Annual report 2017

More than just Meat

Contents

Foreword
2017: Achievements on many fronts

In 2017, we achieved a lot on many different fronts including: operations, finance, corporate social responsibility and other. Our operational results (EBITDA) improved over last year, while our net income was lower as the result of lower tax benefits and higher restructuring and results on acquisitions and disposals. We experienced a strong appetite for participation in our new credit facility and increased it from € 125 to € 200 million. This provided us more than ample liquidity for our operations. Our stakeholders are supporting Vion's direction, and this has encouraged us to continue implementing the strategy as it was originally developed three years ago. Finally, we are happy that, on the back of our improved results and strong balance sheet, we can now propose to our shareholders that our dividend should be reinstated, with a first payment based on the 2017 results.

EBITDA increased from € 61 million to € 64 million, while our return on capital employed (ROCE) remains close to 5%. This should improve further. Our investments in the last four years to optimise the production footprint, totalling € 260 million (excluding restructuring), will start to pay off in full in the upcoming years. Our low level of net debt and a strong solvency (44%) are a great strength for the company.

On the operational front, we expanded the capacity of our pork facilities in Emstek (following the closure of our facility in Zeven in April) and Apeldoorn. In our division Beef, we expanded the capacity in Waldkraiburg and started the construction of a greenfield operation in Leeuwarden.

In order to valorise even better our products, Vion acquired Otto Nocker, a meat processing company and six wholesale markets focussed on upscale gastronomy; and increased its stake to 60% in BestHides (at the beginning of 2018), a processer of hides. All of these operations are located in southern Germany.

In March 2017, Vion successfully introduced Good Farming Balance, a new demand-driven concept with which the company can respond to opportunities in the international pork markets. In this scheme, the pig farmers will enter into a long term partnership with Vion.

In 2017, livestock prices were high for the largest part of the year. In addition, the global markets for pork softened versus 2016 (when the Chinese imports grew sharply). Despite this, our Pork and Beef divisions have performed well.

In April 2017, we published a first corporate social responsibility report (CSR). It was very well received and Vion was awarded the Crystal prize for fastest climber in the Transparency Benchmark, annual research on the qualitative and quantitative development of corporate social reporting among the largest companies in the Netherlands. However, the societal debates around the meat industry only increased in 2017. In our second CSR report, which has been published at the same time as this annual report, we have continued to report on the critical topics and have further elaborated on others, such as the environmental footprint of the meat production chain.

2018 will be a pivotal year for Vion, because many of the initiatives undertaken in the past few years will start bearing fruit this year. It will mark the end of a period in which Vion has made itself ready for the future.

Francis Kint
CEO

Company profile

Vion is an international meat producer with production locations in the Netherlands and Germany and sales support offices in fourteen (at the end of 2017) countries worldwide.

Through its three divisions – Pork, Beef and Food Service – the company provides fresh pork and beef, and by-products for the retail, food service and the meat processing industries.

Vion supplies customers in its home markets of the Netherlands and Germany, and in other countries in Europe and the rest of the world. Vion's headquarters are located in Boxtel (the Netherlands).

Vion Holding N.V. is a public limited liability company under Dutch law. Vion complies with the Dutch Corporate Governance Code.

Vion's sole shareholder, Stichting Administratiekantoor SBT, is a trust office that has issued depositary receipts for its shares to NCB-Ontwikkeling, which acts as the investment fund of ZLTO. ZLTO is an association for entrepreneurs working in the agricultural sector and has approximately 15,000 members in Noord-Brabant, Zeeland and the southern part of Gelderland

11,800

Average number of employees in FTEs in 2017 (including flex workers)

5.1

Revenue for 2017 in billion euros

302,000

Pigs processed per week

17,500

Cattle processed per week

Key figures

Amounts in millions of euros	2017	2016
Results		
Revenue	5,070.0	4,758.9
Normalised EBITDA[1]	64.0	61.0
Earnings before interest and taxes	23.5	30.3
Profit for the year	21.8	38.8
Cash flow		
Cash flow from operating activities	39.0	6.2
Cash flow from investment activities	–61.5	–66.4
Balance sheet		
Group equity	446.1	427.8
Balance sheet total	1,007.9	1,018.1
Net debt[2]	50.7	17.7

	2017	2016
Ratios		
Added value as % of revenue[3]	21.6%	22.0%
Staff costs as % of revenue	10.9%	10.5%
Normalised EBITDA[1] as % of revenue	1.3%	1.3%
Normalised EBITDA[1] as % of added value	5.9%	5.8%
Solvency	44.3%	42.0%
Return on average capital employed[4]	4.9%	6.0%
Employees		
Number of employees (FTEs) at year-end	4,386	4,262
Number of employees (FTEs) including flex workers at year-end	11,925	12,505
Average number of employees (FTEs)	4,310	4,210
Average number of employees (FTEs) including flex workers	11,839	11,507

1 Excluding impairments, restructuring costs, acquisition costs, results from disposals and divestments of group companies
2 Long term interest bearing loans and borrowings, other non-current financial liabilities less cash and cash equivalents
3 Revenue less raw materials and consumables used as percentage of revenue
4 Normalised earnings before interest and taxes divided by average capital employed (intangible assets, property plant & equipment, investment properties, working capital excluding interest bearing loans and borrowings)

Mission, vision and strategy

Mission

Vion wants to be a **global leader and reliable partner** within the food supply chain that provides people around the world with safe meat products.

Vision

Vion's vision is to be a leading actor in the **consolidation** and **professionalisation** of the meat industry.

Strategy

To increase the value of Vion, for the benefit of all stakeholders (shareholders, suppliers, customers and employees)

1. Continuously improve our infrastructure and results

Our industry calls for state-of-the-art infrastructure to guarantee food safety and a competitive cost structure. By working and investing to make itself more efficient, Vion is creating benefits for the entire chain and industry, not the least so for the primary (farming) sector.

2. Position Vion as a game changer in selected themes of our industry

The meat industry is the subject of tough societal debates, covering four important themes: animal welfare, supply chain (traceability, food safety and product integrity), sustainability of meat production and human health. Vion intends to be an actor in implementing solutions.

3. Change the business mix

The meat industry, in particular pork is volatile. We want to reduce the variability of the company's earnings through: a recalibration of the size of our three major businesses, implementing new methods that reduce the volatility in the value chain and increasing our activities in more value-added products.

Core values

- Quality
- Transparency
- Sustainability
- Ambition
- Pride

Management review

In 2017, Vion continued to improve the operational performance of the company, with further investments in the footprint of the company and the efficiency of its production processes. Despite a challenging market, especially in Germany, Vion succeeded in increasing its revenues and margins, as well as its EBITDA in 2017 compared to the previous year.

