities		**1,228,877**	**962,182**
Provisions	(19)	51,029	55,330
Current portion of loans and borrowings	(23)	523,008	213,169
Trade and other liabilities	(25)	654,840	693,683
TOTAL EQUITY AND LIABILITIES		**3,251,679**	**3,114,232**

Consolidated statement of cash flows

IN THOUSANDS OF EUR	NOTES	2016	2017
Operating income (EBIT)		176,390	268,623
Depreciation, amortisation and impairment losses	(26)	160,868	163,425
Losses (gains) on sale of intangible assets and property, plant and equipment	(26)	-1,597	-3,272
Losses (gains) on sale of businesses		2,979	-34,387
Income tax paid	(26)	-51,028	-61,734
Changes in working capital, provisions and employee benefits	(26)	26,130	-48,012
Changes in other non-current assets/liabilities		-1,341	5,408
Discontinued operations: cash flow from operating activities	(30)	-22,090	-
Cash flow from operating activities		**290,312**	**290,051**
Proceeds from sale of intangible assets and property, plant and equipment	(26)	5,668	9,950
Acquisition of business		-20,753	-49,547
Disposal of business		1,328	11,931
Capital expenditure	(26)	-136,990	-147,746
Interest and dividend received	(26)	4,668	4,988
Other		-1	83
Discontinued operations: cash flow from investing activities	(30)	173,228	-
Cash flow from investing activities		**27,148**	**-170,341**
Capital increase / (decrease)		-11,423	-4,660
Proceeds (repayment) of borrowings		-35,968	-189,502
Dividend paid	(26)	-36,153	-39,351
Interest paid		-46,199	-50,554
Discontinued operations: cash flow from financing activities	(30)	-39,135	-
Cash flow from financing activities		**-168,879**	**-284,067**
Net increase (decrease) in cash and cash equivalents		**148,581**	**-164,357**
Cash and cash equivalents at the beginning of the year		161,829	279,432
Translation differences		-19,443	-9,444
Changes in the scope of consolidation		-11,535	-1,663
Net increase (decrease) in cash and cash equivalents		148,581	-164,357
Cash and cash equivalents at the end of the year		**279,432**	**103,968**
Cash and cash equivalents		283,235	107,013
Bank overdrafts		-3,803	-3,045

The presentation of the 2016 consolidated statement of cash flows is impacted by the discontinued operations. Refer to note 30.

Consolidated statement of changes in equity

	ATTRIBUTABLE TO THE EQUITY HOLDERS OF ETEX						
IN THOUSANDS OF EUR	ISSUED SHARE CAPITAL AND SHARE PREMIUMS	TREASURY SHARES	POST EMPLOYMENT BENEFITS RESERVES AND FINANCIAL INSTRUMENTS	TRANSLATION	OTHER RESERVES AND RETAINED EARNINGS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
At December 31, 2015	**8,216**	**-19,988**	**-189,405**	**-180,696**	**1,265,315**	**35,529**	**918,971**
Total comprehensive income	-	-	-100,674	-15,410	127,198	-5,055	6,058
Capital increase / (decrease)	-	-	-	-	-23	-11	-34
Dividend	-	-	-	-	-34,392	-2,030	-36,422
Other transactions with owners	-	-	229	7	-228	-	8
At December 31, 2016	**8,216**	**-19,988**	**-289,850**	**-196,099**	**1,357,869**	**28,433**	**888,581**
Total comprehensive income	-	-	65,605	-48,061	146,241	2,196	165,981
Capital increase / (decrease)	-4,940	-	-	-	280	-	-4,660
Dividend	-	-	-	-	-37,519	-1,550	-39,069
Other transactions with owners	-	-	-	-	1,290	-1,290	-
Treasury shares	-	-	-	-	-	-	-
At December 31, 2017	**3,276**	**-19,988**	**-224,245**	**-244,160**	**1,468,162**	**27,788**	**1,010,833**

Accounting policies

Etex S.A. (the "Company") is a company domiciled in Belgium. The consolidated financial statements comprise the Company and its subsidiaries, interests in jointly controlled entities and equity accounted investees (together referred to as "the Group") as at 31 December each year.

The financial statements have been authorised for issue by the Board of Directors on 28 March 2018.

Statement of compliance

The consolidated financial statements of Etex for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as issued by the International Accounting Standards Board (IASB) as adopted by the European Union (EU).

The Group applied the same IFRSs as those adopted in the previous years, except for the new IFRSs and interpretations the entity adopted as of 1st January 2017.

The nature and the impact of each of the following new standards, amendments and/or interpretations are described below:

- Amendments to IAS 7 Statements of Cash Flows, effective 1 January 2017
- Amendments to IAS 12 Income taxes: Recognition of Deferred Tax Assets for Unrealised Losses, effective 1 January 2017
- Annual Improvements to IFRSs 2014-2016 Cycle (issued December 2016), effective 1 January 2017

Basis of preparation

A - Functional and presentation currency

The consolidated financial statements are presented in Euro, which is the Company's functional and presentation currency. All values are rounded to the nearest thousand except when otherwise indicated.

B – Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that the following assets are stated at their fair value: derivative financial instruments. Also, the liabilities for cash-settled share based payment arrangements are measured at fair value. The consolidated financial statements have been prepared using the accrual basis for accounting, except for cash flow information.

C – Use of judgement, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and related disclosures at the date of the financial statements. These judgements, estimates and associated assumptions are based on management's best knowledge at reporting date of current events and actions that the Group may undertake in the future. However, actual results could differ from those estimates, and could require adjustments to the carrying amount of the asset or liability affected in the future. The estimates and underlying assumptions are reviewed on an ongoing basis.

The significant estimates made by management concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets The recoverable amount of the cash-generating units tested for impairment is the higher of its fair value less costs to sell and its value in use. Both calculations are based on a discounted cash-flow model. The cash flows are derived from the budget for the next three to ten years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash-generating units, including a sensitivity analysis, are further explained in note 8.

Provisions The assumptions that have significant influence on the amount of the provisions are the estimated costs, the timing of the cash outflows and the discount rate. These assumptions are determined based on the most appropriate available information at reporting date. Further details about the assumptions used are given in note 19.

Employee benefits The measurement of the employee benefits is based on actuarial assumptions. Management believes that the assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases used for these actuarial valuations are appropriate and justified. They are reviewed at each balance-sheet date. However, given the long-term nature of these benefits, any change in certain of these assumptions could have a significant impact on the measurement of the related obligations. Further details about assumptions used are given in note 21.

Recognition of deferred tax assets on tax losses carried forward Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of the deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The potential utilisation of tax losses carried forward is based on budgets and forecasts existing at reporting date. Actual results could differ from these budgets with an impact on the utilisation of tax losses carried forward.

Cash-settled share-based payment transaction The Group measures the cost of cash-settled transactions with employees by reference to the fair value of the equity instruments at each reporting date. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and model used for estimating fair value for share-based payment transactions are disclosed in note 22.

Financial instruments To measure the fair value of financial assets that cannot be derived from active markets, management uses a valuation technique based on discounted future expected cash flows. The inputs of this model require determining a certain number of assumptions, including discount rate, liquidity risk and volatility, subject to uncertainty. Changes in these assumptions could have an impact on the measurement of the fair value. Further details are given in note 16.

D – Basis of consolidation

Subsidiaries Subsidiaries are entities that are controlled, directly or indirectly, by the Company.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements

- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Investments in associates and joint ventures A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Equity accounted investees are companies over which the Group generally holds between 20 per cent and 50 per cent of the voting rights. The Group's interest in joint ventures or equity accounted investees is consolidated using the equity method.

Equity accounting starts when joint control or significant influence is established until the date it ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount is reduced to nil and recognition of any further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investees. The financial statements of these companies are prepared for the same reporting year as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. Unrealised gains arising from transactions with joint ventures and equity accounted investees are eliminated to the extent of the Group's interest. Unrealised losses are eliminated the same way as unrealised gain but only to the extent that there is no evidence of impairment. The investments accounted for using the equity method include the carrying amount of any related goodwill.

E – Foreign operations

The individual financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Income statements of foreign entities are translated into the Group's reporting currency at average exchange rates for the year. Assets and liabilities, including goodwill and fair value adjustments arising on consolidation are translated at exchange rates ruling on 31 December. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a non euro entity, the cumulative amount recognised in equity relating to that particular foreign operation is released to the income statement.

F – Transactions in foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at exchange rates on 31 December are recognised in the income statement. Non-monetary assets and liabilities in a foreign currency are translated using the exchange rate at the date of the transaction.

G – Exchange rates

The following exchange rates against € have been used in preparing the financial statements:

		2016		2017	
		AVERAGE	END OF PERIOD	AVERAGE	END OF PERIOD
Argentinean peso	ARS	16.3206	16.6978	18.7749	22.3663
Chilean peso (000)	CLP	0.7491	0.7057	0.7330	0.7373
Chinese yuan	CNY	7.3476	7.2710	7.6338	7.8023
Colombian peso (000)	COP	3.3817	3.1631	3.3384	3.5787
Danish krone	DKK	7.4456	7.4344	7.4387	7.4449
Pound sterling	GBP	0.8178	0.8562	0.8769	0.8872
Hungarian forint	HUF	311.4570	309.8300	309.1892	310.3300
Indonesian rupiah (000)	IDR	14.7272	14.1734	15.1328	16.2391
Nigerian naira	NGN	283.4324	332.3050	351.2407	367.0460
Peruvian nuevo sol	PEN	3.7365	3.5376	3.6854	3.9180
Polish zloty	PLN	4.3648	4.4103	4.2547	4.1770
US dollar	USD	1.1066	1.0541	1.1308	1.1993
South African rand	ZAR	16.2938	14.4570	15.0475	14.8054

Significant accounting policies

The accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been applied consistently by all entities. Certain comparatives have been reclassified to conform to current year's presentation.

A – Property, plant and equipment

Property, plant and equipment are measured at acquisition or construction costs less accumulated depreciation and impairment loss (see note E). The cost of property, plant and equipment acquired in a business combination is the fair value as at the date of acquisition. After recognition, the items of property, plant and equipment are carried at cost and not revaluated.

Costs include expenditures that are directly attributable to the acquisition of the asset; e.g. costs incurred to bring the asset to its working condition and location for its intended use. It includes the estimated costs of dismantling and removing the assets and restoring the sites, to the extent that the liability is also recognised as a provision. The costs of self-constructed assets include the cost of material, direct labour and an appropriate proportion of production overheads. Borrowing costs incurred and directly attributable to the acquisition or construction of an asset that takes a substantial period of time to get ready for its intended use, are capitalised as incurred. When all the activities necessary to prepare this asset are completed, borrowing costs cease to be capitalised.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal

proceeds and the carrying amount of the asset) is included in the operating income in the year the asset is derecognised.

Subsequent expenditures The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the costs of the item can be measured reliably. The carrying amount of the parts replaced is derecognised. All other costs are recognised in the income statement as an expense as incurred.

Assets held under finance lease Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired through a finance lease is recognised at the commencement of the lease term at the lower of the fair value of the leased asset and the present value of minimum lease payments, each determined at the date of inception of the lease. Subsequently, such assets are measured consistently with owned property, plant and equipment, except that the useful life is limited by the lease term if the transfer of ownership at the end of the lease term is not reasonably certain. The corresponding lease liabilities are included in non-current and current financial liabilities.

Depreciation Depreciation starts when an asset is available for use and is charged to the income statement on a straight-line basis over the estimated useful life. The depreciable amount of each part of property, plant and equipment with a cost that is significant in relation to the total cost of the asset is depreciated separately over its useful life on a straight-line basis. Costs of major inspections are depreciated separately over the period until the next major inspection. Temporarily idle assets continue to be depreciated.

Estimated useful lives of the major components of property, plant and equipment are as follows:

Lands (excluding lands with mineral reserves)	nil
Lands with mineral reserves	exploitation lifetime
Lands improvements and buildings	10 - 40 years
Plant, machinery and equipment	5 - 30 years
Furniture and vehicles	3 - 10 years

Mineral reserves, which are presented as “lands” of property, plant and equipment, are valued at cost and are depreciated based on the physical unit-of-production method over the estimated tonnes of raw materials to be extracted from the reserves.

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end.

B – Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses (see note E).

Internally generated intangible assets are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. Expenditure capitalised include the costs of materials, direct labour and an appropriate portion of overheads.

The useful lives of intangible assets are assessed to be either finite or indefinite on the following bases:

Patents, trademarks and similar rights	indefinite
Software ERP	10 years
Other software	5 years
Development costs	15 years
Customer lists	3 - 15 years
Brands	15 years
Technology and design	15 years
Rights to exploit and extract mineral resources	usage

Intangible assets with finite lives are amortised over the useful economic life using the straight-line method. The estimated useful lives are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates by changing the amortisation charge for the current and future periods. The amortisation expense is recognised in the income statement in the expense category consistent with the function of the asset.

C – Goodwill

Goodwill represents the excess of the cost of a business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, equity accounted investees or joint venture at the date of acquisition. Goodwill on acquisitions of equity accounted investee or joint ventures is included in the carrying amount of the investments. Goodwill on the acquisition of subsidiaries is presented separately, and is stated at cost less accumulated impairment losses (see note E).

If the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, this excess (frequently referred to as negative goodwill or badwill) is immediately recognised in the profit and loss statement, after a reassessment of the fair values.

Additional investments in subsidiaries in which the Company already has control are accounted for as equity transactions; any premium or discount on subsequent purchases of shares from minority interest are recognised directly in the Company’s shareholders equity.

D – Investment property

Investment property is property held to earn rental income or for capital appreciation or for both and is valued at acquisition cost less accumulated depreciation and impairment losses. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. Investment property is depreciated similar to owned property (see note A).

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when there is a change in use, evidenced by commencement of owner-occupation.

E – Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset, other than inventories and deferred taxes, may be impaired. If any such indication exists, the recoverable amount of the asset (being the higher of its fair value less costs to sell and its value in use) is estimated. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest cash-generating unit to which the asset belongs. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

Impairment losses are recognised in the income statement. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for that asset or cash-generating unit in prior periods. A reversal of an impairment loss is recognised immediately in the income statement apart from goodwill for which no such reversal is allowed.

Intangible assets with indefinite useful lives and intangible assets that are not yet available for use are tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be adequate. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Financial assets When a decline in the fair value of an available-for-sale financial asset has been recognised directly in comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised directly in comprehensive income is recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement. The reversal of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale, following an event occurring after the recognition of the impairment loss, is performed in comprehensive income. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in fair value of the investment below its cost.

F – Investments in debt and equity securities

All purchases and sales of investments are recognised on trade date, which is the date that the Group commits to purchase or sell the asset.

Investments in equity securities are undertakings in which the Group does not have significant influence or control. These investments are designated as available-for-sale financial assets, as they are not held for trading purposes. At initial recognition they are measured at fair value unless the fair value cannot be measured reliably in which case they are measured at cost. The fair value is determined by reference to their quoted bid price at reporting date. Subsequent changes in fair value, except those related to impairment losses which are recognised in the income statement, are recognised directly in comprehensive income. On disposal of an investment, the cumulative gain or loss previously recognised in comprehensive income is recognised in the income statement.

G – Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an asset, the grant value is recognised as a deferred income and is released to the income statement as a reduction of the depreciation charge over the expected useful life of the relevant asset by equal annual instalments. When the grant relates to a compensation of an expense, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs incurred.

Government grants that are expected to be released within twelve months after the reporting date are classified as other current liabilities. The other government grants are classified as non-current liabilities.

H – Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is assigned by using the weighted average cost method. The cost of inventories comprises all costs of purchases and other costs incurred in bringing the inventories to their present location and condition. For manufactured inventories, cost means full cost including all direct and indirect production costs required to bring the inventory items to the stage of completion at the reporting date. Allocation of indirect production costs is based on normal operating capacity. Borrowing costs are expensed as incurred. The costs of inventories may also include transfers from equity of any gain or loss on qualifying cash flow hedges on foreign currency purchases of inventory.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

I – Trade and other receivables

Trade and other receivables are initially recognised at fair value which generally corresponds with the nominal value. Trade and other receivables are subsequently carried at amortised cost using the effective interest rate method. An impairment allowance is recognised for any uncollectible amounts when there is objective evidence that the Group will not be able to collect the outstanding amounts.

J – Cash and cash equivalents

Cash and cash equivalents are readily convertible into known amounts of cash. Cash and cash equivalents comprise cash at banks and on hand and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are not included in cash and cash equivalents but classified as current financial liabilities. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Cash and cash equivalents are carried in the statement of financial position at amortised cost.

K – Share capital

Ordinary shares Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares or share options are recognised as a deduction of equity, net of tax effects.

Treasury shares Own equity instruments (treasury shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Dividends Dividends are recognised as liabilities in the period in which they are declared.

L – Provisions

A provision is recognised when the Group has a legal or constructive obligation arising from past events for which it is probable the settlement will require an outflow of resources embodying economic benefits and a reliable estimate can be made on the amount of the obligation. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. The result of the yearly discounting of the provision, if any, is accounted for as financial result.

Warranty provisions The Group recognises a provision to cover the costs arising from contractual obligation or established practice of repairing or replacing faulty or defective products sold on or before the reporting date. The estimate of warranty provision is based on past experience on the level of repairs, applied to past period sales that are still under warranty.

Restructuring provisions Restructuring provisions are recognised when one of the following conditions is met:

- the decision to restructure is based on a detailed formal plan identifying at least: the business and the employees concerned, the expected expenditures and the expected date of implementation,
- there is a valid expectation that the plan will be carried out to those affected by it by the reporting date,
- the restructuring has either commenced or has been announced publicly.

Any restructuring provision only includes the direct expenditure arising from the restructuring which is necessarily incurred and is not associated with the ongoing activities of the Group.

Emission rights The initial allocation of emission rights granted is recognised at nominal amount (nil value) and is subsequently carried at cost. Where the Group has emitted CO2 in excess of the emission rights granted, it will recognise a provision for the shortfall based on the market price at that date. The emission rights are held for compliance purposes only and therefore the Group does not actively trade these in the market.

Other provisions These captions include provisions for claims and litigation with customers, suppliers, personnel, tax authorities and other third parties. It also includes provisions for onerous contracts, for guarantees given to secure debt and commitment of third parties when they will not fulfil their obligation and for site restoration costs.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

A provision for site restoration costs in respect of contaminated land is recognised whenever the Group has a legal obligation to clean the land or where there is an intention to sell the land.

Provisions that are expected to be settled within twelve months after the reporting date are classified as other current liabilities. The other provisions are classified as non-current liabilities.

M – Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because:

- it is not probable that an outflow of resources embodying economic benefit will be required to settle the obligation,
- or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the statement of financial position. They are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial

statements but are disclosed if the inflow of economic benefits is probable.

N – Post employment benefits and other long-term employee benefits

Defined benefits plans Some Group companies provide pension or medical plans for their employees which qualify as defined benefits plans. The net obligation resulting from these plans, which represents the amount of future benefits that employees have earned in return of their service in the current and prior periods, are determined separately for each plan by a qualified actuary using the projected unit credit method. The calculations are based on actuarial assumptions relating to mortality rates, rates of employee turnover, future salary levels and medical costs increase which reflect the economic conditions in each country or entity.

Discount rates are determined by reference to the market yields at the reporting date on high quality corporate bonds or to the interest rates at the reporting date on government bonds where the currency and terms of the bonds are consistent with the currency and estimated terms of the defined benefit obligation.