Investments and optimisation of the footprint

In 2017, Vion continued to implement the business plan that was made in 2015. During the year, significant investments were made, and new initiatives have been initiated to further improve the performance of the company. Large investments have been made in the facility in Apeldoorn (€ 7.5 million), to improve the position of Vion in the Netherlands and in the international markets; in the new beef slaughterhouse in Leeuwarden (€ 12.3 million), which became operational in the first quarter of 2018; and for the extension of the beef facility in Waldkraiburg (€ 7.6 million), now being a dedicated and state of the art beef slaughter and deboning facility.

In the second half of 2017, Vion acquired certain assets from the insolvent companies of the Lutz Group in Germany including Otto Nocker, a meat processing company and six meat wholesale markets. The acquisition of these assets is treated as a business combination and the acquired assets, and liabilities have been valued at their fair value of the acquisition date. As of October, the results of the operations of Otto Nocker and the wholesale markets have been included in the results of the company.

During 2017, Vion acquired an additional 25.0% of the shares in Vion Zeven AG, previously held by minority shareholders, and increased its share to 98.0%. On 9 March 2017, Vion announced the closure of its facility in Zeven and as a result the operations were discontinued at the end of April. After the closure of the facility in Zeven, most of the volume has been assumed by our sites in Emstek and Perleberg, resulting in only a small loss of this volume. As a result of the closure, the footprint of the company in the northern part of Germany has been further optimised. In addition, the small mixed (pork and beef) facility in Riedlingen was closed in the third quarter of the year and some of its volumes have been transferred to our facility in Crailsheim.

Renewal of the working capital facility

In May 2017, Vion agreed with four banks on the terms and conditions for a new committed working capital facility of € 200 million for a five year period. Dutch and German receivables are used as a borrowing base for this facility. The new capital facility will provide sufficient funding to the company to execute its strategy and to fund its operations in the future years.

Operational improvements

Vion took further steps on valorisation in both the Pork and Beef divisions. Valorisation enables a further optimisation of the economic value of the animals processed by Vion and a better alignment of our product offerings with the global demand in the markets open for Vion in Asia, North America and Australia. The positive impact of optimising the valorisation is already visible in our results in the Netherlands and a number of German locations, and it is expected to continue and increase in 2018.

Organisational optimisation

Vion manages its operations based on a structure with three divisions: Pork, Beef and Food Service. Each division is managed by a dedicated management team that is responsible for operating the business activities within the division. In 2017, this structure continued to contribute to a further focus on the direction of the company, while improving collaborations and the utilisation of synergies.

Business principles, core values, code of conduct and whistleblower policy

Vion's business principles and core values are laid down in a code of conduct. Together with the whistleblower policy, the code of conduct was updated completely in 2016. In 2017, the code of conduct was reviewed, which led to the introduction of new sections on animal welfare, food safety and product integrity, and a clarified definition of the term employee that now includes temporary and contract workers. Early in 2018, we will communicate the revised code of conduct throughout the organisation together with our whistleblower policy and our approach to information security, data privacy and fraud prevention in a new version of our so-called Good Business Practice Guide that every employee will receive.

In 2017, we have received a total of eight reports under the whistleblower policy (2016: one). Six were human resources related (e.g. relating to harassment, working conditions or salaries). The other two involved alleged fraud and violations against hygiene and safety standards. All reports were followed up and the appropriate actions have been taken.

Transparency

Vion operates according to demanding quality requirements for all of its production locations. Food safety, animal welfare, product integrity, worker safety and transparency are very important elements of these requirements. Vion takes full responsibility concerning these issues. Therefore, in addition to the annual report, Vion will again be issuing a separate corporate social responsibility (CSR) report for the year 2017. This CSR report covers all the important items with regard to social responsibility, based on the defined materiality matrix. The CSR report should be read together with the annual report for a more comprehensive understanding of the activities of the company.

In addition to the German transparency website started in 2016, www.vion-transparenz.de, Vion has also launched a transparency website in the Netherlands at www.vion-transparantie.nl. Through videos and texts, photographs and graphs, these websites clearly state the facts regarding the slaughtering and deboning of pigs and cattle, and offer a dialogue platform for visitors.

Financial review

Results

(in millions of euros)	2017	2016
Profit and loss account		
Sales volume (in tonnes of kg)	**2,184,000**	2,225,000
Revenues	**5,070.0**	4,758.9
Total operating costs	**5,068.6**	4,750.6
Earnings before interest and taxes	**23.5**	30.3
Financial income and expenses	**–6.7**	–6.6
Income taxes	**3.8**	12.9
Share of profit of associates and joint ventures	**1.2**	2.1
Profit for the year	**21.8**	**38.8**
Attributable to non-controlling interests	**–1.7**	–2.3
Attributable to equity holders	**20.1**	**36.5**

Normalised EBITDA

(in millions of euros)	2017	2016
Earnings before interest and taxes	**23.5**	30.3
Amortisation and depreciation of fixed assets	**36.1**	29.8
Impairment of non-current assets	**0.8**	4,4
EBITDA	**60.4**	**64.5**
Restructuring costs	**12.5**	–0.9
Acquisition costs	**2.1**	–
Disposal results	**–11.0**	–2,6
Normalised EBITDA	**64.0**	**61.0**
EBITDA from discontinued operations	**0.0**	0.0
Normalised EBITDA from ongoing operations	**64.0**	**61.0**

Compared to 2016, the company's revenues and total operating costs increased in 2017, resulting in earnings before interest and taxes (EBIT) of € 23.5 million, a decrease of € 6.8 million, while sales volumes only slightly decreased compared to 2016. Most of the increase in the revenues and operating costs was the result of increased meat prices and raw material prices in 2017 as compared to 2016. As a result of the further optimisation of the footprint, cost control and efficiency improvements in the logistics and distribution network and lower (non) product-related spending categories, Vion has been able to improve its normalised earnings before interest, taxes, depreciation and amortisation (EBITDA) from its ongoing operations in 2017 to € 64.0 million

(2016: € 61.0 million). Included in the 2016 EBITDA from the ongoing operations is an amount of € 6.9 million compensation received from the city of Ansbach in Germany for costs incurred in prior years related to a BSE outbreak in 2005. Excluding this damage compensation in 2016 EBITDA from ongoing operations increased in 2017 by € 9.9 million (18%) compared to 2016.

The depreciation and amortisation costs increased by € 6.3 million to € 36.1 million (2016: € 29.8 million) following the significant investments made in 2016 and 2017 that have been put into use in the course of 2017. Furthermore, Vion recognised an additional impairment of € 0.8 million for the assets in Zeven following the decision to close the facility in 2017, after the impairment of € 4.4 million that was already incurred at the end of 2016.

In 2017, Vion incurred restructuring costs related to the closure of its facility in Zeven, head count reduction and the investigating of financing options to realise further growth and to make use of international market developments. In total, an amount of € 12.5 million has been recognised as restructuring cost in 2017 (2016: € 0.9 million, income).

In addition, Vion recognised acquisition costs of € 3.4 million following the settlement reached with the former minority shareholder of Salomon Hitburger GmbH for the final purchase price of the shares acquired in 2015. This was partly offset by the recognition of a € 1.3 million gain, net of deferred taxes, on the acquisition of the Otto Nocker and six wholesale markets from the Lutz Group as the fair value of the assets acquired exceeded the purchase price paid.

Also, outside of the normalised EBITDA from ongoing operations, Vion recognised € 11.0 million as results from the disposals of land and buildings mainly related to the sales of assets in Straubing, Lubeck and Helmond, and from the settlement of the remaining claims with Darling International following the divestment of the Ingredients division in 2014. In 2016, Vion reported a gain from the sale of land in the UK for an amount of € 3.0 million.

For the year, a tax income of € 3.8 million was reported, (2016 € 12.9 million). This income is mainly related to the recognition of additional net operating losses for an amount of € 4.8 million. The financial income and expenses increased compared to 2016 from € 6.6 million to € 6.7 million in 2017, following higher interest costs related to the usage of the working capital facility and the interest paid on the final settlement reached with the former minority shareholder of Salomon Hitburger GmbH.

In 2017, Vion's net result amounted to € 21.8 million (2016: € 38.8 million). This lower net result is mainly the result of the lower deferred tax assets recognised, the additional restructuring costs incurred in 2017 and the higher depreciation and amortisation charges, which were only partly offset by the higher normalised EBITDA and the income from disposals.

Financial position

(in millions of euros)	2017	2016
Balance sheet		
Non-current assets	387.2	340.0
Current assets, including assets held for sale	620.7	678.1
Total equity	446.1	427.8
Provisions	135.0	141.0
Long term liabilities	17.2	23.2
Current liabilities	409.6	426.2
Balance sheet total	**1,007.9**	**1,018.1**
Net debt	50.7	17.7
Solvency	44.3%	42.0%

The intangible fixed assets increased € 9.4 million to € 50.0 million (2016: € 40.6 million). This increase is the result of the capitalised, mainly internal developed, software partly offset by the annual amortisation. The property, plant & equipment increased by € 38.1 million to € 289.3 million, mainly by investments to expand and/or modernise several facilities for the footprint and production optimisation. The deferred tax assets increased by € 3.9 million following the recognition of a deferred tax asset related to the carry forward losses. Other non-current financial assets decreased by € 4.8 million, mainly as a result of the settlement of claims relating to the sale of group companies in former years.

The net employee defined benefit obligations in 2017 were € 133.4 million (2016: € 139.5 million), which were related to pension plans, pre-pension and early retirements schemes, as well as to other long-term benefits (jubilee and leave agreements). The pension plan obligations apply fully to the defined benefit pension schemes for employees and former employees of the German group companies. Next to these, provisions for reorganisation and restructuring costs (2017: € 2.0 million, 2016: € 2.6 million) are part of the provisions in the balance sheet.

At the end of 2017, an amount of € 53.1 million (2016: € 55.8 million) was drawn under the new € 200 million working capital facility. With a gross debt of € 71.6 million and cash and cash equivalents of € 20.9 million, net debt was € 50.7 million (2016: € 17.7 million). The strong solvency position of the company improved further in 2017, to 44.1% of the balance sheet total (2016: 42.1%), despite large investments that were made in fixed assets.

Cash flows

(in millions of euros)	2017	2016
Cash flow statement		
Net cash flow from operating activities	39.0	6.2
Net cash flow from investment activities	–61.5	–66.4
Net cash flow from financing activities	–19.1	0.3
Increase / (decrease) in cash and cash equivalents	–41.6	–60.0
Cash and cash equivalents at year-end	**20.9**	**62.5**

The cash flow from operating activities amounted to € 39.0 million (2016: € 6.2 million). The main reasons for this increase is the lower change in working capital in 2017 compared to 2016 working capital, which decreased in 2017 € 4.2 million compared to an increase of € 32.0 million in 2016.

In 2017, the cash flow from investing activities amounted to € 61.5 million negative, as the result of investments in fixed assets to further optimise the production locations (€ 79.2 million) and payments for the assets of Otto Nocker and the six wholesale markets in Germany (total € 6.9 million). These were partly offset by proceeds from the sales of tangible fixed assets, amounting to € 14.7 million and the release of the escrow, following the settlement with Darling Ingredients, for an amount of € 9.7 million. The financing cash flow for the year amounted to € 19.1 million negative, mainly as a result of the payments for the acquisition of the shares in Salomon Hitburger GmbH, Vion SA and Vion Zeven AG (total: € 15.4 million) and the repayment on the working capital facility.

The cash and cash equivalents consequently decreased by € 41.6 million to € 20.9 million at the end of the year.

Divisions

Pork division

Key figures	2017	2016
# Production locations	15	17
# Slaughtered heads	15,683,000	16,110,000
Sales volume *(in tonnes of kg)*	1,720,000	1,765,000
Net turnover *(in millions of euros)*	3,431	3,212
# FTE	8,103	8,813

Key facts

The Pork division processes approximately 300,000 pigs per week. The resulting meat is supplied to national and international retailers, food service clients and food processing companies. At the production facilities, pork is processed into products for domestic clients as well as for export customers in amongst others Europe, Asia, Oceania and North America. Basic raw materials are also delivered to industrial customers who process the pork into a wide range of meat products, such as cold cuts, meat snacks, smoked sausages, pizza toppings and dried hams. Besides that, fresh pork is processed by Vion into semi-finished and finished products for the domestic and export retail markets.

The Pork division consists of 15 production locations. There are three slaughterhouses in the Netherlands (Apeldoorn, Boxtel and Groenlo) and six in Germany (Altenburg, Crailsheim, Emstek, Landshut, Perleberg and Vilshofen). The division also operates six deboning and meat processing plants: four in the Netherlands (Scherpenzeel, Encebe Vleeswaren Boxtel, Retail Groenlo and Valkenswaard); and two in Germany (Ahlen and Holdorf).

In addition, at the end of 2017, the Pork division operated 13 sales offices in various countries to support the sales activities of the company. The Pork division head office is located in Boxtel, the Netherlands. At the end of 2017, the division had approximately 8,100 FTEs (including flex workers).