Re-measurements, comprising of actuarial gains and losses (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur.

Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- the date of the plan amendment or curtailment, and
- the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

The Group recognises the following changes in the net defined benefit obligation under:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements in operating income before non-recurring items
- Net interest expense in interest expenses.

The defined benefit liability is the aggregate of the present value of the defined benefits obligation reduced by past service cost not yet recognised and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, a net pension asset is recorded only to the extent that it does not exceed the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan and any unrecognised past service costs.

Defined contributions plans In addition to the defined benefits plans described above, some Group companies sponsor defined contributions plans based on local practices and regulations. The Group's contributions to defined contributions plans are charged to the income statement in the period in which the contributions are due.

Other long term benefits plans Other long term obligations include the estimated costs of early retirement for which a constructive obligation exists at reporting date.

Short term benefits Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short term cash-bonus plans if the Group has a present and constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

Termination benefits Termination benefits are recognised as an expense when the Group is demonstrably committed without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

O – Employee benefits – Share based payment transactions

The Group operates various share-based compensation plans which qualify as equity-settled transactions with a cash alternative. In addition to the shares options, beneficiaries receive put options which entitle them to a cash payment, and as management assumes that most of these put options will be exercised, the Company accounts for the grants as a cash-settled transaction. The services received and the liability incurred are measured initially at fair value at the grant date using the Black and Scholes method taking into account the terms and conditions upon which the instruments were granted. The initial fair value is expensed over the period until vesting. The fair value of the liability is re-measured at each reporting date up to and including the settlement. Any changes in fair value of the liability are recognised in the income statement.

P – Financial liabilities

Bank loans and other borrowings
Bank loans and other borrowings are recognised initially at the fair value of the consideration received, net of transaction costs incurred. In subsequent periods, bank loans and other borrowings are stated at amortised cost, with any difference between costs and redemption value being recognised in the income statement, using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

These liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Finance lease liabilities Financial liabilities resulting from a finance lease are recognised, along with the related assets, at an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The lease payments due within twelve months are included in current financial liabilities.

Q – Trade and other payables

Trade and other payables are initially recognised at fair value which generally corresponds with the nominal value. They are subsequently carried at amortised cost using the effective interest rate method.

R – Risk Management

The Group has exposure to the following risks from its business activities and use of financial instruments in running and managing its business:

A. Market risk

B. Credit risk

C. Liquidity risk

D. Capital risk

The Group's risk management policies have been established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly in the light of market conditions and changes in the Group's activities.

A. Market risk Market risk is the risk that changes in the market prices, such as foreign exchange rates, interest rates and equity prices, will (positively or negatively) affect the Group's income or expenses or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group creates financial assets and incurs financial liabilities in the ordinary course of business. It buys and sells derivatives in order to manage market risk. Generally, the Group seeks to apply hedge accounting to allow it to offset, at maturity, the gains or losses on the hedging contracts against the value of costs and revenue. Hedge accounting enables it to manage volatility in the income statement.

Currency risk
In its operations, the Group is exposed to currency risk on sales, purchases and borrowings.

The translation of local statements of financial position and income statements into the Group reporting currency leads to currency translation effects. If the Group hedges net investments in foreign entities with foreign currency borrowings or other instruments, the hedges of net investments are accounted for similarly to cash flow hedges. All foreign exchange gains or losses arising on translation are recognised in equity and included in cumulative translation differences.

Due to the nature of the Group's business, a high proportion of revenues and costs is in local currency, thus transaction risk is limited. Where Group entities have expenditures and receipts in different foreign currencies, they enter into derivative contracts themselves or through the Group's treasury centre to hedge their foreign currency exposure over the following months (based on forecasted purchases and sales). These derivatives are designated either as cash flow hedges, fair value hedges or non hedging derivatives.

Interest rate risk
The Group's primary source of funding is floating rate bank debt. Therefore it is exposed to the risk of changes, beneficial or adverse, in market interest rates.
The Group's long-term borrowings have been raised by companies in Belgium, Chile, and Germany. To manage its interest costs, the Group has entered into interest rate swaps. The hedges ensure that the major

part of the Group's interest rate cost on borrowings is on a fixed rate basis. The timing of such hedges is managed so as to lock interest rates whenever possible.

Equities and securities risk
Equity price risk arises from available-for-sale equity securities. In general, the Group does not acquire any shares or options on shares or other equity products, which are not directly related to the business of the Group.

B. Credit risk Credit risk is the risk of financial loss to the Group if a customer or finance counterparty to a deposit, lending or derivative instrument fails to meet its contractual obligations. It arises principally from the Group's receivables from customers and from bank deposits and investment securities. It also includes the risk that a financial counterparty may fail to meet its obligation under a financial liability. The Group constantly monitors credit risk, and ensures that it has no excessive concentration of credit risk with any single counterparty or group of connected counterparties.

To manage the risk of customer default, the Group periodically assesses the financial reliability of customers, and establishes purchase limits for each customer. The Group establishes allowances for impairment that represent its estimate of incurred losses in respect of trade and other receivables and investments. The main components of these allowances are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Finance counterparties consist of a number of major financial institutions. The Group does not expect any counterparties to fail to meet their obligations, including their lending obligations, given their high credit risk ratings. Nevertheless, the Group seeks to spread its interactions with the banking world on a sufficient number of market players to mitigate the risk of a potential default.

C. Funding and long term liquidity risk Funding risk is the risk that the Group will be unable to access the funds that it needs when it comes to refinance its debt or through the failure to meet the terms of its main syndicated credit facility. A summary of the terms of the facility are to be found in note 23 on financial debts. Refinancing risk is managed through developing and maintaining strong bank relationships with a group of financial institutions and through maintaining a strong and prudent financial position over time.

Long term liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, and so avoid incurring unacceptable losses or risking damage to the Group's reputation.

Short term liquidity risk is managed on a daily basis with funding needs being fully covered through the availability of credit lines. Cash is maintained, where necessary, to guarantee the solvency and financial flexibility of the Group at all times. In 2015 a factoring and credit insurance plan is set up for trade receivables (refer to note 14).

D. Capital risk The Group's primary objective when managing capital is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic situations.

S – Derivative financial instruments

The Group uses derivative financial instruments such as forward exchange contracts and interest rate swaps to hedge its risk associated with foreign currency and interest rate fluctuations. In accordance with its treasury policy, the Group does not hold derivative financial instruments for trading purposes. Derivative financial instruments that do not qualify for hedge accounting are accounted for as financial assets and liabilities at fair value through profit and loss.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into. The fair value of derivative financial instruments is either the quoted market price or is calculated using pricing models taking into account current market rates and current creditworthiness of the counterparties.

Subsequently to initial recognition, derivative financial instruments are stated at fair value at the reporting date. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

Derivative financial instruments are stated at cost if their fair value cannot be measured reliably.

Gains or losses on re-measurement to fair value are recognised immediately in the income statement unless the derivative qualifies for hedge accounting whereby recognition is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives either as:

- a hedge of a particular risk associated with a recognised asset or liability or highly probable forecasted transaction, such as variability in cash flows of future interest payments on a floating rate debt (cash flow hedge), or
- a hedge of a net investment in a foreign entity.

A derivative instrument is accounted for as a hedge, when:

- The hedging relationship is documented as of its inception.
- The hedging is highly effective in achieving its objective.
- The effectiveness can be reliably measured.

For a cash flow hedge, the forecasted transaction which is the subject of the hedge must be highly probable.

Cash flow hedge Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are effective are recognised in equity. Where the firm commitment results in the recognition of a non-financial asset, for example property, plant equipment or inventory, or a non-financial liability, the gains or losses previously recognised in equity are transferred from equity and included in the initial measurement of the non-financial asset or liability. Otherwise, amounts recognised in equity are transferred to the income statement and classified as revenue or expense in the same periods during which the cash flows, such as interest payments, or hedged firm commitments, affect the income statement. Any ineffective portion is reported immediately in the income statement. When a hedging instrument is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed transaction ultimately is recognised in the income statement. However, if a committed transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation that are effective, are recognised in equity and included in cumulative translation differences. The amounts deferred in equity are transferred to the income statement on disposal of the foreign entity.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, may not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement. The changes in fair value that are recognised in profit and loss of the period are classified in operating result if the derivative relates to a non-financial asset and in financial result if the derivative relates to a financing transaction.

T – Income taxes

Income taxes include current and deferred income taxes.

Current income taxes Current tax is the expected tax payable on taxable income for the year, and any adjustment to tax payable in respect of previous years. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Deferred income taxes Deferred income taxes are calculated, using the balance sheet liability method, on all temporary differences arising between the carrying amounts of assets and liabilities in the consolidated statement of financial position and their tax base. The amount of deferred tax provided is based on the expected manner of realisation of the carrying amount of assets and liabilities, using the tax rates enacted or substantially enacted at the reporting date.

Deferred tax liabilities are recognised, except:

- where the temporary differences arise from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that affects neither accounting profit nor taxable profit on that date.

- in respect of taxable temporary differences associated with investments in subsidiaries, equity accounted investees and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised only when it is probable that taxable profits will be available in the coming 3 years, against which the deductible temporary difference or the tax loss to be carried forward can be utilised, except:

- where the temporary differences arise from the initial recognition of an asset or liability in a transaction that affects neither accounting profit nor taxable profit on that date.
- in respect of deductible temporary differences associated with investments in subsidiaries, equity accounted investees and interest in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets are reviewed at each reporting date to assess the probability that sufficient taxable profit will be available to allow deferred taxes to be utilised.

Deferred tax is recognised in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is treated accordingly.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

U – Revenue

Revenue is recognised at the amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer.

Sales of goods Revenue from sales of goods is recognised in the income statement net of sales taxes and discounts when revenue recognition occurs, being at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Construction contracts A limited number of activities of the Group are construction contract driven. Consequently contract revenue and contract costs are recognised in the income statement on the percentage-of-completion method, with the stage of completion being measured by reference to actual work performed to date. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of the contract expenses that are recoverable. In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated ultimate loss is charged to the income statement.

Rental income Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases.

Interest income Interest is recognised on a time proportion basis that reflects the effective yield on the asset.

Dividends Dividends are recognised when the Group's right to receive payment is established.

V – Expenses

Operating lease payments Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance income and expenses
Finance costs comprise:

- interest payable on borrowings calculated using the effective interest rate method;
- foreign exchange gains and losses on financial assets and liabilities;
- gains and losses on hedging instruments that are recognised in the income statement;
- the expected return on plan assets; and
- interest costs with respect to defined benefit obligations.

The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

W – Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

A discontinued operation is a component of the Group business that represents a separate major line of business or geographical area of operations or a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operations meet the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify.

X – Future changes in accounting policies

New or amended standards and interpretations issued up to the date of issuance of the Group's financial statements, but not yet effective for 2017 financial statements, which could be applicable to the Group are listed below:

- Amendments to IFRS 2 Share-based Payment – Classification and Measurement of Share-based Payment Transactions, effective 1 January 2018
- Amendments to IFRS 4 Insurance Contracts – Applying IFRS 9 Financial instruments with IFRS 4, effective 1 January 2018
- IFRS 9 Financial Instruments, effective 1 January 2018
- IFRS 15 Revenue from Contracts with Customers, including amendments to IFRS 15: Effective date of IFRS 15 and Clarifications to IFRS 15 Revenue from Contracts with Customers, effective 1 January 2018
- IFRS 16 Leases, effective 1 January 2019
- Amendments to IAS 40 Investment Property – Transfers of Investment Property, effective 1 January 2018
- IFRIC 22 Foreign Currency Transactions and Advance Consideration, effective 1 January 2018
- Annual Improvements to IFRSs 2014-2016 Cycle (issued December 2016), effective 1 January 2018

The Group completed the impact assessment for the changes linked to IFRS 15 and concluded that the impact is not significant to the consolidated financial statements. With respect to the other changes (mainly IFRS16), the Group is currently assessing the impact of these new standards and amendments on the consolidated financial statements.

Explanatory notes

Note 1 – Revenue

Revenue by activity

IN THOUSANDS OF EUR	2016	2017
Etex Building Performance	1,448,621	1,526,266
Etex Roofing	884,661	836,074
Etex Façade	245,013	267,123
Etex Industry	152,389	163,534
Others	6,132	741
Total	**2,736,816**	**2,793,738**

Certain comparatives have been reclassified to conform to current year's presentation in line with current organisational structure.

Revenue by geographical area

IN THOUSANDS OF EUR	2016	2017
France	460,957	475,873
Germany	402,964	384,171
United Kingdom	477,065	485,393
Benelux	179,581	172,544
Poland	105,419	115,165
Other Europe	403,575	429,107
Chile	117,178	111,624
Argentina	86,670	97,872
Peru	61,875	78,172
Colombia	70,210	68,862
Nigeria	82,268	73,428
South Africa	53,906	53,758
Rest of the World	235,150	247,768
Total	**2,736,817**	**2,793,738**

Note 2 – Operating charges by nature

The Group's major operating charges by function in 2017 are as follows:

IN THOUSANDS OF EUR	PERSONNEL & TEMPORARY	DEPRECIATION & IMPAIRMENT	GOODS & MATERIALS	ENERGY	TRANSPORT & TRAVEL	OTHERS	TOTAL
Cost of sales	-342,110	-125,571	-784,345	-165,031	-249,230	-265,775	-1,932,062
Distribution expenses	-223,021	-16,331	-	-801	-19,874	-129,281	-389,309
Administrative and general expenses	-106,984	-10,113	-	-757	-5,296	-62,692	-185,842
Other operating charges	-23,751	-1,896	-	-146	-2,756	-227	-28,777
Non recurring items	-9,587	-9,514	-	-	-	22,062	2,961
Total	**-705,453**	**-163,425**	**-784,345**	**-166,736**	**-277,156**	**-435,913**	**-2,533,029**

The Group's major operating charges by function in 2016 are as follows:

IN THOUSANDS OF EUR	PERSONNEL & TEMPORARY	DEPRECIATION & IMPAIRMENT	GOODS & MATERIALS	ENERGY	TRANSPORT & TRAVEL	OTHERS	TOTAL
Cost of sales	-333,266	-124,909	-718,340	-167,992	-240,871	-316,952	-1,902,330
Distribution expenses	-217,414	-17,188	-	-890	-19,874	-140,078	-395,444
Administrative and general expenses	-100,288	-10,361	-	-766	-5,279	-54,381	-171,075
Other operating charges	-25,900	-2,386	-	-105	-2,433	2,431	-28,392
Non recurring items	-42,228	-6,024	-	-	-	-23,708	-71,960
Total	**-719,096**	**-160,869**	**-718,340**	**-169,752**	**-268,457**	**-532,688**	**-2,569,201**

Certain comparatives have been reclassified to conform to current year's presentation in line with current organisational structure.

The Group's total personnel expenses, are made up of the following elements:

IN THOUSANDS OF EUR	2016	2017
Wages and salaries	-513,709	-520,098
Social security contributions	-109,814	-108,573
Contributions to defined contribution plans	-10,354	-13,727
Charges for defined benefit plans (service cost)	-7,565	-14,799
Restructuring and termination charges	-25,226	-7,281
Other employee benefits expenses	-52,428	-40,975
Total employee benefits expenses	**-719,096**	**-705,453**

The number of the Group's employees is split into the following categories:

	2016	2017
Production	8,906	8,824
Sales and marketing	4,124	4,097
Administration and research	1,981	1,589
Average number of personnel	**15,011**	**14,510**

Note 3 – Other operating charges and income

IN THOUSANDS OF EUR	2016	2017
Research	-17,802	-20,588
Other operating taxes	-1,924	-2,471
Direct expenses arising from investment properties	-490	-378
Miscellaneous	-8,176	-5,340
Total other operating charges	**-28,392**	**-28,777**

IN THOUSANDS OF EUR	2016	2017
Income from investment property	785	749
Government grant amortisation	1,642	1,534
Miscellaneous	6,347	5,631
Total other operating income	**8,774**	**7,914**

Note 4 – Non recurring items

IN THOUSANDS OF EUR	2016	2017
Gain on disposal of assets	782	3,809
Gains / Losses on disposal of businesses	-2,980	34,305
Total gains and losses on disposal of assets and businesses	**-2,198**	**38,114**
Restructuring costs	-55,589	-19,235
Health claims	-2,081	-313
Environmental remediation	-6,412	-6,972
Asset impairment	-2,293	-2,575
Price adjustment on disposed and acquired businesses	500	-
Others	-3,887	-6,058
Total other non recurring items	**-69,762**	**-35,153**
Non recurring items	**-71,960**	**2,961**

Etex has opted for a non recurring classification of significant one-off impacts on the income statement, both positive and negative, such as significant restructuring measures, gain and losses on disposal of assets or businesses and goodwill impairments, settlements relating to post-employment liabilities or litigation not relating to current activities. Non recurring items also include the impact of health claims and environmental remediation, as the health claims and environmental remediation impacts can fluctuate from one year to another and relate to the asbestos legacy of Etex.

The 2017 gain on disposal of assets relates mainly to an office building in Luxembourg and to a non operational French site. In 2016, the most significant gain on disposal of assets related to sites disposals in France.

The gains on disposal of businesses in 2017 (€34,305 thousand) relate to:

- the profit realised on disposal of businesses in 2017 mainly consists in a gain recognised on the step up acquisition of the non controlling interest in Pladur (previously Yesos Ibericos) in Spain, in which the participation held by Etex went from 40.69% to 100%; the participation's derecognition as an equity accounted investee and its first full consolidation at fair value generated a profit of €37,123 thousand.
- other non recurring results from disposal of the Tonality ceramic tile business and its Weroth facility (Germany) in December 2017 for €832 thousand, with a loss of €4,357 thousand, and
- the disposal in September of Industria Princesa (Chile) a Chilean bricks and brick veneers manufacturer for €10.850 thousand, with a net gain of €1,538 thousand.

The 2016 businesses disposal are Bracknell Roofing, a company active in the United Kingdom in roofing contracting, which was sold in July 2016 for €978 thousand, with a loss of €2,710 thousand, and the Fiber Spray business in France (loss of €270 thousand).

Restructuring plans initiated in 2017 mainly relate to the following:

- the closure of the concrete plant in Heidelberg, Germany (charges €3,800 thousand and impairment of equipment for €835 thousand),
- the adaptation of clay tile capacity to market demand, with impact our premises in Malsh and Autenried (Germany), by stopping production on several lines (charges €7,000 thousand and impairment of equipment for €5,269 thousand),
- the further integration of the fire protection technical construction business into the building board division (€2,850 thousand),
- the manufacturing operations in Chile (charges €1,062 thousand and impairment of equipment for €835 thousand),
- the discontinued scaffolding activities in the United Kingdom (€542 thousand),
- other elimination of roles in sales forces and administration in France and South Africa (€1,057 thousand).