Market developments
The price level of live pigs continued to be at a relatively high level in the first three quarters of 2017. However, the pig prices decreased in the last quarter due to a increasing supply. Consumers appreciate a high transparency of the meat supply chain. Some farmers and meat producers have intensified their cooperation. A significant number of farmers delivering pigs to Vion in the Netherlands have signed a Good Farming Balance contract, resulting in a new demand-driven supply chain for pig farmers created by Vion. Retailers and the industry have also made further steps in increasing the sustainability of products. These partnerships in the supply chain will increase the valorisation of products, as well as the efficiency and traceability.

Global trade remains important for the Dutch pork industry, although relatively high prices had an impact on the country's competitive position compared to more integrated countries like the US and Brazil. Furthermore, the euro encountered less favourable exchange rates with the US dollar, the Japanese yen and the British pound. As a consequence, the trade volume to China declined. Nevertheless, China was still the number one export country outside Europe. Business with Japan showed a continuous increase due to strong partnerships and the good quality of the products.
An extended product mix portfolio and more penetration into the high end of the market also significantly increased business with Korea.

Demand-driven supply chains
2017 has proven to be a successful year in Vion's strategy for demand-driven supply chains. Within all of its Good Farming concepts, Vion is focussing on food safety, animal welfare, an inherent product quality and transparency.

The concept of Good Farming Balance was introduced in March with three new delivery modules and new pricing systems. The delivery modules comply with the specific demands of international markets. Among other things, the delivery weight and fat layer thickness vary in each module. Within Good Farming Balance, suppliers can choose from three pricing systems: the Vion weekly price – which fluctuates weekly on the basis of supply and demand, the Vion price index guarantee (PIG), an average price based on a combination of a representative international price portfolio and the third option is the Vion long-term price (LTP), where the price of pork is fixed for a longer period. The farmers with a Good Farming Balance contract based on the Vion price guarantee system received an extra payment at the end of January 2018 of approximately € 1.15 per delivered pig. In October 2017, a premium selected ham for the top segment of the Italian market under the name of Robusto was also launched as part of Good Farming Balance.

Vion's concept with regard to '1 ster Beter Leven' pork meat is Good Farming Star. Vion has contracts with leading food retailers and a group of farmers in the Netherlands, which has provided a strong foundation for this market concept. Good Farming Organic is Vion's concept for organic meat. Vion's subsidiary "De Groene Weg" is a leading player in the European organic market, and this market is a key for further growth. De Groene Weg has also launched an EKO code for its pork supply chain, committing to an even more sustainable food production process.

In Germany, the regional supply chain concepts are becoming increasingly beneficial in central and southern Germany. For example, the Geprüfte Qualität Bayern (GQB) concept in the regional market of Vion's plants in Landshut and Vilshofen has a strong position.

Operational investments and improvements
In 2017, Vion continued to take further steps in optimising its footprint. This is a prerequisite for Vion's valorisation and its operational efficiency strategy in the Pork division, ensuring high quality products for a competitive price.

In March 2017, Vion announced an approximately € 8.0 million investment in its facility in Apeldoorn, concerning a modernisation and expansion project. Thereafter, the location complies with the highest certification requirements necessary for global sales. With this investment, Vion will be able to respond to the increasing specific demands of its customers.

In April 2017, Vion closed its slaughter facility in Zeven, due to it making a loss and being in no position to operate profitably in the future. Most of the farmers now supply their pigs to Vion's slaughter facilities in Emstek and Perleberg. In line with the previously-mentioned strategy, investments were made in Emstek, Perleberg and Groenlo to increase the production standards and yields.

Besides the improvements from its investments, Vion has been successful in improving its net value by an integrated operational approach in combination with well-developed strategies for its product market portfolio. Several initiatives that were started in 2016 paid off in 2017 by optimising the customer and product mix or by increasing the operating efficiency, in for example our facilities in Crailsheim, Altenburg and Landshut. After the introduction of the lean methodology "Vion Operating System" in the Netherlands, the company's German facilities started to work according to the same methodology and efforts have been increased to improve all the operational, commercial and back-office processes and management systems.

Pro-active communication

Good communication with our partners in the pork supply chain and with other stakeholders is crucial to Vion. The launch of Good Farming Balance would not have been successful without numerous meetings held with farmers and partners in the supply chain. During meetings with farmers and farmers' associations in the Netherlands and Germany, Vion had the opportunity to explain its strategy through dialogue.

Part of Vion's transparancy strategy is being put into practice by showing the audit reports of independent authorities and insights in its production processes on the company's websites: www.vion-transparenz.de and www.vion-transparantie.nl. There is also a continuous dialogue with non-governmental organisations like animal welfare groups and close cooperation with the local authorities concerning our facilities.

The trade fair Anuga that was held in October 2017 in Cologne, Germany, provided an international platform for customers and prospects to gain insights into Vion's innovative product developments, like the Robusto ham and Simmentaler beef products, the Salomon Food Service and FVZ brands, and our retail product innovations.

Beef division

Key figures	2017	2016
# Production locations	12	11
# Slaughtered heads	912,000	921,000
Sales volume *(in tonnes of kg)*	453,000	462,000
Net turnover *(in millions of euros)*	1,574	1,543
# FTE *(flex workers included)*	3,100	2,983

Key facts

The Beef division processes approximately 17,500 cattle per week. The produced beef is supplied to national and international retailers, food service clients and food processing companies. At the production plants, beef is processed into products for domestic clients as well as for export customers in Europe, with the Netherlands and Germany as the largest destination markets. Basic raw materials are also delivered to industrial customers who process the beef into a wide range of meat products. Besides that, fresh beef is processed by Vion into semi-finished and finished products for the domestic and export retail markets, including Vion's Food Service division.

Vion is a market leader for beef in Germany and the Netherlands and holds a leading position in Europe. Vion's beef products are mainly distributed in the home markets of the Netherlands and Germany, as well as in Southern Europe (France, Greece, Italy and Spain). Its skills and expertise, combined with large-scale, state-of-the-art production technology, enables Vion to supply an extensive customer base with large quantities of consistently high-quality beef. Clients can choose from a wide portfolio of fresh and frozen beef and beef-based products. Vion is also recognised for its excellent customer service and is a reliable partner for the retail, food service and processed meat industries.