In 2016, following restructuring plans were initiated:

- the corrugated sheets plant in Heidelberg (Germany) which was closed to further align to the European market demand (charges €17,331 thousand and impairment of assets for €1,849 thousand); part of the provision booked in 2016 appeared to be in excess and was reversed in 2017 (€3,237 thousand),
- the integration of the German roofing businesses, clay, concrete and fibre cement into one, with impacts on sales organization and administration (€13,573 thousand); part of the provision booked in 2016 appeared to be in excess and was reversed in 2017 (€777 thousand),
- the integration of the fire protection technical construction business into the building board division (€3,620 thousand),
- the elimination of management roles in Europe within the roofing division (€1,320 thousand) and in Latin America (€1,194 thousand),
- the elimination of key management personnel roles (severance payments of €4,012 thousand),
- the relocation and closure of sites within the fire protection business in the United Kingdom (€3,437 thousand) and in France (€599 thousand),
- the decision to discontinue businesses in Shangai (China) and Sapele (Nigeria) with restructuring charges of €828 thousand and €3,148 thousand respectively, and impairment of assets for €2,127 thousand,
- additional charges were incurred in 2016 relating to the closure of the plants in Dorfen (Germany) and in Vitry (France) decided in 2015 (€1,472 thousand, net of impairment reversal for €668 thousand),
- other elimination of roles in sales forces and administration in France, Brazil and the United Kingdom mainly (€1,081 thousand).

Health claims impacts are €2,081 thousand in 2016 and €313 thousand in 2017.

Environmental remediation covers various projects which costs were exposed to renovate asbestos-containing sites and properties.

The impairment losses incurred in 2017 are mainly relating to office building in Brussels and to raw material preparation in the United Kingdom; partially offset by reversal of impairment on equipment in Spain.

In 2016 impairment losses relate mainly to finishing lines in Germany, Poland and in Russia (€1,542 thousand) and to equipment in a quarry that cannot be exploited (€470 thousand).

In 2016, the €500 thousand favourable price adjustment on acquired business have been realised on the acquisition of Russian producer paints and sprays for passive fire protection, A+B, acquired in 2013.

Other non recurring items mainly include charges relating to acquisition projects and other costs relating to minority shareholders in the German entity Creaton AG.

In 2016, the main other non recurring items are legal and consulting costs relating to associate participations, acquisitions charges and doubtful debtors on non operational assets.

Note 5 – Finance income and expense

IN THOUSANDS OF EUR	2016	2017
Interest income from receivables, deposits and cash and cash equivalents (loans and receivables)	3,356	4,141
Positive impact of change in discount rate of long term provisions	-	526
Other interest related income	106	20
Interest income	**3,462**	**4,687**
Interest expense on financial liabilities measured at amortised cost	-47,735	-35,190
Net interest expense on employee benefits	-8,175	-8,383
Unwinding of discount long term provisions	-133	-210
Negative impact of change in discount rate of long term provisions	-3,731	-428
Negative fair value adjustments of interest rate contracts (held for trading at fair value through profit and loss)	-1	-1
Other interest related charges	-3,824	-2,938
Interest expense	**-63,599**	**-47,150**
Dividend income from shares in non consolidated companies (available-for-sale)	85	136
Net foreign exchange gains (loans and receivables)	46	8,592
Other	310	58
Other finance income	**441**	**8,786**
Net foreign exchange losses (liabilities at amortised cost)	-10,533	-18,919
Other	-1,282	-1,003
Other finance expense	**-11,815**	**-19,922**
Net finance costs	**-71,511**	**-53,599**

The lower interest expense on financial liabilities measured at amortised cost is mainly explained by the refund of the retail bond in March 2017, and the refinancing at a lower cost. It includes the effect of interest rate swaps hedging the Group's interest rate risk: €7,667 thousand paid in 2017 (€7,462 thousand paid in 2016).

The other interest related charges mainly include upfront fee expenses for €2,607 thousand (€3,416 thousand in 2016) in connection with external financial debt which are amortised over the duration of the loan.

Foreign exchange gains and losses are presented net of the effect of foreign exchange derivative instruments. The net exchange loss is the result of the Group's foreign exchange exposure in Argentina, Brazil, Peru and Indonesia, on the current financial asset and liabilities in these countries.

Note 6 – Income tax expense

IN THOUSANDS OF EUR	2016	2017
Current income tax charge for the year	-59,264	-64,238
Adjustments to current income tax of previous years	-1,261	1,902
Current income tax expense	**-60,525**	**-62,336**
Origination and reversal of temporary differences	37,765	11,024
Net effect on deferred tax assets	-5,941	-13,112
Net effect of changes in tax rates on deferred tax	11,674	1,515
Deferred income tax expense	**43,498**	**-573**
Total income tax expense	**-17,027**	**-62,909**

The reconciliation between the effective income tax expense and the theoretical income tax expense is summarised below. The theoretical income tax expense is calculated by applying the domestic nominal tax rate of each Group entity to their contribution to the Group profit before income tax and before share of the profit in equity accounted investees.

IN THOUSANDS OF EUR	2016	2017
Profit before income tax and before share of profit in equity accounted investees	**104,879**	**215,023**
Theoretical income tax expense (nominal rates)	-22,217	-56,859
Weighted average nominal tax rate %	21.2%	26.4%
Tax impact of		
Non deductible expenses	-11,750	-11,284
Tax on profit distribution inside the Group	-2,566	-3,647
Tax-free gains/losses on investments	-	12,856
Other tax deductions	8,712	7,493
Unrecognised deferred tax assets on current year losses	-19,404	-17,190
Recognition of previously unrecognised deferred tax assets	23,985	14,913
Derecognition of previously recognised deferred tax assets	-4,088	-10,835
Net effect of changes in tax rates on deferred tax	11,674	1,515
Adjustments to prior year income tax	-1,261	1,902
Other tax adjustments	-111	-1,774
Income tax expense recognised in the income statement	**-17,027**	**-62,909**
Effective tax rate %	16.2%	29.3%

In 2017 and 2016, the unrecognised deferred tax assets on current year losses are mainly impacted by restructuring. The recognition of previously unrecognised deferred tax assets relates mainly to improved profitability expectation in some companies.

In 2017 the net effect of changes in tax rates is mainly impacted by the decrease in tax rate applied to most of the Belgian deferred tax liability. In 2016 the net effect changes in tax rates were mainly impacted by the decrease in tax rate applied to most of the French deferred tax liability.

Income tax recognised directly in equity is related to:

IN THOUSANDS OF EUR	2016	2017
Actuarial gains (losses) on post employment benefit plans	21,187	-14,247
Gains (losses) on financial instruments - cash flow hedging	-316	-3,353
Total	**20,871**	**-17,600**

Note 7 – Property, plant and equipment

IN THOUSANDS OF EUR	LAND AND BUILDINGS	PLANT, MACHINERY, EQUIPMENT	FURNITURE, VEHICLES	OTHER PROPERTY, PLANT, EQUIPMENT	UNDER CONSTRUCTION	TOTAL
At 31 December 2015						
Gross book value	1,104,052	2,397,639	258,327	22,819	155,116	3,937,953
Accumulated depreciation	-510,724	-1,444,271	-167,695	-16,313	-	-2,139,003
Accumulated impairment loss	-10,418	-66,613	-553	-74	-5,174	-82,832
Net book value	**582,910**	**886,755**	**90,079**	**6,432**	**149,942**	**1,716,118**
Of which leased assets	378	40	307	-	-	725
Additions	14,932	60,107	3,368	1,241	50,689	130,337
Disposals	-1,059	-1,121	-932	-	204	-2,908
Changes in the scope of consolidation	-32,175	-51,122	-376	-	-584	-84,257
Transfer between captions	42,342	85,813	1,041	2,200	-143,211	-11,815
Depreciation for the year	-29,759	-93,985	-12,526	-1,557	-	-137,827
Impairment loss of the year	-409	-5,752	-174	-9	-90	-6,434
Reversal impairment loss	-	805	38	-	-	843
Translation differences	-4,956	-23,247	-777	221	5,720	-23,039
At 31 December 2016						
Gross book value	1,086,057	2,354,550	239,440	26,146	67,475	3,773,668
Accumulated depreciation	-507,542	-1,432,230	-159,113	-17,541	-	-2,116,426
Accumulated impairment loss	-6,691	-64,068	-586	-78	-4,804	-76,227
Net book value	**571,824**	**858,252**	**79,741**	**8,527**	**62,671**	**1,581,015**
Of which leased assets	-	1,723	141	-	-	1,864
Additions	11,801	40,203	3,906	1,740	84,040	141,690
Disposals	-474	-2,071	-185	-	1,103	-1,627
Changes in the scope of consolidation	26,045	31,606	33	65	48,058	105,807
Transfer between captions	7,621	28,092	1,545	-2,224	-34,496	538
Depreciation of the year	-29,805	-90,377	-10,944	-1,689	-	-132,815
Impairment loss of the year	-1,265	-11,374	-343	-	-	-12,982
Reversal of impairment loss	57	3,476	-	-	-	3,533
Translation differences	-16,642	-21,989	-231	-184	-5,135	-44,181
At 31 December 2017						
Gross book value	1,116,789	2,414,690	230,652	25,696	161,037	3,948,864
Accumulated depreciation	-539,023	-1,514,127	-156,216	-19,381	-	-2,228,747
Accumulated impairment loss	-8,604	-64,745	-914	-80	-4,796	-79,139
Net book value	**569,162**	**835,818**	**73,522**	**6,235**	**156,241**	**1,640,978**
Of which leased assets	-	4,314	21	-	-	4,335

During the year, investments have started in a new fibre cement line in Belgium and Argentina that will become operational in 2018. The Pladur acquisition gives us access to an operational plasterboard plant and a plasterboard plant under construction.

The disposal proceeds of property, plant and equipment in 2017 amount to €5,077 thousand, resulting in a net gain of €3,450 thousand. In 2016, the proceeds amounted to €4,335 thousand with a net gain of €1,432 thousand.

Impairment testing
In December 2017, impairment reviews were performed for a certain number of cash-generating units where impairment indicators arose. The carrying value of capital employed has been compared with the recoverable amount of the cash-generating unit.

This review did not result in any impairment, except those that have been mentioned in note 4.

The recoverable amount of the cash-generating units was based on its value in use. The value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- cash flows were projected based on actual operating results and the 3 year business plan (extended to 10 years when the financial projections of a long-term strategy development is available for the cash-generating unit),
- cash flows for further periods were extrapolated using a constant growth rate ranging from 1% to 5% depending on the countries involved and their respective inflation rates (a range of 1% to 3% in 2016),
- cash flows are discounted using the weighted average cost of capital (WACC) ranging from 7.8% to 13.8% depending on the countries involved (ranging from 7.3% to 11.8% in 2016).

In connection with the impairment testing process, the future cash flows were subjected to stress tests that included changes in individual macroeconomics parameters as part of the sensitivity analysis. An assumption change of 100 basis points in the spread between the WACC and the growth rate at perpetuity would indicate a potential impairment charge of €8.0 million.

Note 8 – Goodwill and business combinations

8.1 Reconciliation of the carrying amount of goodwill

IN THOUSANDS OF EUR	2016	2017
Gross book value	247,322	255,214
Accumulated impairment losses	-52,700	-52,043
Net book value at the beginning of the year	**194,622**	**203,171**
Additions through business combinations	5,903	2,113
Translation differences	2,646	-2,309
Net book value at the end of the year	**203,171**	**202,975**
Gross book value	255,214	255,330
Accumulated impairment losses	-52,043	-52,355

The main components of the carrying amount of goodwill are the following:

IN THOUSANDS OF EUR	2016	2017
Roofing	81,655	83,685
Building Performance	87,502	85,289
Industry	25,332	25,332
Etex Nordic	8,552	8,539
Others	130	130
Total	**203,171**	**202,975**

8.2 Business combinations

On 22 December 2017, Etex acquired the remaining 59% shares of Pladur, a leading Spanish manufacturer of gypsum products with a strong brand reputation in its domestic market, for a total contribution of €112,239 thousand, of which €45,712 thousand in cash (plus acquisition cost for €1,140 thousand). The remainder is made up of the historical value of the company previously equity accounted €29,403 thousand (see note 12) and the gain recognised on the transaction: the company was previously accounted for as an equity investee and the transaction generated a gain of €37,123 thousand (see note 4). In 2017, Pladur did not contribute to any significant sales or REBITDA given the timing of the transaction completion; the pro-forma REBITDA contribution would they have been consolidated from the beginning of the year amounts to €8,895 thousand.

In April 2016, Etex acquired two companies in the United Kingdom: John Brash & Co., an established supplier of timber roofing battens, for a price of €15,770 thousand, and EOS Façades, a major manufacturer and supplier of steel framing systems, for a price of €4,983 thousand; they contributed in 2016 to €33,450 and €5,960 thousand respectively in sales and to €2,504 and €765 thousand respectively in EBITDA.

The fair value of the identifiable assets and liabilities of the businesses acquired in 2016 and in 2017 as at the date of acquisition are disclosed in the following table.

IN THOUSANDS OF EUR	BRASH	EOS	2016	PLADUR	2017
Non-current assets	**8,599**	**514**	**9,113**	**149,456**	**149,456**
Property, plant and equipment	3,282	514	3,797	113,485	113,485
Assets held for sale	-	-	-	691	691
Intangible assets	5,317	-	5,317	32,111	32,111
Other non-current assets	-	-	-	27	27
Deferred tax assets	-	-	-	3,143	3,143
Current assets	**16,730**	**3,051**	**19,781**	**30,210**	**30,210**
Inventories	5,447	323	5,770	8,902	8,902
Trade and other receivables	10,960	2,217	13,177	19,196	19,196
Current financial assets	-	-	-	962	962
Cash and cash equivalents	323	511	834	1,151	1,151
TOTAL ASSETS	**25,329**	**3,565**	**28,895**	**179,667**	**179,667**
Non-current liabilities	**3,524**	**54**	**3,578**	**27,274**	**27,274**
Provisions	317	-	317	6,498	6,498
Loans and borrowings	2,202	-	2,202	12,949	12,949
Deferred tax liabilities	1,005	54	1,059	7,827	7,827
Current liabilities	**8,519**	**1,946**	**10,464**	**42,266**	**42,266**
Current portion of loans and borrowings	-	-	-	15,421	15,421
Trade and other liabilities	8,519	1,946	10,464	26,845	26,845
TOTAL LIABILITIES	**12,043**	**2,000**	**14,043**	**69,540**	**69,540**
Net identifiable assets and liabilities	**13,287**	**1,565**	**14,852**	**110,126**	**110,126**
Group share	13,286	1,565	14,851	110,126	110,126
Non-controlling interests	-	-	1	-	-
Acquisition price satisfied in cash (Group share)	**15,770**	**4,983**	**20,752**	**112,239**	**112,239**
Goodwill generated	2,484	3,418	5,901	2,113	2,113

The goodwill generated by these acquisitions are explained by the synergies expected from these transactions. The net assets recognised in the 31 December 2017 financial statements were based on a provisional assessment of their fair value while the Group is completing the independent valuation for the intangibles assets owned by Pladur which is not fully finalised by the date the 2017 financial statements were approved for issue by the Board of Directors. As the valuation was not finalised, the disclosed goodwill is only provisional.

8.3 Acquisitions of non-controlling interests

The domination agreement between Creaton AG and its majority shareholder Etex Holding GmbH in Germany (August 2007) stipulates that the preference shareholders, which have no voting rights, are entitled to either sell their shares at a fixed price of €28.17 or receive a guaranteed fixed dividend of €1.27 per share. In the course of 2017, Etex Holding GmbH acquired all remaining shares (235,738) for a price of €7,629 thousand. Hence, at year-end 2017 there is no longer any financial liability (€6,814 thousand in 2016). It is disclosed in note 23.

8.4 Impairment testing of goodwill

Impairment reviews were performed in 2017, by comparing the carrying value of capital employed including goodwill with the recoverable amount of the cash-generating unit to which goodwill has been allocated.

The goodwill generated by the acquisition of the plasterboard business in Europe and in Brazil are tested jointly as from year-end 2016, including the plasterboard business in Latin America (outside Brazil) and in South Africa. As from 2017, this goodwill will tested - within relevant capital employed values - after inclusion of the technical construction business of the previous Fire Protection and Insulation division, to be fully aligned with the new global divisional structure of Etex, effective as from January 2017. As a result, the goodwill values ("Building Performance") generated by the acquisition of Comais (1996, calcium silicate boards), Intumex (2000, intumescent products) and Cafco (2007, paint and spray) have been allocated, based on recent business key figures, between the Etex Building Performance and the Etex Industry divisions. No impairment would have been required, should each of these goodwill values been tested separately as it was done till the end of 2016. This cash-generating unit also includes the goodwill generated by the acquisition of Pladur in 2017.

Etex Industry goodwill values, consistently tested as a whole, also include the impact of the acquisition of Microtherm (2011, high performance insulation). No impairment would have been required, should each of these goodwill values been tested separately as it was done until the end of 2016.

Similarly, the new global Etex Roofing division includes as from 2017 the goodwill values generated by the acquisition of Creaton (2005, clay business in Germany, Austria, Hungary and Poland), Brash (2016, timber roofing battens) and SEA (1994, paints) for the full roofing business of Etex in Europe and in South Africa and include fibrecement, clay, concrete and accessories business, both residential and agricultural. Should the roofing business, clay, concrete and fiber cement in Germany be tested separately, an impairment would have been recognized for an amount of €30.9 million.

Impairment testing was performed on the goodwill value "Etex Nordic" and it confirmed that no impairment was needed.

The recoverable amount of the cash-generating units was based on its value in use. The value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- cash flows were projected based on actual operating results and the 3 year business plan,
- cash flows for further periods were extrapolated using a constant growth rate of 1% to 3% per annum depending on the countries involved and including the inflation component of the discount factor in one particular instance (1% to 6% in 2016),
- cash flows were discounted using the weighted average cost of capital (WACC) in a range of 7.0% to 9.4% depending on the countries involved (6.4% to 17.2% in 2016).

In connection with the impairment testing process on the goodwill, the future cash flows were subjected to stress tests that included changes in individual macroeconomic parameters as part of a sensitivity analysis. None of the goodwills are sensitive to reasonable changes in assumptions.

Etex management will closely monitor the impact of macro-economic evolution.

Note 9 – Intangible assets other than goodwill

IN THOUSANDS OF EUR	CONCESSIONS	SOFTWARE	BRANDS	TECHNOLOGY	CUSTOMER LIST	OTHERS	TOTAL
At 31 December 2015							
Gross book value	40,798	99,775	96,637	75,615	46,349	14,784	373,958
Accumulated amortisation	-16,606	-66,487	-32,512	-20,327	-13,149	-12,676	-161,757
Accumulated impairment losses	-4,229	-410	-	-	-	-	-4,639
Net book value	**19,963**	**32,878**	**64,125**	**55,288**	**33,200**	**2,108**	**207,562**
Additions	-	3,864	1	-	-	-	3,865
Retirements	-	-137	-	-	-	-	-137
Acquisitions through business combinations	-	181	5,136	-	-	-	5,317
Transfer between captions	3,660	340	-	-	-	-17	3,983
Amortisation for the year	-304	-6,785	-6,885	-4,360	-3,565	-145	-22,044
Impairment loss of the year	-431	-90	-	-	-	-	-521
Changes in the scope of consolidation	-201	-19	-	-	-	-2	-222
Translation differences	-3	384	-3,022	-1,090	302	11	-3,418
At 31 December 2016							
Gross book value	43,870	98,846	97,583	74,091	46,676	14,809	375,875
Accumulated amortisation	-16,648	-67,834	-38,229	-24,252	-16,738	-12,855	-176,556
Accumulated impairment losses	-4,538	-395	-	-	-	-	-4,933
Net book value	**22,684**	**30,617**	**59,354**	**49,839**	**29,938**	**1,954**	**194,386**
Additions	98	4,240	-	-	-	-	4,338
Acquisitions through business combinations	12,122	112	7,726	-	14,380	353	34,693
Transfer between captions	-1,520	386	-9	-	-	605	-538
Amortisation for the year	-548	-6,275	-5,860	-4,340	-3,595	-111	-20,729
Impairment loss of the year	-3	-89	-	-	-	-	-92
Translation differences	-1,886	-538	-528	-95	-146	-104	-3,297
At 31 December 2017							
Gross book value	53,349	104,177	104,567	74,688	60,744	15,050	412,575
Accumulated amortisation	-17,862	-75,332	-43,884	-29,284	-20,167	-12,353	-198,882
Accumulated impairment losses	-4,540	-392	-	-	-	-	-4,932
Net book value	**30,947**	**28,453**	**60,683**	**45,404**	**40,577**	**2,697**	**208,761**

Acquisitions through business combinations (€34,693 thousand) mainly represent the impact of Pladur (€32,111 thousand) as disclosed in note 8.2. The remaining €2,582 thousand reflects business acquired from Silicon Trading.

Note 10 – Investment properties

IN THOUSANDS OF EUR	2016	2017
Gross book value	41,885	41,988
Accumulated depreciation	-12,631	-16,085
Accumulated impairment losses	-12,071	-2,246
Net book value at the beginning of the year	**17,183**	**23,657**
Depreciation for the year	-434	-340
Additions	200	125
Transfer between captions	8,131	-
Disposals	-1,042	-19
Translation differences	-381	-47
Net book value at the end of the year	**23,657**	**23,376**
Gross book value	41,988	41,814
Accumulated depreciation	-16,085	-16,192
Accumulated impairment losses	-2,246	-2,246

Investment properties comprise several pieces of land and buildings, mainly in France, Germany and Italy.

The fair value of the investment properties is estimated at €35,635 thousand (€37,140 thousand in 2016). Where external valuations were not available, best estimates have been used.

Note 11 – Assets held for sale

IN THOUSANDS OF EUR	2016	2017
Gross book value	6,762	6,899
Accumulated impairment losses	-2,600	-524
Net book value at the beginning of the year	**4,162**	**6,375**
Reversal of impairment losses	-42	-
Disposals	-	-4,996
Additions	2,919	1,593
Scope in	-	691
Translation differences	-664	-257
Net book value at the end of the year	**6,375**	**3,406**
Gross book value	6,899	4,155
Accumulated impairment losses	-524	-749

Assets held for sale are lands that are not used in operations anymore and for which the Group is actively looking for a buyer. Most of these assets are located in Mexico, the United Kingdom and Spain. In 2017, land located in Widnes was disposed; we have also integrated assets held for sale owned by Pladur as a result of its full consolidation.

Note 12 – Investments in equity accounted investees

IN THOUSANDS OF EUR	2016	2017
At the beginning of the year	**37,348**	**37,197**
Result for the year	1,250	1,220
Dividends paid	-1,224	-712
Disposal	-30	-29,501
Translation differences	-147	-18
At the end of the year	**37,197**	**8,186**

The disposal value represents on the one hand the derecognition of Pladur as equity accounted investee (€29,403 thousand) since Etex obtained control via the acquisition of the remaining shares (59.31%), and on the other hand the sale of OTE Surface Protection GmbH (€98 thousand).

Summarised financial information of investments in equity accounted investees (Group's share):

IN THOUSANDS OF EUR	2016	2017
Property plant and equipment	33,326	5,460
Other non-current assets	5,137	245
Current assets	20,300	8,352
Non-current liabilities	-4,348	-667
Current liabilities	-17,218	-5,204
Total net assets	**37,197**	**8,186**
Revenue	46,435	16,949
Operating income	8,553	1,383
Profit after tax	1,250	1,220

Transactions between the Group and equity accounted investees can be summarised as follows:

IN THOUSANDS OF EUR	2016	2017
Transactions		
Purchases from associates	4,983	4,679
Sales to associates	3,728	3,417
Dividends paid	1,224	712
Outstanding balances		
Trade receivables	694	668
Other current receivables	300	642
Trade liabilities	51	9

Note 13 – Other non-current assets

IN THOUSANDS OF EUR	2016	2017
Trade and other receivables	18,553	10,069
Impairment on trade and other receivables	-5,216	-2,863
Net trade and other receivables	13,337	7,206
Available-for-sale investments	902	949
Impairment on available-for-sale investments	-129	-127
Net available-for-sale investments	773	822
Deposits	-	5
Total	**14,110**	**8,033**

The non-current available-for-sale investments include unquoted equity instruments that are measured at cost for €822 thousand as their fair value cannot be measured reliably (€773 thousand in 2016).

Note 14 – Trade and other receivables

Current trade and other receivables

IN THOUSANDS OF EUR	2016	2017
Trade receivables	237,210	249,592
Impairment on trade receivables	-21,473	-27,258
Trade receivables	215,737	222,334
Other receivables	101,928	97,318
Total	**317,665**	**319,652**

At 31 December 2017, an amount of €167 million (2016 €154 million) has been received in cash under various non-recourse factoring and credit insurance programs, whereby trade receivables are sold at their nominal value minus a discount in exchange for cash. Continuing involvement for late payment risk is not significant. The net amount of sold trade receivables is derecognized from the balance sheet.

Other receivables are mainly composed of:

IN THOUSANDS OF EUR	2016	2017
Income taxes recoverable	39,565	33,382
Other taxes recoverable	41,583	40,167
Derivative financial instruments with positive fair values	4,514	1,494
Prepaid charges and accrued income	6,343	6,342
Advances due from customers for contracts in progress	2,076	4,669
Advances to personnel	2,359	1,635
Others	5,488	9,629
Total	**101,928**	**97,318**

Exposure to credit risk – impairment losses

The ageing of trade and other receivables at reporting date was as follows:

IN THOUSANDS OF EUR	2016	2017
Neither impaired nor past due at reporting date	413,750	433,727
Not impaired at reporting date and past due	58,275	52,873
Up to 30 days	32,032	34,229
Between 31 and 60 days	12,930	8,062
Between 61 and 90 days	3,297	2,418
Between 91 and 120 days	2,791	1,824
Between 121 and 150 days	1,707	781
More than 150 days	5,518	5,559
Non-recourse factoring	-154,360	-166,948
Net carrying amount at the end of the year	**317,665**	**319,652**

The movement in the allowance for impairment of current trade and other receivables was as follows:

IN THOUSANDS OF EUR	2016	2017
Allowances at the beginning of the year	**-23,994**	**-21,473**
Additions	-3,645	-3,420
Use	3,120	3,710
Reversal	1,799	3,558
Change in the scope of consolidation	1,247	-9,633
Allowances at the end of the year	**-21,473**	**-27,258**

Other current assets

IN THOUSANDS OF EUR	2016	2017
Available-for-sale investments	-	112
Deposits	8,731	3,025
Total	**8,731**	**3,137**

Note 15 – Inventories

The different types of inventories are detailed below:

IN THOUSANDS OF EUR	2016	2017
Raw materials	120,269	127,835
Work in progress	31,537	35,062
Finished goods	214,600	231,604
Spare parts and consumables	79,599	84,211
Goods purchased for resale	33,448	36,942
Write-downs to net realisable value	-47,577	-47,375
Total	**431,876**	**468,279**

In 2017, the Group recognised inventory write-downs to net realisable value of €1 thousand (€9,118 thousand in 2016) as an expense, including reversal of prior year write-downs amounting to €7,257 thousand (€5,614 thousand in 2016). Reversals of write-downs without impact on the income statement amount to €1,308 thousand (€4,688 thousand in 2016).

Note 16 – Risk management and financial derivatives

16.1 Risk management

A. Market risk

Exposure to currency risk
Around 54% of the Group's revenue is generated by subsidiaries with a functional currency other than the Euro (54% in 2016). The Group has its main foreign exchange exposure in the following foreign currencies: Argentinean peso, Chilean peso, Colombian peso, Nigerian naira, Peruvian nuevo sol and Pound sterling.

Translation currency sensitivity analysis
On the basis of the volatility of these currencies against the Euro in 2017, the reasonably possible change of the exchange rate of these currencies against the Euro is estimated as follows:

				RATES USED FOR SENSITIVITY ANALYSIS	
	CLOSING RATE 31 DECEMBER 2017	AVERAGE RATE 2017	POSSIBLE VOLATILITY OF RATES IN %	RANGE OF POSSIBLE CLOSING RATES 31 DECEMBER 2017	RANGE OF POSSIBLE AVERAGE RATES 2017
Argentinean peso	22.3663	18.7749	21	17.7575 - 26.9751	14.9062 - 22.6437
Chilean peso (000)	0.7373	0.7330	11	0.6572 - 0.8173	0.6534 - 0.8126
Colombian peso (000)	3.5787	3.3384	14	3.07 - 4.0874	2.8638 - 3.8129
Nigerian naira	367.0460	351.2407	35	239.5159 - 494.5761	229.2021 - 473.2793
Peruvian nuevo sol	3.9180	3.6854	11	3.4702 - 4.3658	3.2642 - 4.1066
Pound sterling	0.8872	0.8769	8	0.8174 - 0.9571	0.8079 - 0.9459

As a comparison, the reasonably possible change of exchange rate of these currencies against the Euro was estimated as follows for 2016:

				RATES USED FOR SENSITIVITY ANALYSIS	
	CLOSING RATE 31 DECEMBER 2016	AVERAGE RATE 2016	POSSIBLE VOLATILITY OF RATES IN %	RANGE OF POSSIBLE CLOSING RATES 31 DECEMBER 2016	RANGE OF POSSIBLE AVERAGE RATES 2016
Argentinean peso	16.6978	16.3206	22	12.9416 - 20.454	12.6492 - 19.9919
Chilean peso (000)	0.7057	0.7491	13	0.615 - 0.7964	0.6528 - 0.8453
Colombian peso (000)	3.1631	3.3817	18	2.6021 - 3.724	2.782 - 3.9815
Nigerian naira	332.3050	283.4324	47	177.0455 - 487.5645	151.0071 - 415.8577
Peruvian nuevo sol	3.5376	3.7365	14	3.0287 - 4.0464	3.199 - 4.2739
Pound sterling	0.8562	0.8178	11	0.7639 - 0.9484	0.7297 - 0.9059

If the Euro had weakened or strengthened during 2017 by the above estimated possible changes against the listed currencies with all other variables held constant, the 2017 profit would have been €16,522 thousand (11%) higher or €10,873 thousand (-7%) lower while equity would have been €60,492 thousand (6%) higher or €32,553 thousand (-3%) lower. In 2016, if the Euro had weakened or strengthened the profit would have been €18,543 thousand (14%) higher or €13,651 thousand (-11%) lower while equity would have been €66,008 thousand (7%) higher or €34,275 thousand (-4%) lower.

				2017
IN THOUSANDS OF EUR	IF EURO WEAKENS		IF EURO STRENGTHENS	
	PROFIT	EQUITY	PROFIT	EQUITY
Argentinean peso	4,462	9,837	-2,937	-6,475
Chilean peso	-663	12,715	533	-3,545
Colombian peso	446	7,142	-335	-5,364
Nigerian naira	5,432	26,247	-2,631	-12,711
Peruvian nuevo sol	1,033	10,167	-821	-8,081
Pound sterling	5,812	-5,616	-4,682	3,623
Total	**16,522**	**60,492**	**-10,873**	**-32,553**

				2016
IN THOUSANDS OF EUR	IF EURO WEAKENS		IF EURO STRENGTHENS	
	PROFIT	EQUITY	PROFIT	EQUITY
Argentinean peso	-2,706	9,137	1,712	-5,781
Chilean peso	3,544	11,767	-2,736	-9,089
Colombian peso	1,770	9,899	-1,237	-6,917
Nigerian naira	2,348	35,820	-853	-13,007
Peruvian nuevo sol	7,149	13,257	-5,351	-9,923
Pound sterling	6,438	-13,872	-5,186	10,442
Total	**18,543**	**66,008**	**-13,651**	**-34,275**

Interest rates sensitivity analysis

At the end of 2017 €503,675 thousand or 68% of the Group's interest bearing financial liabilities, before offset of any surplus cash, bear a variable interest rate (€173,196 thousand or 19% at the end of 2016). This floating debt portion consists of debt instruments almost exclusively denominated in Euro apart from €21,012 thousand that is denominated in Pound sterling (€18,951 thousand in 2016), €16,840 thousand that is denominated in Romanian Leu (€17,837 thousand in 2016) and €11,198 thousand denominated in other currencies.

The total interest expense recognised in the 2017 income statement on the Group's variable rate debt portion (continued and discontinued operations), net of the effect of interest rate derivative instruments, amounts to €16,865 thousand (€25,766 thousand in 2016). The total interest expense recognised on the fixed rate portion amounts to €10,313 thousand (€27,349 thousand in 2016).

The reasonably possible change of the market interest rates applicable to the Group's floating rate debt after hedging is as follows:

		RATES USED FOR SENSITIVITY ANALYSIS	
	RATES AT 31 DECEMBER 2017	POSSIBLE VOLATILITY OF RATES	POSSIBLE RATES AT 31 DECEMBER 2017
Euro	-0.33%	-0.00% - 0.01%	-0.33% - -0.32%
Pound sterling	0.52%	-0.08% - 0.17%	0.44% - 0.69%
Romanian Leu	1.66%	-0.33% - 1.02%	1.33% - 2.68%

		RATES USED FOR SENSITIVITY ANALYSIS	
	RATES AT 31 DECEMBER 2016	POSSIBLE VOLATILITY OF RATES	POSSIBLE RATES AT 31 DECEMBER 2016
Euro	-0.32%	-0.05% - 0.13%	-0.37% - -0.19%
Pound sterling	0.37%	-0.5% - 0.09%	-0.13% - 0.46%
Romanian Leu	0.46%	-0.07% - 0.21%	0.39% - 0.67%

Application of the reasonably possible fluctuations in the market interest rates mentioned above on the Group's floating rate debt at 31 December 2017, with all other variables held constant and net of the effect of interest rate derivative instruments, would result in a decrease of the 2017 profit by €337 thousand and an increase of €163 thousand (a decrease of €173 thousand and an increase of €223 thousand in 2016). Cash and cash equivalents in Euro of €24,672 thousand (€50,944 thousand in 2016), Pound sterling balances of €154,080 thousand (€123,471 thousand in 2016) and Romanian Leu balances of €9,347 thousand (€3,532 thousand in 2016) generate interest that would partially offset any variations in interest payable. The fair value of the Group's interest rate hedging contracts would, on the basis of the above possible change in interest rates, decrease by €23 thousand / increase by €84 thousand against an increase / decrease of equity for that amount (decrease by €728 thousand and increase by €1,107 thousand in 2016).

B. Credit risk

At the reporting date the exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position (refer to note 13 for investments, note 14 for trade and other receivables, and note 17 for cash and cash equivalents).

C. Funding and long term liquidity risk

Maturity schedule

At 31 December 2017 the contractual maturities of financial liabilities, including interest payments, are the following:

IN THOUSANDS OF EUR	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	1 YEAR OR LESS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Bank loans	537,041	551,812	22,792	191,234	177,078	160,708
Other financial loans	201,484	203,139	32,744	170,183	102	110
Obligations under finance leases	4,379	5,692	515	623	1,540	3,014
Trade and other liabilities	703,444	677,630	677,625	5	-	-
Derivative financial liabilities						
Interest rates swaps	21,600	22,675	7,356	7,650	7,671	-
Foreign exchange contracts	4,434	4,434	4,434	-	-	-
Total	**1,472,382**	**1,465,382**	**745,466**	**369,695**	**186,391**	**163,832**

Bank loans are shown according to their contractual maturity date, rather than their interest and roll-over date.

At 31 December 2016 the contractual maturities of financial liabilities, including interest payments, were the following:

IN THOUSANDS OF EUR	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	1 YEAR OR LESS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Bank loans	483,277	502,612	93,722	22,565	225,692	160,633
Redeemable preference shares	6,814	6,814	3,407	3,407	-	-
Retail bond	399,692	420,000	420,000	-	-	-
Other financial loans	30,301	30,158	29,632	526	-	-
Obligations under finance leases	1,857	1,940	194	182	285	1,279
Trade and other liabilities	658,307	646,011	645,435	-	4	572
Derivative financial liabilities						
Interest rates swaps	28,488	30,430	7,602	7,644	15,184	-
Foreign exchange contracts	1,814	1,814	1,814	-	-	-
Total	**1,610,550**	**1,639,779**	**1,201,806**	**34,324**	**241,165**	**162,484**

D. Capital risk

The Group monitors capital using the debt covenant specifications as outlined in the latest syndicated loan agreement signed on 24 January 2014. The Group targets to maintain a debt covenant ratio between 1.5 and 2.5 in the long term.

For example, the adjusted net financial debt (for bank covenant purposes) to recurring EBITDA ratio amounts to 1.5 at 31 December 2017 (1.6 at 31 December 2016), well below the bank covenant of 3.

16.2 Financial derivatives

The Group uses derivative financial instruments to hedge its exposure to currency and interest rate risk. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. All derivatives are measured at fair value.

The following table provides an overview of the outstanding derivative financial instruments at 31 December:

	2016		2017	
IN THOUSANDS OF EUR	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT
Foreign exchange contracts				
Assets	4,514	4,514	1,494	1,494
Liabilities	-1,814	-1,814	-4,434	-4,434
Interest rate swaps				
Liabilities	-28,488	-28,488	-21,600	-21,600
Total	**-25,788**	**-25,788**	**-24,540**	**-24,540**

The following table indicates in which caption of total comprehensive income, the changes in fair value of the derivative financial instruments outstanding at 31 December 2017, have been recognised:

	PROFIT FOR THE YEAR				
IN THOUSANDS OF EUR	COST OF SALES	INTEREST EXPENSE	OTHER FINANCIAL INCOME	OTHER FINANCIAL CHARGES	OTHER COMPREHENSIVE INCOME
Foreign exchange contracts					
Assets	-111	-	-	-	-2,909
Liabilities	-1,161	-	-	-	-1,460
Interest rate swaps					
Liabilities	-	-	-	-	6,888
Total	**-1,272**	**-**	**-**	**-**	**2,519**

A. Cash flow hedges

At 31 December 2017, the Group holds forward exchange contracts designated as hedges of expected future raw material purchases from suppliers for purchases denominated in US Dollar and Japanese Yen, of expected future sales denominated in Polish Zloty, and of expected future purchases denominated in Euro by companies whose functional currencies are the British Pound and Polish Zloty.

At 31 December 2017, the Group had interest rate swap agreements in place with a notional amount of €250,000 thousand (€250,000 thousand in 2016) whereby it receives a variable interest rate based on Euribor three or six months, as the case may be, and pays a fixed rate on the notional amount. The swaps are being used to hedge the exposure to interest rate risk on its floating debt. The floating rate debt and the interest rate swaps have the same critical terms.

The Group did not recognise any ineffectiveness in 2017 and 2016.