The Beef division consists of 12 production facilities. There is one in the Netherlands (Tilburg) and seven in Germany (Altenburg, Bad Bramstedt, Bamberg, Buchloe, Crailsheim, Furth im Wald and Waldkraiburg). The facilities are all strategically located to minimise the transport time for the animals. In addition, Vion owns four deboning and meat processing plants: one in the Netherlands (Enschede) and three in Germany (Germaringen, Großostheim and Hilden). A new slaughter facility in Leeuwarden (the Netherlands) was opened in the first quarter of 2018. Since 2017, the division operates six wholesale markets in Bavaria (Blaichach, Günzburg, Hammelburg, Ingolstadt, Kulmbach and Traunstein). The head office of the Beef division is located in Buchloe, Bavaria. At the end of 2017, the division had approximately 3,100 FTEs (including flex workers).

Developments in 2017

2017 has been a year in which Vion's Beef division gave a solid performance. Despite a lower amount of cattle slaughtering in Germany in general, the division was able to keep the number of slaughtered heads in 2017 largely consistent with the number of slaughtered heads in 2016.

This was mainly driven by the higher number of slaughtered heads in the Netherlands following the Phosphate Reduction Scheme. In this scheme trade associations and the Dutch Government agreed to reduce the phosphate production in 2017 and which led to a considerable reduction in livestock. The multi-year restructuring programme was largely completed in 2017 with the closure of the small Riedlingen plant.

In 2017, Vion took over certain assets of Otto Nocker, a meat and sausage specialist in Germaringen, as well as six wholesale markets (Blaichach, Günzburg, Hammelburg, Ingolstadt, Kulmbach and Traunstein) in Bavaria. This acquisition underlines the growth strategy announced by Vion and fits perfectly with the Vion strategy to move up in the value chain.

All of Vion's production locations are certified in accordance with one of the leading food safety standards (IFS or BRC). In addition, a variety of further inspections are executed by the public authorities. Besides food safety standards, the Beef division has been certified with several certification standards like ISO, QS, organic, halal and regional programmes.

Investments in production sites

The reconstruction work at the Waldkraiburg plant has largely been completed. The investments include a new lairage, stunning system and slaughter line. The plant was designed by taking into consideration the latest knowledge on animal welfare at meat processing plants. This includes the concept created by the well-known American welfare expert Temple Grandin. The Waldkraiburg plant is one of the most modern and most powerful meat processing facilities in Europe. The Beef division will continue investing in its facilities with a focus on animal welfare. For example, at the beef sites at Altenburg, Buchloe and Crailsheim, new fixation and stunning systems have been installed.

Reliable partners

Vion has established strong and long-term partnerships with most of its suppliers and collaborates intensively with farmers, industry associations and traders. The company also manages close cooperations throughout the supply chain with professional and reliable partners in the fields of animal feed, breeding, housing and transportation.

Vion as a trendsetter

Vion is expanding its leading position in its home markets. For instance, regionality and quality are the major drivers for the beef sector, especially in Germany. Vion is fulfilling its role as a trendsetter with the launch of some innovative sales approaches. An example is the Goldbeef brand for premium beef specialty products that was introduced at the Anuga in 2017. The Beef division is also focusing on the valorisation of all parts of the animal in the best possible way, and supports this with a central marketing and sales organisation for all beef specialities, beyond the classic meat cuts.

Prices: seasonal pattern

Cattle prices follow a seasonal pattern with higher prices in the spring and summer (due to the reduced supply) and lower prices in the autumn and winter (due to the increased supply). In the Netherlands, the measures undertaken to reduce the phosphate emissions continued in 2017. In particular, at the beginning of 2017, the Dutch meat processing facilities benefitted from the higher volume that was offered. In Germany, fewer cows were available because of a recovering milk price. In total, in the Netherlands, the cattle purchase prices were on average around 10% and in Germany about 15% higher than in the previous year.

Food Service division

Key figures	2017	2016
# Production locations	**2**	2
Sales volume *(in tonnes of kg)*	**61,000**	59,000
Net turnover *(in millions of euros)*	**245**	233
# FTE *(flex workers included)*	**471**	511

Key facts

The Food Service division operates two production plants: one in Großostheim for hamburger patties and one in Holzwickede for schnitzel, haxer, minced beef and poultry products. In addition, the division has well established brands and long-term strategic alliances in Europe as well as in Asia with its external production partners. At the production sites, the meat is processed into products predominantly for Germany, as well as its neighbouring countries. The Food Service division head office is located in Großostheim, Germany. At the end of 2017, the division had approximately 470 FTEs (including flex workers).

The leading specialist for meat-based frozen convenience products

The approach of the Food Service division is characterised by the pursuit of a consistent, multi-year market strategy. It is active in the growing market "Frozen Convenience" segment and has a strong focus on frozen meat convenience products. The strategy is based on achieving annual revenue growth by investing in its two major brands: Salomon FoodWorld and FVZ Convenience. The drivers for growth are the strength of the brands, their products and services, market access, the know-how of the employee base and the division's patented research and innovations. The division holds a leading position in burgers, schnitzels and finger foods.

In 2017, the Food Service division succeeded in defending its market position in a difficult environment, which was highly affected by higher costs of the key raw materials, especially beef. The planned growth couldn't be realised because of demanding sales price negotiations due to higher competition and greater market pressure. For 2018, challenging market circumstances are again expected due to increased competition and higher raw material costs.

Gastronomy and impulse channels: a consistently growing market in Europe

The Food Service division serves two segments of the food market: gastronomy and impulse channels. The gastronomy segment comprises catering firms, canteens, restaurants and hotels. These make up the more traditional part of the food sector. The impulse segment (snacks) comprises ad-hoc convenience, travel, transport and leisure/entertainment outlets. This channel is young and offers a lot of potential. A growing number of people are eating outside of the home and are buying food from establishments such as petrol stations and take-away outlets.

Two brands: Salomon FoodWorld and FVZ Convenience

Vion offers two food service brands: Salomon FoodWorld and FVZ Convenience. Salomon FoodWorld is positioned as an innovative convenience company, with a focus on customer impulses, successes and emotions. This is a large brand in Germany and Austria and it is growing in the Netherlands. Salomon FoodWorld supplies products in three business lines:

– Finger Food
– Burger & Wraps
– Schnitzel & More

For FVZ Convenience, 2017 was a dynamic year. The brand positioning was realigned and the market image renewed. After revising the production set-up by implementing two new production lines in 2016 and restructuring the processes, FVZ Convenience increased its production volumes and improved its efficiency and productivity, which led to a turnaround in the results. FVZ Convenience specialises in convenience products and is positioned as the modern traditionalist with the promise to: "Simply do it…". Customers can choose from a range of lines comprising dozens of products that are quick and easy to prepare.