The following tables indicate the period in which the undiscounted cash flows are or were expected to occur. This is the same period as the period in which the cash flows are expected to impact the income statement (cost of sales if relating to forward exchange contracts covering sales and purchases in foreign currencies and interest expense if concerning interest rate swaps):

At 31 December 2017

IN THOUSANDS OF EUR	CARRYING AMOUNT	TOTAL EXPECTED CASH FLOWS	1 YEAR OR LESS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS
Foreign currency						
Foreign exchange contracts						
Assets	1,155	1,155	1,155	-	-	-
Liabilities	-2,742	-2,742	-2,742	-	-	-
Interest rate						
Interest rate swaps						
Assets	-	-	-	-	-	-
Liabilities	-21,600	-22,677	-7,356	-7,650	-7,671	-

At 31 December 2016

IN THOUSANDS OF EUR	CARRYING AMOUNT	TOTAL EXPECTED CASH FLOWS	1 YEAR OR LESS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS
Foreign currency						
Foreign exchange contracts						
Assets	4,140	4,140	4,140	-	-	-
Liabilities	-1,318	-1,318	-1,318	-	-	-
Interest rate						
Interest rate swaps						
Assets	-	-	-	-	-	-
Liabilities	-28,488	-30,430	-7,602	-7,644	-15,184	-

B. Derivatives without hedging relationship

Certain derivative transactions, while providing effective hedges under the Group's risk management policy, may not qualify for hedge accounting due to the complexity of the instruments. There are no such derivative transactions in 2017.

16.3 Financial instruments – fair values

Fair values of the financial assets and liabilities approximate their carrying amounts.

Unquoted equity instruments are measured either at fair value using a valuation technique or at cost. Further explanation is provided in note 13.

The fair value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market interest rate at reporting date.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds).

The fair value of interest rate swaps is calculated by discounting estimated future cash flows based on terms and maturity of each contract and using market interest rates for a similar instrument at reporting date.

The fair value of interest bearing loans and borrowings has been calculated by discounting the expected future cash flows (principal and interest cash flows) at prevailing interest rates at reporting date.

Fair value hierarchy

The Group uses the following hierarchy to determine and disclose the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs which have a significant impact on the recorded fair value that are not based on observable market data.

2017

IN THOUSANDS OF EUR	LEVEL 2
Assets measured at fair value	
Derivatives – used for hedging (cash flow hedging)	339
Liabilities measured at fair value	
Derivatives – used for hedging (cash flow hedging)	1,692

During 2017 and 2016 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

2016

IN THOUSANDS OF EUR	LEVEL 2
Assets measured at fair value	
Derivatives – used for hedging (cash flow hedging)	374
Liabilities measured at fair value	
Derivatives – used for hedging (cash flow hedging)	496

As stated in note 11, assets held for sale are measured at the lower of carrying amount and fair value less costs to sell in 2017 and 2016 since no observable fair value could be obtained.

The investment properties are measured at amortised cost, see note 10.

Note 17 – Cash and cash equivalents

Cash and cash equivalents was temporarily and notably high at the end of 2016; this related to the proceeds of the sale of our Ceramics business in Latin America as well as the issuance of a new Schuldschein completed in October 2016, altogether to be used for the retail bond repayment and remaining old Schuldschein reaching maturity in March 2017.

In 2017 the aforementioned repayments resulted in a reduction in excess cash. See also note 23 for further explanation. The different types of cash and cash equivalents are detailed below:

IN THOUSANDS OF EUR	2016	2017
Cash on hand and bank deposits	272,560	95,138
Short-term deposits (less than three months)	10,675	11,875
Total	**283,235**	**107,013**

Note 18 – Equity

Ordinary shares

The issued share capital of Etex SA amounts to €4,491 thousand (€8,216 thousand including share premium) at 31 December 2016. It is represented by 82,837,819 fully paid ordinary shares without par value.

In December 2017, the Extraordinary General Shareholders' Meeting of Etex SA-NV decided to reduce its capital, without reduction of the number of shares, by €4,940 thousand. As a result, at 31 December 2017, the share capital of Etex amounts to €3,276 thousand (share premium included).

	2016	2017
At the beginning of the year	**82,837,819**	**82,837,819**
Movement of the year	-	-
At the end of the year	**82,837,819**	**82,837,819**

Treasury shares

At 31 December 2017 the Group owns 4,673,495 ordinary shares representing 5.64% of the total number of ordinary shares.

	2016	2017
At the beginning of the year	**4,673,495**	**4,673,495**
At the end of the year	**4,673,495**	**4,673,495**

Dividend

The 2017 dividend will be proposed for approval at the General Shareholders' Meeting of Etex SA on 23 May 2018 (after issuance of the financial statements) and will amount to €0.53 per share representing a total dividend of €41,427 thousand.

In 2017, a dividend of €37,519 thousand has been paid based on the decision of the General Shareholders' Meeting of Etex SA on 24 May 2017.

	NUMBER OF SHARES	EUR/SHARE	DIVIDEND IN EUR
Ordinary shares	82,837,819	0.48	39,762,153
Treasury shares	-4,673,495	0.48	-2,243,278
Dividend paid out	78,164,324		37,518,875

Note 19 – Provisions

IN THOUSANDS OF EUR	WARRANTY	HEALTH CLAIMS	LITIGATION	OTHERS	TOTAL
At 31 December 2016	**41,662**	**80,606**	**20,429**	**71,028**	**213,725**
Additional provisions made	6,035	6,040	9,872	15,718	37,665
Amounts utilised during the year	-8,977	-8,285	-5,930	-24,839	-48,031
Unused amounts reversed	-3,548	-3,683	-1,542	-5,546	-14,319
Changes in the scope of consolidation	-	3,272	1,520	951	5,743
Translation differences	-95	-578	-854	-211	-1,738
Discount rate adjustment	-35	-149	-	296	112
At 31 December 2017	**35,042**	**77,223**	**23,495**	**57,397**	**193,157**
Non-current at the end of the period	20,682	70,997	21,025	25,123	137,827
Current at the end of the period	14,360	6,226	2,470	32,274	55,330

Warranty provisions

The provisions for warranty costs are estimates of future payments for claims relating to sales of goods based on historical data; they cover mainly roofing products in Europe for which a long warranty period is granted to customers. Increases of the provision during the year are based on an estimate of the probability of future product claims applied to the sales figures of the year and specific claims exceeding statistical estimates.

Health claims provision

In the past, various Etex subsidiaries used asbestos as a raw material in their industrial process. The use of asbestos has been banned in the entire Group for many years now, but some companies may still receive claims relating to past exposure to asbestos. The potential risk varies depending on the legal situation in the relevant country, its national social security system and the insurance cover of the relevant company.

The accounting approach is to provide for the costs of the settlement of claims which are both probable and can be reliably estimated. The provision at 31 December 2017 for the cost of asbestos claims comprises an amount of €32,900 thousand (€34,344 thousand in 2016) for the expected costs of settling notified claims and a discounted amount of €44,322 thousand (€46,654 thousand in 2016) in respect of losses arising from claims which have not yet been notified but which are both probable and can be reliably estimated. These future claims are discounted at different rates from 0.53% to 4.0% depending on the country (0.35% to 4.0% in 2016).

Most of Etex's subsidiaries work with external counsels and, if applicable, insurance companies to review the asbestos claims. If a compensatory disease is proven and the causation can be established, the settlement is provided for an amount that reflects the type of disease, the seriousness of the injury, the age of the claimant and the particular jurisdiction of the claim.

The estimation of future claims is based on an up-to 25-year cost estimate which takes into account the current level of claims as well as a reduction of claims over time as the number of diseases is expected to decline. Whilst further claims are likely to arise after this up-to 25-year-period, the associated costs of resolution cannot be reliably estimated and no provision has been made to cover these possible liabilities. The estimate of future liabilities takes into account a large number of variables such as the number of employees exposed, the likely incidence, the disease mix, the mortality rates, the legislative environment and the expected insurance coverage. As these assumptions may change over time, there can be no guarantee that the provision for asbestos liabilities is an accurate prediction of the actual future costs. As a consequence, the provision may have to be revised in the future as additional information becomes available or trends change. The provision is reviewed at least once a year.

The number of new claims received during 2017 was 50 (60 in 2016), 42 cases were settled and 39 resolved without cost. The number of outstanding cases for which a provision has been made at 31 December 2017, was 164 (195 in 2016).

Litigation provisions

Litigation provisions mainly include estimated future outflows relating to, various direct and indirect tax litigations, litigations with customers, former employees, suppliers and other parties.

Other provisions

Other provisions include mainly estimated future outflows for environmental obligations and restructuring.

The Group meets all obligations imposed by relevant laws with respect to land decontamination and site restoration. Where requested, necessary expenses are made and provision for future estimated costs are set-up. At 31 December 2017, these provisions amount to €26,734 thousand (€24,705 thousand in 2016).

Restructuring provisions relate mainly to restructuring of companies in Germany. Further information is disclosed under note 4.

Note 20 – Commitments and contingencies

Health claims

There has been a history of bodily injury claims resulting from exposure to asbestos being lodged against subsidiaries of the Group for a number of years. The Group's approach is to provide for the costs of resolution which are both probable and reliably estimable (refer to note 19 on provisions). At present the provision for the costs which are both probable and can be reliably estimated cover up to 25 years of estimated gross costs. Whilst further claims are likely to be resolved beyond this timeframe, the associated costs of resolution are not able to be reliably estimated and no provision has been made to cover these possible liabilities, which are considered contingent.

Legal claims

In the ordinary course of business, the Group is involved in lawsuits, claims, investigations and proceedings, including product liability, commercial, environment and health and safety matters, etc. The Group operates in countries where political, economic, social and legal developments could have an impact on the Group's operations. The Group is required to assess the likelihood of any adverse judgements or outcomes to these matters, as well as potential ranges of probable losses. The effects of such risks which arise in the normal course of business are not foreseeable and are therefore not included in the accompanying consolidated financial statements.

Guarantees

At 31 December 2017, the Group issued the following guarantees to third parties:

IN THOUSANDS OF EUR	2016	2017
Guarantees issued after business disposals	123,540	119,201
Guarantees issued by the Group to cover the fulfilment of Group companies obligations	873,530	684,517
Guarantees issued by Third Parties to cover fulfilment of the Group companies obligations	457	556
Secured debt	55,038	50,508

Guarantees issued by the Group to cover the fulfilment of Group companies' obligations consists mainly of the joint and several cross guarantees provided by the group and its affiliates relating to our outstanding syndicated credit facility (€600 million), commercial paper program (€200 million), Schuldschein loan (€300 million), as well as securities issued to guarantee other commitments (€435 million). The values disclosed in the above table are based on outstanding amounts.

Secured debt includes mortgages and pledges provided in Japan, Brazil and Romania to cover local credit facilities in 2017.

Commitments

In the ordinary course of business, the Group enters into purchase commitments for goods and services and capital expenditures, buys and sells investments and Group companies or portions thereof. At 31 December 2017 Etex had purchase commitments of €11,632 thousand (€4,298 thousand in 2016).

Commitments are mainly related to a new machine in Indonesia and a new production line in Argentina.

Commitments relating to operating leases are disclosed in note 23.

Note 21 – Employee benefits

Defined contribution plans

For defined contribution plans Group companies pay contributions to pensions funds or insurance companies. Once contributions have been paid, the Group companies have no further significant payment obligation. Contributions constitute an expense for the year in which they are due. In 2017, the defined contribution plan expenses for the Group amounted to €13,595 thousand (€10,354 thousand in 2016).

Defined benefit plans

Some Group companies provide defined benefit pension plans to their employees as well as defined benefit medical plans and early retirement plans.

The following tables reconcile the funded and unfunded status of defined benefit plans to the amounts recognised in the statement of financial position:

IN THOUSANDS OF EUR	2016	2017
Present value of funded obligations	1,392,281	1,280,032
Fair value of plan assets	1,153,411	1,128,347
Plan (surplus) deficit of funded obligations	238,870	151,685
Present value of unfunded obligations	142,721	128,700
Net liability from funded and unfunded plans	**381,591**	**280,385**
Other long term benefits	6,103	5,534
Termination benefits	3,038	4,502
Stock option plans	8,547	14,966
Net employee benefits liability	**399,279**	**305,387**
Defined benefit obligation	1,552,689	1,433,735
Fair value of plan assets	1,153,411	1,128,347
Net liability at the end of the year	**399,278**	**305,388**
Net employee benefits liability (assets)	**399,278**	**305,388**
Employee benefits in the statement of financial position:		
Liabilities	399,278	310,731
Assets	-	5,343

Funded pension plans have been established in the United Kingdom, Ireland, Germany, Belgium, the Netherlands, Indonesia and Brazil. They are all closed for new employees.

Unfunded pension plans exist mainly in Germany and Chile, but also in Japan and Lithuania.

Other post employment benefits such as medical plans, early retirement plans and gratuity plans are granted mainly in Belgium, the United Kingdom, France, Germany, Austria and Italy. Other long term benefits consist mainly of "Jubileum" premiums in Germany and Poland. In France it relates to long term profit sharing and "Medailles du travail".

Termination benefit plans consist of specific early retirement plans, mainly in Germany and Chile.

Stock options plans are detailed in note 22.

The largest individual plans are in UK and Ireland. Together they account for 80% (82% in 2016) of the total Group defined benefit obligation, and 92% (93% in 2016) of its plan assets.

UK Pension Plans
In the UK, the Group sponsors two defined benefit pension plans – the Marley 1986 Scheme (the "Scheme") and the Eternit Pension Plan (the "Plan", together "the Plans"). The Plans were closed to future accrual on 31 December 2009 at which point all active members were granted preserved benefits in the Plans with ongoing pension provision via a separate company sponsored defined contribution pension scheme.

The Plans target a pension paid for life. The amount of pension depends on how long employees were active members of the Plans and their salary when they left the Plans, revalued on a statutory basis until retirement.

The Plans are governed by boards of Trustees (the "Trustees") that have control over the operation, funding and investment strategy. The Trustees are comprised of nominees of the sponsoring employers and elected members of the Plans. The Trustees work together with the UK sponsoring employers of the Plans (the UK sponsors).

UK legislation requires the Trustees to carry out valuations according to local funding requirements at least every three years and to target full funding against a basis that prudently reflects the Plans' risk exposure. No contributions are currently being paid in respect of the deficit in the Scheme as this deficit is expected to be eliminated by the Scheme achieving investment returns in excess of the discount rate used to set the liabilities.

The formal actuarial valuation of the Plans at 31 March 2017 is underway and expected to be complete in June 2018. The next formal valuation of the Plans will be dated 31 March 2021.

The approximate weighted average duration of the defined benefit obligation is 17 years for the Scheme and 18 years for the Plan.

The Plans hold a diversified portfolio of assets including equities, absolute return funds, emerging market debt, property, buy and hold credit funds and cash. The investment strategy is reviewed regularly by the Trustees in conjunction with the UK sponsors.

There is a risk that changes in the assumptions for investment return, price inflation or life expectancy could result in deterioration in the funding level of the Plans. Other assumptions used to value the defined benefit obligation are also uncertain.

Other risks such as actions taken by the local regulators could result in stronger local funding standards, which could affect cash flow.

However, because the UK sponsor has a right to a refund of any surplus assets, there would be no further balance sheet effect.

In order to mitigate risk and working together with the Trustees, the UK sponsors have carried out two risk management exercises since the closure of the Plans. The first of these was a pension increase exchange exercise whereby members of the Plans were offered the opportunity to exchange non-statutory inflation linked pension increases for a higher initial pension thereby reducing the inflation exposure of the Plans. A flexible pension option exercise took place at the end of 2013/start of 2014 in which preserved pensioners aged 55 or over were reminded of their option to retire early or transfer out of the Plans with the offer of independent financial advice. To the extent members decide to transfer out of the Plans some of the risks described are reduced.

Ireland Pension Plans
In Ireland, the Group sponsors two defined benefit pension plans – The Tegral Group Pension Plan (the "Main Plan") and the Tegral Group Executives Pension Plan (the "Exec Plan") together ("the Plans"). The Plans were closed to future accrual on 31 December 2010 at which point all active members were granted preserved benefits in the Plans with ongoing pension provision via a separate company sponsored defined contribution pension scheme (the DC Scheme).

The Plans target a pension paid for life. The amount of pension depends on how long employees were active members of the Plans and their salary when they left the Plans, revalued on a statutory basis until retirement.

The Plans are governed by boards of Trustees (the "Trustees") that have control over the operation, funding and investment strategy.

The Trustees are comprised of nominees of the sponsoring employers and elected members of the Plans. The Trustees work together with the Irish sponsoring employer of the Plans (the Irish sponsors).

Irish legislation requires the Trustees to carry out valuations according to local funding requirements at least every three years. The most recent valuations were carried out as at 1 January 2015 and the next formal actuarial valuation of the Plans will be as of 1 January 2018.

The combined approximate weighted average duration of the defined benefit obligation is 18 years for the Plans.

The Plans hold a diversified portfolio of assets including equities, bonds, property, cash and absolute return funds. The investment strategy is reviewed regularly by the Trustees in conjunction with the Irish sponsors.

There is a risk that experience being different to the assumptions for investment return, price inflation or life expectancy could result in deterioration in the funding level of the Plans. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material.

Other risk such as actions taken by the local regulators could result in stronger local funding standards, which could affect cash flow. However, because the sponsor has a right to a refund of any surplus assets, there would be no further balance sheet effect.

In order to mitigate this risk and working together with the Trustees, the Irish sponsors have controlled risk by closing the Plans to future accrual and reducing the investment risk of the Plans.

The distribution of the defined benefit liability per country, at the end of the year is as follows:

IN THOUSANDS OF EUR	2016	2017
United Kingdom	1,168,827	1,056,077
Germany	150,312	139,018
Ireland	100,689	97,994
Belgium	67,698	73,341
France	20,165	16,491
Others	44,998	50,814
Defined benefit obligation	**1,552,689**	**1,433,735**

The changes in the present value of the defined benefit obligations are as follows:

IN THOUSANDS OF EUR	2016	2017
Defined benefit obligation at the beginning of the year	**1,486,567**	**1,552,688**
Service cost	7,565	14,799
Past service cost (gain) / loss	3,417	166
Settlements	-18	-130
Service cost	10,963	14,834
Interest cost	46,591	36,561
Actuarial (gains) and losses	229,254	-49,793
Benefits paid	-70,755	-79,977
Plan participants contribution	796	812
Newly recognized plan	21,371	-413
Others	-88	-
Translation differences	-172,010	-40,977
Defined benefit obligation at the end of year	**1,552,689**	**1,433,735**

Belgian plans subject to minimum guaranteed rate of return

Etex offers defined contribution pension plans funded through group insurance to employees of its Belgian affiliates with a minimum guaranteed return. The Belgian defined contribution plans are subject to the Law of 28 April 2003 on occupational pensions. According to article 24 of this Law, the employer has to guarantee an average minimum return (1.75% as from 1 January 2016), therefore these plans are considered to be defined benefit plans under IAS 19. They induce a financial risk for the group during periods of declining market interest rates when the returns guaranteed by the insurance companies are lower than the minimum legal returns. The assets of these plans are entirely managed by external insurance companies referred to as "qualifying parties" which do not have any link with the group.

Other plan costs and income

Past service costs of €419 thousand relate to plans in Chile and past service gains of €106 thousand relate to plans in Indonesia. Settlements of €116 thousand relate to Belgium.

The changes in the fair value of the plan assets are as follows:

IN THOUSANDS OF EUR	2016	2017
Fair value of plan assets at the beginning of the year	**1,185,354**	**1,153,409**
Interest income	38,416	28,178
Actuarial gains and (losses)	106,359	30,880
Employer contribution	12,875	11,678
Plan participants contribution	796	812
Administration cost (excluding management of assets)	-1,810	-1,697
Newly recognized plan	21,371	-
Benefits paid	-58,633	-60,787
Translation differences	-151,317	-34,126
Fair value of plan assets at the end of the year	**1,153,411**	**1,128,347**

The expense recognised in the income statement is detailed as follows:

IN THOUSANDS OF EUR	2016	2017
Service cost	-10,963	-14,834
Interest cost	-46,591	-36,561
Interest Income	38,416	28,178
Administration cost (excluding management of assets)	-1,810	-1,697
Total employee benefit expense	**-20,948**	**-24,914**
The employee benefit expense is included in the following line items of the income statement:		
Operating income	-12,773	-16,531
Financial result	-8,175	-8,383

The main weighted assumptions used in measuring the employee benefit liabilities are the following:

	2016	2017
Discount rate	2.45%	2.35%
Future salary increases	2.19%	2.90%
Pension increase	2.78%	2.59%
Medical cost trend	5.40%	5.40%

The distribution of the plan assets is the following:

	2016	2017
Equity instruments	10%	12%
Debt instruments	59%	54%
Real estate	5%	3%
Cash and fixed deposits	9%	12%
Insurance	6%	7%
Other	10%	12%
Total	**100%**	**100%**

The expected employer contributions to be paid in 2018 to defined benefit plans amount to €7,083 thousand.

Sensitivity analysis

UK

The measurement of the defined benefit obligation for the Plans in UK is particularly sensitive to changes in key assumptions, as described below:

The discount rate has been selected following actuarial advice and taking into account the duration of the liabilities. A decrease in the discount rate of 1.0% would result in a £177 million increase in the present value of the defined benefit obligations of the Plans (which is likely to be mitigated in part by an increase in asset values). The inflation assumption adopted is consistent with the discount rate used. It is used to set the assumptions for pension increases and deferred revaluations used for preserved members' benefits.

An increase in the inflation rate of 1.0% would result in a £106 million increase in the present value of the defined benefit obligation of the Plans (which is likely to be mitigated in part by an increase in asset values). The increase in the present value of the defined benefit obligation due to a member living one year longer would be approximately £36 million.

There is also a risk of asset volatility leading to lower funding levels in the Plans.

Ireland

The measurement of the defined benefit obligation for the Plans in Ireland is particularly sensitive to changes in key assumptions, as described below:

The discount rate has been selected following actuarial advice and taking into account the duration of the liabilities. A decrease in the discount rate of 1.0% would result in a €20 million increase in the present value of the defined benefit obligations of the Plans (which is likely to be mitigated in part by an increase in asset values). The inflation assumption adopted is consistent with the discount rate used. It is used to set the assumptions for pension increases and deferred revaluations used for preserved members' benefits. An increase in the inflation rate of 1.0% would result in a €20 million increase in the present value of the defined benefit obligation of the Plans (which is likely to be mitigated in part by an increase in asset values). The increase in the present value of the defined benefit obligation due to a member living one year longer would be approximately €4 million.

There is also a risk of asset volatility leading to lower funding levels in the Plans.

Note 22 – Share based payments

On 23 June 2004 the Board introduced a stock option plan to reward executives and senior staff. The plan authorises the issuance of a maximum of 3,500,000 options to be granted annually over a 5-year period. In each of the years 2004 to 2008 grants were made under this plan (SOP 2004, SOP 2005, SOP 2006, SOP 2007 and SOP 2008). The options granted in 2004 to 2008 were extended by 3 years by a decision of the Board on April 21, 2009.

On 7 July 2009 the Board introduced a new stock option plan on similar terms, authorizing the issuance of a maximum of 3,000,000 options over 5 year (SOP 2009, SOP 2010, SOP 2011, SOP 2012 and SOP 2013). On 18 December 2013 the Board extended this plan by one year (SOP 2014) and authorised a maximum of 1,000,000 options to be granted.

On 19 December 2014, the Board introduced a new stock option plan on similar terms: the plan authorises the issuance of a maximum of 5,000,000 options to be granted annually over a 5-year period with an annual maximum of 1,000,000 options. In 2015, 2016 and in 2017 grants were made under this plan (SOP 2015, SOP 2016 and SOP 2017).

Each option gives the beneficiary the right to buy one Etex SA share at an exercise price determined at grant date and is vested on a monthly basis over 4 years. Each beneficiary of an option is also granted a put option whereby the shares acquired under the stock option plan can be sold back to the Group at a price determined at each put exercise period, which is similar to the stock option plan exercise period.

Fair value of the options granted during the period

The fair value of the services received in return for share options is based on the fair value of the share options granted, measured using the Black & Scholes model with the following inputs:

	2016	2017
Expected volatility (% pa)	20.00	20.00
Risk-free interest rate (% pa)	0.02	0.28
Expected dividend increase (% pa)	10.00	10.00
Rate of pre-vesting forfeiture (% pa)	-	-
Rate of post-vesting leaving (% pa)	1.00	1.00
Share Price (as estimated)	26.74	33.23
Expected early exercise of options	5-6 years	5-6 years
Fair value per granted instrument determined at grant date (€)	3.59	4.84

The expected volatility is slightly lower than the industrial Belgian listed companies (25%), because the market ratios are fixed for the entire exercise period of the option.

Due to newly granted stock options in current year and due to the increase of the fair value of the options granted in the past and not exercised yet, Etex recognised a share-based payment expense of €8,167 thousand during the year (an expense of €1,166 thousand in 2016). The total carrying amount of the liability related to the stock option plans amounts to €14,966 thousand (€8,547 thousand in 2016) and is disclosed under "Employee benefits liabilities" as described under note 21.

Stock option plans granted by the company

PLAN	CONTRACTUAL LIFE OF AN OPTION	EXERCISE PERIOD	EXERCISE PRICE	NUMBER OF OPTIONS STILL TO BE EXERCISED
SOP 2008	20.6.2018	Once a year as from 2012, between 1.6 and 20.6	17.32	473,000
SOP 2011	20.6.2018	Once a year as from 2015, between 1.6 and 20.6	24.01	84,500
SOP 2012	20.6.2019	Once a year as from 2016, between 1.6 and 20.6	18.45	367,554
SOP 2013	20.6.2020	Once a year as from 2017, between 1.6 and 20.6	27.76	612,928
SOP 2014	20.6.2021	Once a year as from 2018, between 1.6 and 20.6	30.09	863,988
SOP 2015	20.6.2022	Once a year as from 2019, between 1.6 and 20.6	32.83	815,739
SOP 2016	20.6.2023	Once a year as from 2020, between 1.6 and 20.6	26.74	796,822
SOP 2017	20.6.2024	Once a year as from 2021, between 1.6 and 20.6	33.23	781,000

Details of the share options outstanding during the year

	2016		2017	
THOUSANDS OF EUR	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at the beginning of the year	**4,462,651**	**24.54**	**4,500,745**	**26.41**
Granted during the year	803,000	26.74	781,000	33.23
Forfeited during the year	-	-	-8,130	28.02
Exercised during the year	-748,906	15.81	-478,084	22.06
Expired during the year	-16,000	16.02	-	-
Outstanding at the end of the year	**4,500,745**	**26.41**	**4,795,531**	**27.95**
Of which exercisable at the end of the year	1,277,554	18.84	1,537,982	22.12

For share put options exercised during the period, the weighted average share price was €25.72 (€17.85 in 2016).

Note 23 – Loans and borrowings

IN THOUSANDS OF EUR	2016	2017
Bank loans	393,258	514,363
Other financial loans	524	11,213
Obligations under finance leases	1,745	4,159
Redeemable preference shares	3,407	-
Total non-current financial liabilities	**398,934**	**529,735**

IN THOUSANDS OF EUR	2016	2017
Bank loans	86,216	19,633
Retail bond	399,692	-
Bank overdrafts	3,803	3,045
Other financial loans	29,778	190,271
Obligations under finance leases	112	220
Redeemable preference shares	3,407	-
Total current financial liabilities	**523,008**	**213,169**

In March 2017, Etex repaid its outstanding retail bond of €400 million, as well as the remaining outstanding amount of €26 million on the old Schuldschein. This was financed with the proceeds of the sale of Etex's Ceramics business in Latin America in 2016, the issuance of a new Schuldschein in October 2016, as well as with the group's cash flow generation. The Syndicated Facility of €600 million was drawn at €160 million per end of 2017 (drawn at €0 per end of 2016), and will mature in January 2019. It is being used for general corporate purposes.

Etex also makes use of a Commercial Paper program of €200 million, drawn at €157.6 million per end of 2017 (€4 million per end of 2016).

In 2017, Etex continued to roll-out its €200 million non-recourse Factoring Program, through which customer receivables from 18 entities in 10 European countries are being sold to a pool of banks on a non-recourse basis. Per end of 2017, €200 million were financed through that program, out of which €166.9 million was eligible for trade receivables derecognition.

The utlisation of the Syndicated Loan Facilities may be in Euro or other freely available currencies, as agreed. The interest payable is calculated at the relevant interbank rate for the period of the utilisation that has been chosen by the borrower, floored at 0%, plus the applicable margin. The Credit Facility, Retail Bond and Schuldschein contain a number of operating covenants, including restrictions on giving security to lenders, on the amount of external subsidiary borrowings and restrictions on the acquisition and the disposal of material assets. They also contain financial covenants which include in particular required ratios of consolidated net debt to consolidated EBITDA of the Group and operating profit interest coverage.

Transaction costs on the Syndicated Loan and on the new Schuldschein Loan of 2016 have been deducted from the loan at initial recognition and are being amortised over the life of the extended loan. The amount still to be amortized at the end of 2017 amounts to €2,198 thousand (€4,804 thousand at the end of 2016).

Finally, for its local funding, the Group is relying on some long-term and short-term facilities with local banks for a total amount of €87.2 million at the end of 2017.

In Latin America, the main countries with local financing are Brazil and Colombia. In 2017, thanks to the cash received from the sale of Etex's Ceramics business in the region, most of our Latin American affiliates have been able to reimburse part or all of their external debt.

Peru has reimbursed all its external debt.

Brazil has a total drawn amount of €25.0 million borrowed in Brazilian real (€69.2 million at the end of 2016) with a maturity in 2020. It is used to finance part of the new Santa Cruz plant.

Colombia has a total drawn amount equivalent to €7.4 million in Colombian pesos (€7.9 million in 2016).

- Skinco mainly relies on a €1.3 million short term loan ending in March 2018.
- Gyplac has a short-term loan of €6.3 million ending in July 2017.

And finally, the Group has 3 other countries using external financing, Romania, Indonesia and Spain.

Romania has an external loan for a total amount of €16.8 million borrowed in Romanian Leu with ING Romania. The loan is used to finance part of the new Turceni plant.

Indonesia has contracted a loan of €21.7 million with BNP Brussels maturing in 2020. The loan is used to finance part of the investment in the new West Java plant.

Pladur Gypsum Spain is financed via Spanish state subsidised loans for €10.9 million and with Ibercaja Banco for €1.9 million.

The management of interest rate risk is described in note 16.

Net financial debt

The net financial debt position is calculated as follows:

IN THOUSANDS OF EUR	2016	2017
Non-current loans and borrowings	398,934	529,735
Current portion of loans and borrowings	523,008	213,169
Current financial assets	-8,731	-3,137
Cash and cash equivalents	-283,235	-107,013
Net financial debt	**629,976**	**632,754**

Finance lease liabilities

The Group has finance leases for various items of plant, property and equipment. Future minimum lease payments, interest payments and present value of payments are as follows:

	2016			2017		
IN THOUSANDS OF EUR	MINIMUM LEASE PAYMENTS	INTEREST	PRESENT VALUE	MINIMUM LEASE PAYMENTS	INTEREST	PRESENT VALUE
Less than 1 year	116	-4	112	431	-211	220
Between 1 and 5 years	921	-455	466	2,651	-1,109	1,542
More than 5 years	1,668	-389	1,279	3,329	-712	2,617
Total	**2,705**	**-848**	**1,857**	**6,411**	**-2,032**	**4,379**

Operating leases

The total expenses for operating leases recognised in the consolidated income statement for 2017 amount to €38,391 thousand (€39,609 thousand in 2016). Future committed operating lease payments are as follows:

	2016				2017			
IN THOUSANDS OF EUR	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Buildings	11,251	21,358	18,291	50,900	9,125	14,891	14,084	38,100
Equipment	7,296	9,575	1,897	18,768	7,184	12,441	1,203	20,828
Total	**18,547**	**30,933**	**20,188**	**69,668**	**16,309**	**27,332**	**15,287**	**58,928**

Note 24 – Deferred tax

IN THOUSANDS OF EUR	ASSETS	LIABILITIES	NET
Net carrying amount at 31 December 2016	**150,262**	**139,545**	**10,717**
Translation differences	-2,472	-2,503	31
Recognised in income statement	-33,728	-33,155	-573
Recognised in equity	20,871	38,471	-17,600
Change in scope of consolidation	2,840	7,451	-4,611
Netting	-22,680	-22,680	-
Net carrying amount at 31 December 2017	**115,093**	**127,129**	**-12,036**

The amount of deferred tax assets and liabilities are attributable to the following items:

	2016		2017		2016	2017	
IN THOUSANDS OF EUR	ASSETS	LIABILITIES	ASSETS	LIABILITIES	NET	NET	VARIANCE
Property, plant and equipment	9,572	156,565	12,301	143,258	-146,993	-130,957	16,036
Intangible assets	1,533	38,476	3,730	40,057	-36,943	-36,327	616
Employee benefits assets	34	-	40	668	34	-628	-662
Inventories	8,648	808	7,560	856	7,840	6,704	-1,136
Trade & other receivables	6,051	820	4,296	663	5,231	3,633	-1,598
Other assets	3,359	984	5,980	1,465	2,375	4,515	2,140
Provisions	19,645	2,509	15,660	2,830	17,136	12,830	-4,306
Employee benefits liabilities	67,194	97	48,207	121	67,097	48,086	-19,011
Loans and borrowings	499	1,480	1,220	594	-980	626	1,606
Other non-current liabilities	-2	567	291	517	-569	-226	344
Current liabilities	19,502	558	15,607	1,381	18,944	14,226	-4,718
Tax losses carried forward	185,186	-	170,572	-	185,186	170,572	-14,614
Unrecognised deferred tax assets	-107,639	-	-105,094	-	-107,639	-105,094	2,545
Netting by taxable entity	-63,318	-63,318	-65,277	-65,281	-	-	-
Total	**150,262**	**139,545**	**115,093**	**127,129**	**10,719**	**-12,040**	**-22,758**

Deferred taxes have not been recognised in respect of tax losses carried forward for an amount of €101,800 thousand (€103,072 thousand in 2016) and net deductible temporary differences for €3,294 thousand (€4,567 thousand in 2016) when it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

The amount of deferred tax assets computed on tax losses carried forward is detailed below, before deduction of unrecognised deferred tax assets, by year in which tax losses will expire:

EXPIRATION YEAR	DEFERRED TAX ASSET
2018	1,826
2019	2,034
2020	77
2021	325
2022 or later	11,597
Without expiration date	154,713
Total	**170,572**

Note 25 – Trade and other liabilities

Non-current liabilities

IN THOUSANDS OF EUR	2016	2017
Deferred income - Government grants	12,295	21,546
Other liabilities	21,473	14,249
Total	**33,768**	**35,795**

The Group has been awarded a number of government grants related to investments in property, plant and equipment. These government grants are recognised in the statement of financial position as deferred income for €21,546 thousand (€12,295 thousand in 2016) and amortised over the useful life of the assets. All conditions attached to these grants have been fulfilled.

Current liabilities

IN THOUSANDS OF EUR	2016	2017
Trade liabilities	445,678	503,412
Other liabilities	209,162	190,271
Total	**654,840**	**693,683**

The other current liabilities include:

IN THOUSANDS OF EUR	2016	2017
Income taxes payable	41,309	33,566
Other taxes payable	31,570	34,731
Remuneration payable	63,146	64,786
Social security payable	25,696	27,352
Deferred income and accrued charges	28,231	12,318
Derivative financial instruments with negative fair values	9,416	11,790
Dividends payable	210	46
Amount due to customers for construction contracts in progress	4	-
Advances received on construction contracts not started yet	2	2
Current cash guarantees received	1,483	753
Other	8,095	4,927
Total	**209,162**	**190,271**

Note 26 – Statement of cash flow details

A. Depreciation, amortisation and impairment losses

2017

IN THOUSANDS OF EUR	PROPERTY, PLANT, EQUIPMENT (NOTE 7)	INTANGIBLE ASSETS (NOTE 8, 9)	INVESTMENT PROPERTIES (NOTE 10)	ASSETS HELD FOR SALE (NOTE 11)	TOTAL
Depreciation	132,815	-	340	-	133,155
Amortisation	-	20,729	-	-	20,729
Impairment losses	9,449	92	-	-	9,541
Subtotal - continued operations	**142,264**	**20,821**	**340**	**-**	**163,425**
Depreciation	-	-	-	-	-
Amortisation	-	-	-	-	-
Subtotal - discontinued operations	**-**	**-**	**-**	**-**	**-**
Depreciation	132,815	-	340	-	133,155
Amortisation	-	20,729	-	-	20,729
Impairment losses	9,449	92	-	-	9,541
Total	**142,264**	**20,821**	**340**	**-**	**163,425**

2016

IN THOUSANDS OF EUR	PROPERTY, PLANT, EQUIPMENT (NOTE 7)	INTANGIBLE ASSETS (NOTE 8, 9)	INVESTMENT PROPERTIES (NOTE 10)	ASSETS HELD FOR SALE (NOTE 11)	TOTAL
Depreciation	132,303	-	434	-	132,737
Amortisation	-	22,019	-	-	22,019
Impairment losses	5,591	521	-	-	6,112
Subtotal - continued operations	**137,894**	**22,540**	**434**	**-**	**160,868**
Depreciation	5,524	-	-	-	5,524
Amortisation	-	25	-	-	25
Subtotal - discontinued operations	**5,524**	**25**	**-**	**-**	**5,549**
Depreciation	137,827	-	434	-	138,261
Amortisation	-	22,044	-	-	22,044
Impairment losses	5,591	521	-	-	6,112
Total	**143,418**	**22,565**	**434**	**-**	**166,417**

B. Gains (losses) on sale and retirement of intangible assets and property, plant and equipment

2017

IN THOUSANDS OF EUR	PROPERTY, PLANT, EQUIPMENT (NOTE 7)	INTANGIBLE ASSETS (NOTE 9)	INVESTMENT PROPERTIES (NOTE 10)	ASSETS HELD FOR SALE (NOTE 11)	TOTAL
Disposal proceeds	5,077	43	3	4,827	9,950
Net book value disposals	-1,627	-36	-19	-4,996	-6,678
Gains (losses) on disposal	**3,450**	**7**	**-16**	**-169**	**3,272**
Losses on retirement	-	-	-	-	-
Subtotal - continued operations	**3,450**	**7**	**-16**	**-169**	**3,272**
Losses on retirement	-	-	-	-	-
Disposal proceeds	5,077	43	3	4,827	9,950
Net book value disposals	-1,627	-36	-19	-4,996	-6,678
Gains (losses) on disposal	**3,450**	**7**	**-16**	**-169**	**3,272**
Losses on retirement	-	-	-	-	-
Total	**3,450**	**7**	**-16**	**-169**	**3,272**