Market share growth

The Food Service activities demonstrated a slight but continuous growth. Contrary to last year, Food Service division did not outperform the German market growth that amounted to 1.0% in 2017. The growth rate of the German activities was 0.4%. Due to the increasing raw material prices, especially for beef products, the sales prices had to be adjusted. Combined with the increasing competition, this led to a negative growth rate in this segment and influenced the total growth rate.

In Germany, Vion is the market leader in the division's three segments with Salomon Schnitzel & More (schnitzel and mince-based products) having more than 35%, Finger Food (e.g. buffalo chicken wings and appetisers) having more than 35% and Burger & Wraps (mainly hamburgers) having more than 60% of the respective food service markets (value). In addition, with the FVZ Convenience and Salomon FoodWorld brands, the Food Service Division holds a leading market position in the Top 100 key accounts, with a share of more than 80%.

Salomon FoodWorld and FVZ Convenience are international brands. In addition to Germany and the Netherlands, both brands also sell their products to customers in Italy, Austria, France and Scandinavia.

Investing in the future

In 2017, the Food Service division invested an appropriate amount into enlarging and optimising its production technology to become a leaner, more efficient and more effective division and also to increase the production volume. Investments in compliance projects have started and will be finished in early 2018.

Corporate

Key facts

In addition to is operating divisions, Vion operates a corporate organisation that includes its headquarter functions. The headquarter functions include the management board, as well as the information management and technology (IM&T) services, central finance (control, treasury, legal and tax and credit risk management) communications, human resources, quality assurance and the internal audit department. The majority of these activities are based in Boxtel, the Netherlands. However, some IM&T activities are located in Hannover and Munich, Germany. At the end of 2017, the corporate organisation had approximately 200 FTEs.

‘17 Outlook 2018

The pork markets in the Netherlands and Germany are influenced by the broader global pork market and will continue to rely on exports. European consumption is expected to slightly decrease going forward, which will increase the importance of the markets outside of Europe. Volatile cattle prices and a slowly decreasing beef consumption in Europe are expected to continue in 2018. The new beef facility in Leeuwarden will become operational in the first quarter of 2018 and will gradually increase its slaughter volumes.

In December 2017, Vion entered into several new contracts for the sale and supply of meat by-products from both the Pork and Beef divisions in the Netherlands and Germany. It is expected that those new contracts will make a positive contribution to the results of Vion in 2018 and in future years. In addition, Vion acquired an additional 20% of the shares in its currently non-consolidated participation in BestHides GmbH. Following this acquisition, Vion holds 60% of the shares. The actual date of the acquisition of the shares was 1 January 2018, and the results of BestHides GmbH will be included in the results for Vion from 2018 onward.

In Germany, the meat-based frozen food segment of the out-of-home market continues to show a steady growth and, with its strong position in this segment, Vion will benefit from this and will further improve its market share. The Food Service division will also continue to investigate the expansion of its activities to other European countries.

Vion will strive to maintain and improve its results again in 2018. This will be based upon the results of the implemented footprint initiatives, margin improvement initiatives, realised cost savings, growth initiatives and product innovations.

Boxtel, 23 March 2018

Management board
F.J.L.J. Kint, CEO
J.L.M. Sliepenbeek, CFO

Composition of the executive committee

From left to right: Joost Sliepenbeek, Francis Kint, Bernd Stange, Bernd Stark, Frans Stortelder

Personal details of the members of the executive committee

F.J.L.J. (Francis) Kint
1962, Belgian nationality
Chairman of management board and executive committee

Function
CEO since 1 September 2015

Former functions
CEO at UNIVEG, President Europe at Fiskars Brands, Vice-President North & Eastern Europe at Chiquita Brands, Manager Financial Planning at Sara Lee, Consultant at Accenture

J.L.M. (Joost) Sliepenbeek
1963, Dutch nationality
Member of management board and executive committee

Function
CFO since 1 May 2015

Former functions
CFO of Van Gansewinkel, C1000/Schuitema and HEMA. Previously he also worked at Royal Ahold, Gilde Investment Management, KPMG Management Consulting and De Vleeschmeesters

F.H.A. (Frans) Stortelder
1959, Dutch nationality
Member of executive committee

Function
COO Pork since 8 March 2015

Former functions
Managing Director SturkoMeat Group, CEO of Vion's predecessor Dumeco, Managing Director at Jutland Meat, several consulting programs at EMAPlus for a.o. Sara Lee Foods, Groupe Smithfield

B. (Bernd) Stange
1960, German nationality
Member of executive committee

Function
COO Beef since 1 April 2014

Former functions
Joined Vion in 2000 and worked in various roles: Managing Director of the Business Unit (BU) Fresh Meat Germany and the BU Pork and Beef (2013), BU Fresh Meat North and BU Fresh Meat South (2006) and A. Moksel (2000). Former General Manager of several meat companies

B. (Bernd) Stark
1958, German nationality
Member of executive committee

Function
COO Food Service since 1 April 2014

Former functions
Joined Vion in 2005 and worked in various roles: Managing Director Salomon FoodWorld (2011) and Salomon Hitburger (2005). Former Marketing Director Nestlé Schöller and responsible for food service Europe ice-cream and frozen food and additionally for the brand Mövenpick

Corporate governance

Vion Holding N.V. is a public limited liability company under Dutch law with its registered office in Best, the Netherlands. Vion is exempted from applying the Dutch legal regime for large companies, the so-called large company regime (structuurregime), because Vion is an international holding company. Vion has a two-tier board. The management board is responsible for managing the company, while the supervisory board oversees the policies set by the management board and the general affairs of the company. The management board is supported by the executive committee. Vion's corporate governance consists of rules based on Dutch legislation, its articles of association, the Dutch Corporate Governance Code, and Vion's own code of conduct.

Management board

Tasks

The management board is responsible for Vion's strategy, its portfolio policy, the deployment of people and resources, the risk management system and the operating results. The management board focuses on long-term value creation for the company and develops a view on the relevance of long-term value creation for the company. The management board is accountable to the general meeting of shareholders. The management board makes decisions based on an absolute majority. The supervisory board oversees the policies of the management board. To this end, the management board provides all necessary information to the supervisory board that it needs for the proper performance of its duties. Important management board decisions are subject to the approval of the supervisory board.

The supervisory board evaluates the functioning of the management board as a whole and that of the individual management board members together with the conclusions reached at least once a year without the members of the management board being present. The management board, too, evaluates at least once a year its own functioning as a whole and that of the individual management board members.

The management board has laid down rules regarding its composition and performance in rules of procedure that can be found on the company's website.