2016

IN THOUSANDS OF EUR	PROPERTY, PLANT, EQUIPMENT (NOTE 7)	INTANGIBLE ASSETS (NOTE 9)	INVESTMENT PROPERTIES (NOTE 10)	ASSETS HELD FOR SALE (NOTE 11)	TOTAL
Disposal proceeds	4,287	-	1,381	-	5,668
Net book value disposals	-2,892	-137	-1,042	-	-4,071
Gains (losses) on disposal	**1,395**	**-137**	**339**	**-**	**1,597**
Losses on retirement	-	-	-	-	-
Subtotal - continued operations	**1,395**	**-137**	**339**	**-**	**1,597**
Disposal proceeds	48	-	-	-	48
Net book value disposals	-12	-	-	-	-12
Gains (losses) on disposal	**36**	**-**	**-**	**-**	**36**
Losses on retirement	-	-	-	-	-
Subtotal - discontinued operations	**36**	**-**	**-**	**-**	**36**
Disposal proceeds	4,335	-	1,381	-	5,716
Net book value disposals	-2,904	-137	-1,042	-	-4,083
Gains (losses) on disposal	**1,431**	**-137**	**339**	**-**	**1,633**
Losses on retirement	-	-	-	-	-
Total	**1,431**	**-137**	**339**	**-**	**1,633**

C. Capital expenditure

IN THOUSANDS OF EUR	2016	2017
Property, plant and equipment (note 7)	130,006	141,690
Intangibles assets (note 9)	3,865	4,338
Investment properties (note10)	200	125
Assets held for sale (note 11)	2,919	1,593
Subtotal - continued operations	**136,990**	**147,746**
Property, plant and equipment (note 7)	626	-
Subtotal - discontinued operations	**626**	**-**
Property, plant and equipment (note 7)	130,632	141,690
Intangibles assets (note 9)	3,865	4,338
Investment properties (note10)	200	125
Assets held for sale (note 11)	2,919	1,593
Total	**137,616**	**147,746**

D. Changes in working capital, provisions and employee benefits

IN THOUSANDS OF EUR	2016	2017
Inventories	5,928	-47,216
Trade and other receivables, trade and other liabilities	35,292	48,623
Provisions	4,753	-24,589
Employee benefits	-19,843	-24,831
Subtotal - continued operations	**26,130**	**-48,012**
Inventories	-12,802	-
Trade and other receivables, trade and other liabilities	-2,371	-
Provisions	-11,104	-
Employee benefits	-180	-
Subtotal - discontinued operations	**-26,457**	**-**
Inventories	-6,874	-47,216
Trade and other receivables, trade and other liabilities	32,921	48,623
Provisions	-6,351	-24,589
Employee benefits	-20,023	-24,831
Total	**-327**	**-48,012**

E. Interest and dividend received

IN THOUSANDS OF EUR	2015	2016
Interest received	3,359	4,141
Dividend received	85	136
Dividend Associates	1,224	712
Subtotal - continued operations	**4,668**	**4,988**
Interest received	51	-
Subtotal - discontinued operations	**51**	**-**
Interest received	3,410	4,141
Dividend received	85	136
Dividend Associates	1,224	712
Total	**4,719**	**4,988**

F. Reconciliation Income tax expense – income tax paid

IN THOUSANDS OF EUR	2016	2017
Income Tax expense	-26,241	-62,909
Changes in Deferred taxes	-43,498	573
Changes in income tax payables / receivables	18,711	601
Subtotal - continued operations	**-51,028**	**-61,734**
Income Tax expense	-4,634	-
Changes in Deferred taxes	2	-
Changes in income tax payables / receivables	-2,337	-
Subtotal - discontinued operations	**-6,969**	**-**
Income Tax expense	-30,875	-62,909
Changes in Deferred taxes	-43,496	573
Changes in income tax payables / receivables	16,374	601
Income Tax paid	**-57,997**	**-61,734**

G. Dividend paid

IN THOUSANDS OF EUR	2016	2017
Dividend Etex SA	-34,392	-37,519
Minority interest	-2,030	-1,550
Changes dividend payable	-49	-164
Exchange difference	318	-118
Subtotal - continued operations	**-36,153**	**-39,351**
Dividend Etex SA	-34,392	-37,519
Minority interest	-2,030	-1,550
Changes dividend payable	-49	-164
Exchange difference	318	-118
Total dividend paid	**-36,153**	**-39,351**

H. Changes in liabilities arising from financial liabilities

2017

IN THOUSANDS OF EUR	JANUARY 01, 2017	CASH FLOWS	FOREIGN EXCHANGE MOVEMENTS	NEW LEASES	TRANSFERS	DISPOSAL	SCOPE IN	SCOPE OUT	DECEMBER 31, 2017
Bank loans	393,258	140,420	-7,665	-	-13,158	-	1,906	-398	514,363
Other financial loans	524	-31	-3	-	-223	-	10,946	-	11,213
Redeemable preference shares	3,407	-3,407	-	-	-	-	-	-	-
Non-current financial liabilities (excluding leasing)	**397,189**	**136,982**	**-7,668**	-	**-13,381**	-	**12,852**	**-398**	**525,576**
Non-current financial lease liability	**1,745**	**-79**	-	**2,620**	**-200**	-	**73**	-	**4,159**
Bank loans	86,216	-75,373	-4,368	-	13,158	-	-	-	19,633
Retail bond	399,692	-399,692	-	-	-	-	-	-	-
Bank overdrafts	3,803	-713	-45	-	-	-	-	-	3,045
Other financial loans	29,778	160,955	-685	-	223	-	-	-	190,271
Redeemable preference shares	3,407	-3,407	-	-	-	-	-	-	-
Current financial liabilities (excluding leasing)	**522,896**	**-318,230**	**-5,098**	-	**13,381**	-	-	-	**212,949**
Current financial lease liability	**112**	-	**4**	-	**200**	**-96**	-	-	**220**
Total loans and borrowings	**921,942**	**-181,327**	**-12,762**	**2,620**	-	**-96**	**12,925**	**-398**	**742,904**

Note 27 – Transactions with related parties

Transactions between Etex and its subsidiaries, which are related parties, have been eliminated in the consolidation and are accordingly not included in the notes. Transactions with equity accounted investees and joint ventures are included in note 12.

Transactions with members of the Board of Directors and Executive Committee:

IN THOUSANDS OF EUR	2016	2017
Board of Directors:		
Short term employee benefits	569	746
Executive Committee:		
Short term employee benefits	4,988	5,855
Post employment benefits	322	505
Share based payment	192	786
Number of stock options granted during the year	120,000	137,000

Transactions with companies in which members of the Board of Directors are active, reflect third party conditions and are immaterial in scope.

Note 28 – Remuneration of statutory auditor

The world-wide audit remuneration for the statutory auditor totalled €2,209 thousand (€2,214 thousand in 2016). The fees paid to the statutory auditor for assistance and advice amounted to €284 thousand (€281 thousand in 2016).

Note 29 – Etex companies

The major companies included in the consolidated financial statements are listed below. An exhaustive list of the Group companies with their registered office will be filed at the Belgian National Bank together with the consolidated financial statements.

		% EQUITY INTEREST	
		2016	2017
Europe			
Austria	Promat GmbH	100%	100%
Belgium	Comptoir du Bâtiment N.V.	100%	100%
	Etergyp S.A.	100%	100%
	Eternit N.V.	100%	100%
	Etex Services N.V.	100%	100%
	Etex S.A.	100%	100%
	Etexco S.A.	100%	100%
	Euro Panels Overseas N.V.	100%	100%
	Microtherm N.V.	100%	100%
	Etex Building Performance NV	100%	100%
	Promat Research and Technology Center N.V.	100%	100%
Bosnia	Siniat Adria Gips LLC	100%	100%
Cyprus	Asmad Alci Ltd STI	100%	100%
Czech Republic	Promat s.r.o.	100%	100%
Denmark	Etex Nordic A/S	100%	100%
France	Etermat S.A.S.	100%	100%
	Eternit Commercial S.A.S.U.	100%	100%
	Eternit S.A.S.U.	100%	100%
	Etex Materiaux de Construction S.A.S.	100%	100%
	Nidaplast-Honeycombs S.A.S.	100%	100%
	Papeteries de Bègles S.A.S.	100%	100%
	Pladur France SAS	40.69%	100%
	Promat S.A.S.	100%	100%
	Siniat France S.A.	100%	100%
	Etex Building Performance International S.A.S.	100%	100%
	Société d'Exploitation des Adhésifs S.A.S.	100%	100%
Germany	Baupro GmbH	100%	100%
	Creaton AG	99.98%	99.98%
	Creaton Kera-Dach GmbH & Co. KG	99.98%	99.98%
	Eternit GmbH	100%	100%
	Eternit Management Holding GmbH	100%	100%
	Etex Holding GmbH	100%	100%
	Promat Holding GmbH	100%	100%
	Fibrolith Dämmstoffe GmbH	100%	100%
	Promat GmbH	100%	100%
	Siniat GmbH	100%	100%
	Wanit Fulgurit GmbH	100%	100%
Hungary	Creaton South-East Europe Kft.	100%	100%
Italy	Edilit S.r.l.	100%	100%
	Immogit S.r.l.	100%	100%
	Creaton Italy	100%	100%
	Promat S.p.A.	100%	100%
	Etex Building Performance S.p.A.	100%	100%
	Siniat Holding Italy S.r.l.	100%	100%

		% EQUITY INTEREST	
		2016	2017
Ireland	Tegral Building Products Ltd.	100%	100%
	Tegral Holdings Ltd.	100%	100%
Lithuania	UAB Eternit Baltic	100%	100%
Luxemburg	EASA S.A.	100%	100%
	Eterlux S.A.	100%	0%
	Eternit Investment S.à.r.l.	100%	100%
	Etex Asia S.A.	100%	100%
	Etex Finance S.A.	100%	100%
	Maretex S.A.	100%	100%
	Marley Tile S.A.	100%	100%
	Merilux S.à.r.L.	100%	100%
	Poly Ré S.A.	100%	100%
Netherlands	Eternit Holding B.V.	100%	100%
	Eternit B.V.	100%	100%
	Nefibouw B.V.	100%	100%
	Preventieve Brandbeveiliging Nederland B.V.	100%	100%
	Promat B.V.	100%	100%
	Siniat B.V.	100%	100%
Poland	Etex Building Materials Polska Sp. z o.o.	100%	100%
	Promat TOP Sp. z o.o.	100%	100%
	Siniat Polska Sp. z o.o.	100%	100%
	Siniat Sp. z o.o.	100%	100%
Portugal	EPISA SL	40.69%	100%
	Umbelino Monteiro S.A.	100%	100%
Romania	Etex Building Performance S.A.	100%	100%
Russia	Etex Russia	100%	100%
Serbia	Siniat Gips Beocin Ltd	100%	100%
Slovakia	EBM Co s.r.o.	100%	100%
Slovenia	Promat d.o.o.	100%	100%
Spain	Almería Gypsum S.A.	100%	100%
	Escayolas Marin SL	40.69%	100%
	Euronit Fachadas y Cubiertas S.L.	100%	100%
	Promat Ibérica S.A.	100%	100%
	Promat Inversiones S.L.	100%	100%
	Pladur	40.69%	100%
Switzerland	Polyfibre S.A.	50%	100%
Ukraine	Creaton Ukraine	100%	100%
	A+B Ukraine	100%	100%
	Siniat Gips ALC	100%	100%
	Siniat Gips Ukraine LLC	100%	100%
United Kingdom	Crucible Gypsum Recycling Ltd	0%	100%
	EM Holdings UK Ltd.	100%	100%
	Eternit UK Ltd.	100%	100%
	Etex Building Performance UK Ltd.	100%	100%
	EOS Facades Limited	100%	100%
	John Brash Ltd	100%	100%
	Marley (UK) Ltd.	100%	100%
	Marley Eternit Ltd.	100%	100%
	Marley Ltd.	100%	100%
	Promat Glasgow Ltd.	100%	100%
	Promat UK Ltd.	100%	100%

		% EQUITY INTEREST	
		2016	2017
Latin America			
Argentina	Durlock S.A.	100%	100%
	Eternit Argentina S.A.	99.44%	99.44%
	Siniat Holding Argentina S.A.	100%	100%
Brazil	Siniat Holding S.A.	100%	100%
	Siniat S.A. Mineração Indústria e Comércio	100%	100%
Chile	Empresas Pizarreño S.A.	99.83%	99.83%
	Inmobiliaria y Comercial El Bosque S.A	99.72%	99.72%
	Industrias Princesa Ltda.	99.79%	0.00%
	Centro de Servicios Compartidos SpA	99.79%	99.79%
	Inversiones Etex Chile Ltda.	100%	100%
	Inversiones San Lorenzo Chile S.A.	99.79%	99.79%
	Sociedad Industrial Pizarreño S.A.	99.66%	99.66%
	Sociedad Industrial Romeral S.A.	99.83%	99.83%
	Sociedad Industrial Tejas de Chena S.A.	99.79%	99.79%
Colombia	Skinco Colombit S.A.	99.95%	99.95%
	Gyplac S.A.	100%	100%
	Shared Services Colombia S.A.S	100%	100%
	Pulverizar SA	100%	100%
Mexico	Servicios de Gestion S.A. de C.V.	100%	100%
	Servicios Atacama S.A. de C.V.	99.79%	99.79%
Peru	Etex Peru S.A.C.	100%	100%
	Fabrica Peruana Eternit S.A.	89.16%	89.16%
Uruguay	Eternit Uruguaya S.A.	97.50%	97.50%
Africa, Asia, Oceania, North America			
Australia	Promat Australia Pty Ltd.	100%	100%
China	Eternit Guangzhou Building Systems Ltd.	66.65%	66.65%
	Promat International (Asia Pacific) Ltd.	100%	100%
	Promat Shangai Ltd.	100%	100%
India	Promat India	0%	100%
Indonesia	Eternit Gresik	82.43%	82.43%
Japan	Promat Japan	100%	100%
Malaysia	Promat (Malaysia) Sdn. Bhd.	100%	100%
Nigeria	Emenite Ltd.	56.87%	56.87%
	Eternit Ltd.	60.00%	60.00%
	Nigerite Ltd.	56.85%	56.85%
Singapore	Promat Building System Pte Ltd.	100%	100%
South Africa	Marley SA (Pty) Ltd.	100%	100%
	Marley Building Systems	100%	100%
United Arab Emirates	Promat Fire Protection LLC	100%	100%
United States of America	Promat Inc.	100%	100%

Equity accounted investees

		% EQUITY INTEREST	
		2016	2017
Belgium	RBB N.V.	50%	50%
Germany	Lichtensteiner Brandschutzglas GmbH & Co. KG	50%	50%
	Oberlausitzer Tonbergbau GmbH	49.99%	49.99%
	OTE Surface Protection GmbH	50.00%	0.00%
	Neuwieder Brandschutzglas GmbH	50%	50%
Poland	Kopalnia Gipsu Leszcze S.A.	50%	50%
	Nida Media Sp. z o.o.	50%	50%
Switzerland	Promat AG	26%	26%
Thailand	Rothenburg FAR Company LTd.	50%	50%

Note 30 – Discontinued operations

In July 2016 Etex reached an agreement with the Mexican company Grupo Lamosa on the disposal of the Ceramica San Lorenzo entities.

Below income statement of the discontinued operations gives a detail of the line 'net income from discontinued operations' as presented in the income statement of Etex group per 31 December 2017 and 31 December 2016.

IN THOUSANDS OF EUR	2016	2017
Revenue	**146,209**	**-**
Cost of sales	-120,001	-
Gross profit	**26,208**	**-**
Distribution expenses	-10,532	-
Administrative and general expenses	-7,773	-
Other operating charges	-1,043	-
Other operating income	1,164	-
Operating income before non recurring items	**8,024**	**-**
Other on recurring items	52,929	-
Operating income (EBIT)	**60,953**	**-**
Interest income	58	-
Interest expenses	-6,274	-
Other financial income	489	-
Other financial expense	-516	-
Profit before income tax	**54,709**	**-**
Income tax expense	-13,848	-
Profit for the year from discontinued operations	**40,861**	**-**

The 'net income from discontinued operations' per 31 December 2016 includes the results of the Ceramics divisions until disposals (pre-tax result of €-332 thousand), the results realized upon closing of the transaction (pre-tax result of €55.041 thousand), the tax impact on the disposal deal (€-8.995 thousand) and the tax impact on the Ceramics operations until disposal (€-4.853 thousand).

The net cash flow attributable to the operations, investing and financing of the discontinued operations in the cash flow statement of the group includes the cash flow until disposal, and is presented in more detail below.

IN THOUSANDS OF EUR	2016	2017
Operating income (EBIT)	60,953	-
Depreciation, amortisation and impairment losses	5,549	-
Losses (gains) on sale of intangible assets and property, plant and equipment	-36	-
Losses (gains) on sale of businesses	-55,041	-
Income tax paid	-6,969	-
Changes in working capital, provisions and employee benefits	-26,457	-
Changes in other non-current assets/liabilities	-88	-
Discontinued operations: cash flow from operating activities	**-22,090**	**-**
Proceeds from sale of intangible assets and property, plant and equipment	48	-
Disposal of business	173,755	-
Capital expenditure	-626	-
Interest and dividend received	51	-
Discontinued operations: cash flow from investing activities	**173,228**	**-**
Capital increase / (decrease)	11,423	-
Proceeds (repayment) of borrowings	-43,010	-
Interest paid	-7,549	-
Discontinued operations: cash flow from financing activities	**-39,135**	**-**
Discontinued operations: Net increase (decrease) in cash and cash equivalents	**112,002**	**-**

Note 31 – Subsequent events

On 28 March 2018, the Group entered into an asset-backed contribution scheme ("ABC") with regards to the Eternit & Marley UK pension funds (the "Plans") for an aggregate amount of GBP 82 million. The backed contribution will be recognised as a commitment in the Etex consolidated financial statement since it cannot be recognised as part of the Plans' asset plan in accordance with IAS 19, whereas the contributions will be done progressively over the coming years.

Statutory auditor's report

Independent auditor's report to the general meeting of Etex SA for the year ended 31 December 2017

As required by law and the Company's articles of association, we report to you as statutory auditor of Etex SA (the "Company") and its subsidiaries (together the "Group"). This report includes our opinion on the consolidated statement of the financial position as at 31 December 2017, and the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement for the year ended 31 December 2017 and the disclosures (all elements together the "Consolidated Financial Statements") and includes as well our report on other legal and regulatory requirements. These two reports are considered as one report and are inseparable.

We have been appointed as statutory auditor by the shareholders meeting of 27 May 2015, in accordance with the proposition made by the Board of Directors. Our mandate expires at the date of the shareholders meeting that will deliberate on the annual accounts for the year ending 31 December 2017. We performed the audit of the Consolidated Financial Statements of the Group during 9 consecutive years.

Report on the audit of the Consolidated Financial Statements

Unqualified opinion

We have audited the Consolidated Financial Statements of Etex SA, which consists of the consolidated statement of the financial position as at 31 December 2017, the consolidated income statement for the year ended and the disclosures, which show a consolidated balance sheet total of €3.114.232 ('000) and of which the consolidated income statement shows a profit for the year of €153.334 ('000).

In our opinion the Consolidated Financial Statements of the Group give a true and fair view of the consolidated net equity and financial position as at 31 December 2017, as well as its consolidated results for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS") and with applicable legal and regulatory requirements in Belgium.

Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the Consolidated Financial Statements" section of our report.

We have complied with all ethical requirements that are relevant to our audit of the Consolidated Financial Statements in Belgium, including those with respect of independence.