Appointment, composition and conflict of interests

The management board members are appointed by the general meeting of shareholders after the prior binding opinion of the supervisory board has been presented. The general meeting of shareholders may only ignore the binding opinion of the supervisory board with the consent of at least two-thirds of the votes cast, which in turn represents at least half of the issued capital. The management board members are appointed for an indefinite period.

The composition of the management board will be such that the required expertise, background and competencies are present for the management board members to properly fulfil their duties. Vion aims for a sufficient degree of diversity within the management board. One of Vion's diversity aims is to achieve a reasonable gender balance in the management board, with neither the proportion of women nor that of men falling below a minimum of 30%. While this goal is taken into account, Vion's principle is that the most suitable candidate for the vacancy will be appointed. After careful consideration of all relevant selection criteria, a woman has not yet been appointed to the management board. However, the next time a vacancy arises, the search criteria will emphasise that the candidates should preferably be female.

In the event of a conflict of interest with regard to a particular topic, the management board member in question may not participate in the discussions or the decision-making on that topic.

Remuneration

The supervisory board determines the remuneration of the management board and the other employment terms for the management board members within the general remuneration policy adopted by the general meeting of shareholders.

Executive committee

Tasks

The management board is supported by the executive committee in achieving the objectives of the company and implementing the strategic objectives set out in the strategy and business plan. In addition to the management board members, the other members of the executive committee include the chief operating officers (COOs) of the Pork, Beef, and Food Service divisions and any other by the management board appointed key officers. The management board is ultimately responsible for the actions and decisions taken within the executive committee and for the overall management of Vion. The COOs regularly, but at least once a year, give an update concerning their division in a meeting of the supervisory board.

Supervisory board

Tasks

The supervisory board oversees the policies set by the management board and the general affairs of the company, and provides the management board with advice and assistance. The supervisory board also supervises how the management board develops its view on the long-term value creation and how the management board implements that view. In the performance of its duties, the supervisory board focuses on the interests of the company and its business. Important management board decisions are subject to the prior approval of the supervisory board. Such important decisions are those that relate to how Vion is structured, the nature and scale of its business operations and the decisions affecting the capital structure of the company.

The supervisory board makes decisions based on an absolute majority. The supervisory board may only take valid decisions when at least the majority of the supervisory board members in office are present or are otherwise represented.
The supervisory board may only take decisions outside its meetings, provided that all the supervisory board members have expressed themselves in favour of the proposal concerned.

The supervisory board discusses its own performance, as well as that of its committees and that of the individual supervisory board members, together with the conclusions reached, at least once a year without the members of the management board being present. More information can be found in the report of the supervisory board on page 34.

The supervisory board has laid down rules regarding its composition and performance in rules of procedure that can be found on the company's website.

Independence

The supervisory board strives to achieve that the majority of its members are independent in the sense of best practice provision 2.1.8 of the code. The section on the Dutch Corporate Governance Code on page 22 includes information on the independence of the members of the supervisory board.

Appointment, composition and conflict of interests

The supervisory board members are appointed for a period of four years by the general meeting of shareholders after the prior binding opinion of the supervisory board has been presented. Reappointment is possible for another four-year period. Unless a member of the supervisory board resigns earlier, their term of appointment will expire in the fourth year after the year of their appointment, at the end of the annual general meeting of shareholders. The supervisory board member may then subsequently be reappointed for a period of two years, which appointment may be extended by at most two years. The general meeting of shareholders may only disregard the binding opinion of the supervisory board with the consent of at least two-thirds of the votes cast, which in turn represents at least half of the issued capital.

The general meeting of shareholders may grant a fixed remuneration to the supervisory board members. Details about the remuneration can be found in the section on remuneration on page 40. In addition the supervisory board members will be reimbursed for all reasonable costs.

The composition of the supervisory board will be such that the combination of experience, expertise and independence are present for the supervisory board members to properly fulfil their duties. Vion aims for a sufficient degree of diversity within the supervisory board. Such diversity includes a broad range of aspects such as nationality, age, gender, education and work background. One of Vion's diversity aims is to achieve a reasonable gender balance in the supervisory board, with neither the proportion of women nor that of men falling below a minimum of 30%. The composition of the supervisory board is established using carefully defined profiles and competencies. At present one out of seven members is a woman. However, the next time a vacancy arises the search criteria will emphasise that the candidates should preferably be female.

In the event of a conflict of interest with regard to a particular topic, the supervisory board member in question may not participate in the discussions or the decision-making on that topic.

The supervisory board has appointed an audit committee and a remuneration, selection and appointment committee from among its members. These committees advise the supervisory board on matters relating to their respective areas of interest and thus these committees will not take on the responsibilities of the supervisory board.

Audit committee

The audit committee prepares the supervisory board's decision making regarding the supervision of the integrity and quality of the company's financial reporting and the effectiveness of the company's internal risk management and control systems. The audit committee has laid down rules on its composition and performance in rules of procedure that can be found on the company's website.

Remuneration, selection and appointment committee

The remuneration, selection and appointment committee prepares the supervisory board's decision making regarding the selection, appointment and remuneration of the company's management board members and the supervisory board members. The remuneration, selection and appointment committee has laid down rules on its composition and performance in rules of procedure that can be found on the company's website.

More information about the supervisory board and its committees can be found in the report of the supervisory board on pages 34 and 35.

General meeting of shareholders

General

The general meeting of shareholders is held at least once a year with the objective of adopting the annual accounts. However, the general meeting of shareholders is also held as often as the management board or the supervisory board deems necessary. Shareholders are entitled to ask the management board or the supervisory board to convene a general meeting of shareholders provided they represent at least 10% of the issued capital. In convening a general meeting of shareholders, the topics to be discussed will be reported. Each shareholder is entitled to attend the general meeting of shareholders and to speak and to exercise its voting rights. The chairman of the general meeting of shareholders is appointed by the supervisory board.

The general meeting of shareholders shall take decisions by an absolute majority, except when stipulated in the law or articles of association that a larger majority of votes is required for the specific decision. The articles of association stipulate that an amendment to the articles of association or the dissolution of the company requires a two-thirds majority of the votes cast which in turn represents at least two-third of the issued capital in the event that the initiative to do so was taken by the general meeting of shareholders and is not supported by the management board or the supervisory board.

Important management board decisions are subject to the prior approval of the general meeting of shareholders. Such important decisions are those that relate to how Vion is structured, the nature and scale of its business operations and the decisions affecting the capital structure of the company.