We have obtained from the Board of Directors and the officials of the Company the explanations and information necessary for the performance of our audit and we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the current reporting period.

These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole and in forming our opinion thereon, and consequently we do not provide a separate opinion on these matters.

- Employee benefits liabilities

Description of the matter

The employee benefits liabilities as at 31 December 2017 amounts to €310.731 ('000). The Group has several funded and unfunded defined benefit pension plans in the UK, Ireland, Germany, France, Belgium and the Netherlands.

Accounting for defined benefit pension plans and the value of corresponding liabilities depends on assumptions such as the discount rate, inflation rate, future salary increases, pension increase and key demographic figures including turnover rates and mortality rates. These assumptions require significant judgment from management and the Board of Directors. A change in any of these assumptions could cause a significant change in the value of the defined benefit pension obligations and the net pension position on the Group's balance sheet.

These assumptions require judgements and estimates that are inherently complex, require a high level of judgement of management, and involvement of external actuarial specialists. The defined pension benefit obligations and the related expenses are determined and calculated by external actuarial specialist using assumptions agreed with Group's management.

Summary of audit procedures performed

We assessed the competence and objectivity of the qualified external actuary engaged by management to value the defined benefit plans under IAS 19R 'Employee benefits'.

We engaged our internal actuarial specialists to assess the appropriateness of the actuarial methodology in accordance with IAS 19R and to assess the reasonableness of the significant assumptions used to account for the defined benefit pensions plans (discount rate, inflation rate, future salary increases, pension increase, turnover rates and mortality rates).

We have verified that the actuarial calculations are properly reflected in the provisions recorded in the Consolidated Financial Statements and ensured that impacts are correctly recorded in accordance with IAS 19.

We have compared the input data used for the calculation of the provisions by the external actuary (such as population, age, years of service, wage,...) with source information of the human resources department of the Group. We have assessed the appropriateness and completeness of the disclosures is accordance with IAS 19R as included in note 21 of the Consolidated Financial Statements.

- Claims, litigations and contingencies

Description of the matter

The Group is subject to operational, business and political risks in the countries in which it operates. These risks could give rise to litigation, claims (including health claims) and other contingencies (collectively, the "contingencies") which could have a significant financial impact if the potential risks were to materialize. The total provision for these items amounts to €189.457 ('000) as at 31 December 2017.

The Group has environmental claims relating to site restoration, litigation and court cases on different issues. Management implemented a central reporting for those risks.

Some subsidiaries of the Group used asbestos in the manufacturing process in the past. The asbestos victims are compensated based on the local legislation and local social security. The estimate of the future claims is based on a 25 year cost estimate. The estimate of future cost takes into account a large number of variables such as the number of employees exposed, the likely incidence of claim, the disease mix, the mortality rates, the local legislative environments and the expected insurance coverage.

Etex makes each closing an evaluation of the appropriateness of the provision for such claims and litigations. The determination by management of whether and how much, to provide and / or disclose for such contingencies is highly judgmental. We refer to note 19 for further details on the matter.

Summary of audit procedures performed

We assessed the Group's process for identifying and monitoring significant adverse developments arising from contingencies and where appropriate, legal, regulatory and political developments.

For the claims, we made inquiries of group management and in-house legal counsel, reviewed the legal reports prepared by group management, obtained external lawyer confirmations, evaluated management's assessment of the likely outcome and potential exposures and reviewed the appropriateness of the accruals for litigations.

For health claims, we also assessed the compensations schemes including the used key assumptions and the impact of the local legislations.

We performed group level analytical reviews procedures on provisions by comparing the movements of the provisions compared to prior year.

We assessed the reasonableness of the assumptions used by management to estimate the provisions by comparing those assumptions to historical observations.

We inspecting the meeting minutes of the board of directors and the audit committee, in which these claims and litigations are discussed.

- Goodwill and specific asset impairment

Description of the matter

The Group's assessment of impairment of Goodwill and certain assets disclosed as Property, Plant and Equipment is a judgmental process which requires estimates concerning the projected future cash flows associated with the Cash Generating Unit ("CGU"), the weighted average cost of capital ("WACC") and the growth rate of revenue and costs to be applied in determining the value in use.

For goodwill, the Group reviews the carrying amounts of its cash generating units annually of more frequently if impairment indicators are present. For Property, Plant and Equipment, the Group reviews the carrying amounts of its capital employed with the recoverable amount if impairment indicators are present (hereafter the "specific assets").

The impairment assessment involves a comparison of the estimated fair value of the CGU and specific assets to its carrying amount. Additional information is provided in note 7 and 8 of the Consolidated Financial Statements.

Summary of audit procedures performed

We have assessed the design and implementation of the Group's controls relating to Management's impairment review of goodwill and specific assets.

We have tested the accuracy of the underlying model to assess whether the processes are applied to the correct input data.

We challenged each of the key assumptions employed in the annual impairment test. These key assumptions include the WACC, the growth rates and projected cash flows. We have involved our internal valuation specialists to assess and benchmark those assumptions, to assess the used methodology and constituent inputs.

We have made comparisons of the used cash flows to independent market forecasts of revenue and cost growth and we have assessed the Group's historic forecasting accuracy.

We have assessed management's sensitivity analyses and have assessed the appropriateness and completeness of the sensitivity disclosure.

We have assessed the appropriateness and completeness of the disclosures in accordance with IAS 36 as included in note 8 and 9 of the Consolidated Financial Statements.

- Risk in relation to the decentralized group structure

Description of the audit matter

Etex is a group with more than 150 legal entities. The geographical decentralized structure and the relatively small size of some of these entities to the group as a whole, increase the complexity of the company's control environment and as group auditor to obtain an appropriate level of understanding these entities.

We have evaluated the Company's entity level controls that address these risks, including centralized monitoring controls at level of the group and at the level of each division.

Summary of audit procedures performed

We have sent audit instructions to subsidiaries for the performance and reporting of local audit procedures. In determining the group audit scope, we have taken into account the relative weight of subsidiaries, the risk of subsidiaries and a rotation of insignificant subsidiaries.

We have read and assessed the reporting documents by the local auditors and have discussed their findings with group management. We organized meetings and conference calls with components auditors in our group audit scope.

During our audit, we have specifically focused on risks in relation to the decentralized structure by extending our involvement in local audit work performed by the component auditors.

We have also requested component auditors to specifically address certain risks and attention areas defined at group level, by requiring all teams to complete specific risk-based questionnaires and detailed audit programs in order to ensure a consistent approach in areas that were deemed most relevant from a group audit perspective.

Responsibilities of the Board of Directors for the preparation of the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the Consolidated Financial Statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS") and with applicable legal and regulatory requirements in Belgium as well as internal controls relevant to the preparation of the Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the Consolidated Financial Statements, the Board of Directors is responsible for assessing the Company s ability to continue as a going concern, and provide, if applicable, information on matters impacting going concern, The Board of Directors should prepare the financial statements using the going concern basis of accounting, unless the Board of Directors either intends to liquidate the Company or to cease business operations, or has no realistic alternative but to do so.

Our responsibilities for the audit of the Consolidated Financial Statements

Our objective is to obtain reasonable assurance whether the Consolidated Financial Statements are free from material misstatement, to express an opinion on these Consolidated Financial Statements based on our audit. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit, in accordance with ISAs, we exercise professional judgment and we maintain professional skepticism throughout the audit. We also perform the following tasks:

- Identification and assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, the planning and execution of audit procedures to respond to these risks and obtain audit evidence which is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatements is larger when these misstatements are due to fraud, since fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtaining insight in the system of internal controls that are relevant for the audit and with the objective to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluating the selected and applied accounting policies, and evaluating the reasonability of the accounting estimates and related disclosures made by the Board of Directors as well as the underlying information given by the Board of Directors;
- Conclude on the appropriateness of Board of Director's use of the going-concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to event or conditions that may cast significant doubt on the Company or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Company or Group to cease to continue as a going-concern;
- Evaluating the overall presentation, structure and content of the Consolidated Financial Statements, and of whether these financial statements reflect the underlying transactions and events in a true and fair view.

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

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the audits of the subsidiaries. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities.

Report on other legal and regulatory requirements

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and the content of the Board of Director's report and other information included in the annual report.

Responsibilities of the auditor

In the context of our mandate and in accordance with the additional standard to the ISA's applicable in Belgium, it is our responsibility to verify, in all material respects, the Board of Director's report on the Consolidated Financial Statements and other information included in the annual report, as well as to report on these matters.

Aspects relating to Board of Director's report and other information included in the annual report

In our opinion, after carrying out specific procedures on the Board of Director's report on the Consolidated Financial Statements, the Board of Director's report on the Consolidated Financial Statements is consistent with the Consolidated Financial Statements and has been in prepared accordance with article 119 of the Belgian Companies Code.

In the context of our audit of the Consolidated Financial Statements, we are also responsible to consider whether, based on the information that we became aware of during the performance of our audit, the Board of Director's report on the Consolidated Financial Statements (being the Activity Report, Chapter 2) and other information included in the annual report (being the Key Figures, About Etex (Chapter 1), Environmental Report (Chapter 3), Social Report (Chapter 4), Governance Report (Chapter 5) contain any material inconsistencies or contains information that is inaccurate or otherwise misleading. In light of the work performed, we do not need to report any material inconsistencies. In addition, we do not express any form of reasonable assurance regarding the individual elements included in the annual report.

Independence matters

Our auditor's office and our network has not performed any services that are not compatible with the statutory audit of the Annual Accounts and has remained independent of the Company during the course of our mandate.

The fees related to additional services which are compatible with the statutory audit of the Annual Accounts as referred to in article 134 of the Belgian Companies Code were duly itemized and valued in the notes to the Annual Accounts.

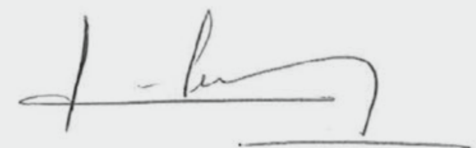
Other communication

We have also issued an opinion, in accordance with ISA's, covering the same period and the same group but issued in French language and covering French language consolidated financial statements and Board of Director's report. This French opinion differs from the English opinion due to the fact that an annual report is only presented in English language. The French version of our opinion, of the Board of director's report and of the consolidated financial statements is filed with Banque Nationale de Belgique whereas the English version of our report and of the annual report is filed on the website.

Diegem, 28 March 2018

Ernst & Young
Bedrijfsrevisoren BCVBA
Statutory auditor

represented by



Eric Golenvaux
Partner*

*Acting on behalf of a BVBA/SPRL
Ref: 18/EG/0043

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Non consolidated accounts of Etex S.A.

The annual accounts of Etex S.A. are presented below in a summarised form.

In accordance with the Belgian Company Code, the annual accounts of Etex S.A., together with the management report and the auditor's report, will be registered at the National Bank of Belgium.

These documents are also available upon request at:

Etex S.A.
Group Finance Department
Avenue de Tervueren 361
1150 Brussels

The auditors have expressed an unqualified opinion on the annual statutory accounts of Etex S.A.

Summarised balance sheet

IN THOUSANDS OF EUR	2016	2017
Fixed assets	**1,331,791**	**1,336,065**
Tangible and intangible assets	3,426	3,237
Financial assets	1,328,365	1,332,828
Current assets	**197,172**	**129,457**
TOTAL ASSETS	**1,528,963**	**1,465,522**
Capital and reserves	**1,152,632**	**1,101,673**
Capital	4,491	2,533
Share premium	3,724	743
Reserves	1,144,417	1,098,201
Profit carried forward	-	196
Provisions	**8,639**	**10,455**
Creditors	**367,692**	**353,394**
TOTAL EQUITY AND LIABILITIES	**1,528,963**	**1,465,522**

Summarised income statement

IN THOUSANDS OF EUR	2016	2017
Operating income	19,792	25,367
Operating charges	-34,353	-27,451
Operating loss	**-14,561**	**-2,084**
Financial result	48,385	-27
Profit / <loss> before taxes	**33,824**	**-2,112**
Income taxes	-2	-5
Profit / <loss> for the year	**33,822**	**-2,116**
Release of tax free reserves	-	-
Profit / <loss> for the year to be appropriated	33,822	-2,116

The financial result includes non-recurring items for €3.986 thousand in 2017, and €-8.683 thousand in 2016.

Profit distribution

The Board of Directors will propose at the General Shareholders' Meeting on 23 May 2018 a net dividend of €0.3710 per share. The proposed gross dividend is €0.53 per share.

The dividend will be paid on 2 July 2018.

Appropriation account

IN THOUSANDS OF EUR	2016	2017
Profit / <loss> to be appropriated	**33,822**	**-2,116**
Profit / <loss> for the year to be appropriated	33,822	-2,116
Appropriation of the result	**33,822**	**-2,116**
Transfer to/from reserve	5,940	46,216
Profit carried forward	-	-196
Profit to be distributed	-39,762	-43,904

Statutory nominations

The mandate of Mrs. Caroline Thijssen, Messrs. Jean-Louis de Cartier de Marchienne, Christian Simonard, Teodoro Scalmani, Paul Van Oyen and the company GUVO SPRL, with Mr. Voortman acting as its permanent representative, will expire at the end of the Annual General Shareholders' Meeting of May 23, 2018. The Board proposes the shareholders to renew their mandates for a period of three years expiring at the end of the 2021 Annual General Shareholders' Meeting.

The mandate of Messrs. Walter Emsens and Regnier Haegelsteen will also expire at the end of the Annual General Shareholders' Meeting of May 23, 2018. They will not stand for re-election. The Board of Directors wishes to sincerely thank Messrs. Walter Emsens and Regnier Haegelsteen for their valuable advice as director of the Company.

The Board proposes to appoint Messrs. Pascal Emsens and Jo Van Biesbroeck as new directors for a term of three years. Their mandate will expire at the end of the 2021 Annual General Shareholders' Meeting.

Given that the mandate of Ernst & Young Reviseurs d'Entreprises SCCRL will expire at the Annual General Shareholders' Meeting of May 23, 2018, the Board of Directors has launched a selection process for the appointment of a new auditor.
Based on this selection process, the Board of Directors unanimously proposes to appoint the firm PricewaterhouseCoopers Reviseurs d'Entreprises/Bedrijfsrevisoren, represented by Mr. Peter Van den Eynde qualified auditor, as statutory auditor for a period of three years. The appointment will expire at the end of the Annual General Shareholders' Meeting called to approve the annual accounts for the year ending 31 December 2020.

Glossary

Definitions below relate to non-IFRS performance indicators

Capital employed

Non-cash working capital plus property, plant and equipment, goodwill and intangible assets, investment properties and non-current assets held for sale.

Capital expenditure

Acquisition of property, plant and equipment, intangible assets and investment properties, excluding acquisitions through business combination.

Effective income tax rate

Income tax expense divided by the profit before income tax and before share of result in investments accounted for using the equity method, expressed as a percentage.

Free Cash Flow

Free cash flow is the sum of the cash flow from operating activities, interest paid and received, dividend received less capital expenditure.

Net financial debt

Current and non-current financial liabilities, including capital leases, less current financial assets and cash or cash equivalents.

Net recurring profit (Group Share)

Net profit for the year before non recurring items, net of tax impact and attributable to the shareholders of the Group.

Revenue

Includes the goods delivered and services provided by the Group during the period, invoiced or to be invoiced, net of discounts, rebates and allowances.

Non recurring items

Income statement items that relate to significant restructuring measures, health claims and environmental remediation, major litigation, and goodwill impairment, income or expenses arising from disposal of businesses or non productive assets and other significant one-off impacts such as those relating to long term employee benefits settlement.

Operating income or EBIT (earnings before interest and taxes)

Income from operations, before financial charges and income, share of result in investments accounted for using the equity method and in-come tax expenses.

Operating cash flow or EBITDA (earnings before interest, taxes, depreciation and amortisation)

Operating income before charges of depreciation, impairment or amortisation on tangible and intangible fixed assets.

Net profit (Group share)

Profit for the year attributable to the shareholders of the Group.

Recurring distribution rate

Gross dividend per share divided by the net recurring profit (Group share) per share, expressed as a percentage.

Recurring operating income (REBIT)

Income from operations, before non recurring items and before financial charges and income, share of result in investments accounted for using the equity method and income tax expenses.

Recurring operating cash flow (REBITDA)

Recurring operating income before charges of depreciations, impairment or amortization on tangible and intangible fixed assets.

Return on capital employed (ROCE)

Operating income divided by the average capital employed (at the beginning of the year plus at the end of the year divided by two), expressed as a percentage.

Theoretical income tax expenses

Country-based nominal tax rate applied to the profit before taxes of each entity.

Weighted average nominal tax rate

Country-based nominal tax rate applied to the profit before taxes of each entity divided by the Group's profit before income tax and before share of result in investments accounted for using the equity method, expressed as a percentage.

Weighted average number of shares

Number of issued shares at the beginning of the period adjusted for the number of shares cancelled or issued during the period multiplied by a time-weighting factor.

Photographs

Page 10-11 › Belgium, photographer Greg Smolders

Page 14 › Picture provided by ShutterStock

Page 16 › Colombia, picture provided by Etex Colombia

Page 18 › Colombia, picture provided by Etex Colombia

Page 20 › Colombia, picture provided by Etex Colombia

Page 22 › (top) Picture provided by ShutterStock

Page 22 › United Kingdom, picture provided by Marley Eternit

Page 23 › (top) Picture provided by ShutterStock

Page 23 › Picture provided by Etex Colombia

Page 31 › Brazil, Picture provided by Gypsum Drywall

Page 32 › Belgium, architect: Spring architecten & Moederscheim Moonen Architects, picture provided by Siniat Benelux

Page 33 › (top) Picture provided by Etex Colombia

Page 33 › Germany, picture provided by Siniat Germany

Page 34 › Picture provided by Gutzandglory, photographer Tim Coppens

Page 35 › Germany, picture provided by Siniat Germany

Page 36 › Romania, picture provided by Etex Building Performance Romania

Page 37 › Hong Kong and China, picture provided by Promat Asia Pacific

Page 39 › Belgium, architect: Lindsay Rinckhout, picture provided by Eternit Belgium

Page 40 › Picture provided by Gutzandglory, photographer Tim Coppens

Page 41 › Germany, architect: Schmidt Hammer Lassen Architects, photographer: Michael Rasche, picture provided by Eternit Germany

Page 42 › USA, architect: Architectural Resources Cambridge, photographer: John Horner, picture provided by Equitone USA

Page 43 › (top) Netherlands, architect: Van den Berg Groep, picture provided by Eternit Belgium

Page 43 › Australia, architect: TKD Architect, picture provided by Equitone, Asia Pacific

Page 44 › Netherlands, architect: 01-10 Architecten, picture provided by Eternit Belgium

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Page 54 › United Kingdom, picture provided by Marley Eternit

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Page 58 › Picture provided by Gutzandglory, photographer Tim Coppens

Page 59 › United Kingdom, design architect: Kirkland Fraser Moor, project architect John Phipps, picture provided by Marley Eternit

Page 60 › Germany, picture provided by Creaton

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Page 65 › United Kingdom, photographer Tim Coppens

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Page 71 › United Kingdom, photographer Tim Coppens

Page 73 › Colombia, picture provided by Etex Colombia

Page 74 › South Africa, photographer Tim Coppens

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Page 86 › Romania, pictures provided by Habitat for Humanity, Romania

Page 87 › Singapore, picture provided by Equitone Asia Pacific

Page 92-93 › Belgium, photographer Greg Smolders

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