Stichting Administratiekantoor SBT

Stichting Administratiekantoor SBT (SBT) is the sole shareholder of the company. SBT has issued depositary receipts for its shares in the company. The depositary receipts have been issued without cooperation of the company. All of the depositary receipts are held by Noordbrabantse Christelijke Boerenbond, Rooms-Katholieke Vereniging van Boeren en Tuinders-Ontwikkeling (NCB-Ontwikkeling). The board of SBT consists of five members. According to the articles of association of SBT three out of the five board members are appointed by NCB-Ontwikkeling. The other two board members are also appointed by NCB-Ontwikkeling as holder of all depositary receipts. At present one board member of SBT is also member of the board of NCB-Ontwikkeling. NCB-Ontwikkeling is related to Zuidelijke Land- en Tuinbouworganisatie (ZLTO), mainly because the board of NCB-Ontwikkeling consists of the same members as the board of ZLTO and the members of NCB-Ontwikkeling are also members of ZLTO. ZLTO is an association for entrepreneurs working in agricultural sectors and has approximately 15,000 members in Noord Brabant, Zeeland and the southern part of Gelderland. NCB-Ontwikkeling acts as the investment fund of ZLTO.

Audit of the financial statements

Every year the management board draws up financial statements and a management report. The financial statements are approved by the signatures of both the management board and the supervisory board and are presented to the general meeting of shareholders for adoption. Vion engages an external auditor for the audit of the financial statements. The general meeting of shareholders is primarily responsible for the appointment of the auditor.

The general meeting of shareholders may completely or partially release the management board from all liability for its management and the supervisory board from liability for its oversight.

Registered office and principal office

The company has its registered office in Best, the Netherlands. Vion's principal office is in Boxtel, the Netherlands.

Dutch Corporate Governance Code

On 8 December 2016 the revised Dutch Corporate Governance Code was published. The revised Dutch Corporate Governance Code applies as of the financial year 2017. Because Vion is not listed on a stock exchange, applying the code is not mandatory. Vion applies the code nevertheless because it provides a sound and transparent system of checks and balances within a company to regulate relations between the management board, the supervisory board and the general meeting of shareholders that contributes to confidence in the good and responsible management of companies and their integration into society.

In accordance with the code's 'comply or explain' principle Vion deviates from the code's principles and best practice provisions in a number of instances. Generally speaking, this is the case where the provisions are not compatible with Vion's legal structure and the nature of its business or are specifically written for listed companies with a widespread ownership.

The required changes as a result of the revised Dutch Corporate Governance Code have been made in amongst others the rules of procedure of the management board, the supervisory board, the audit committee and the remuneration, selection and appointment committee.

The following principles and best practice provisions are not (fully) complied with for the reasons set out below.

Provision 2.1.5 and 2.2.4

(diversity policy and succession plan)

Best practice provision 2.1.5 of the code states that the supervisory board should draw up a diversity policy for the composition of the management board, the supervisory board and the executive committee. Best practice provision 2.2.4 of the code states that the supervisory board should ensure that the company has a sound plan in place for the succession of management board and supervisory board members that is aimed at retaining the balance in the requisite expertise, experience and diversity. Although Vion embraces and highly values diversity within the management board, the supervisory board and the executive committee, an actual diversity policy and succession plan has not been implemented yet.

Provision 2.1.7

(independence of the supervisory board)

Best practice provision 2.1.7 of the code states that the majority of the supervisory board members must be independent in the sense of best practice provision 2.1.8 of the code. Five out of the eight supervisory board members of the company at present can be considered not independent in this sense.

Best practice provision 2.1.8 specifies that a member of the supervisory board shall not be deemed independent if he or she is a member of the board or a representative in some other way of a legal entity which holds at least 10% of the shares in the company. Currently, Hans Huijbers is member of the board of NCB-Ontwikkeling, which holds all depositary receipts for the shares in Vion. The supervisory board remuneration of Hans Huijbers is paid to ZLTO on the basis of a separate agreement. ZLTO is related to NCB-Ontwikkeling mainly because the board of NCB-Ontwikkeling consists of the same members as the board of ZLTO. Toon van Hoof stepped down as a member of the board of NCB-Ontwikkeling as of 24 November 2016, but is still associated with NCB-Ontwikkeling. The supervisory board remuneration of Toon van Hoof is, for example, still paid to ZLTO. Theo Koekkoek is also associated with NCB-Ontwikkeling because his supervisory board remuneration, too, is paid to ZLTO. As a consequence Hans Huijbers as member of the board of NCB-Ontwikkeling, Toon van Hoof and Theo Koekkoek as representatives of NCB-Ontwikkeling may not be deemed independent in the sense of the code. This reflects the difference between a listed company with a widespread ownership versus the situation at Vion with only one shareholder.

Best practice provision 2.1.8 specifies that a member of the supervisory board shall not be deemed independent if he or she has been a member of the management board of the company in the five years prior to the appointment. Tom Heidman acted as interim CEO of the company in the period from 26 January up to and including August 2015 and therefore could be viewed as a non-independent. Nevertheless he has been reappointed as member of the supervisory board and appointed as chairman of the remuneration, selection and appointment committee (deviating from best practice provision 2.3.4) given the interim nature of his term as member of the management board and his important contribution to the supervisory board.

Best practice provision 2.1.8 specifies that a member of the supervisory board shall not be deemed independent if he or she has had an important business relationship with the company in the year prior to the appointment. This includes the case where the supervisory board member is a management board member of any bank with which the company has a lasting and significant relationship. In the year prior to his appointment Sipko Schat has been a member of the management board of Rabobank with which Vion had a significant relationship at the moment of his appointment. Sipko Schat could therefore be viewed as not independent and should therefore according to best practice provision 2.1.9 not be chairman of the supervisory board. Vion believes, however, that Sipko Schat is a highly valuable chairman of the supervisory board, who offers considerable added value in terms of his knowledge and experience. In addition, Sipko Schat has no longer been a management board member (or employee) of Rabobank since 18 November 2013 and the banking relationship of the company with Rabobank ended in 2015.

Provision 2.2.1
(appointment of the management board)
Best practice provision 2.2.1 of the code states that a member of the management board is appointed for a period of a maximum of four years. The management board members of Vion are appointed for an indefinite period given the importance of a long-term commitment of the management board members to the company.

Provision 2.3.2
(supervisory board key committees)
The remuneration committee and the selection and appointment committee have, for practical reasons, been combined into the remuneration, selection and appointment committee.

Provisions 2.8.1-2.8.3, 3.3.3, 4.1.7, 4.2.2-4.2.6, 4.3.1-4.3.6, 4.4.1-4.4.8 and 5.1.1-5.1.5
These provisions do not apply as Vion is not listed on a stock exchange and all of the shares in its capital are held by one shareholder.

Risk management

Risk management is an important part of Vion's strategy. Vion wants to take advantage of opportunities in the markets in which it is active. But at the same time, the undesirable consequences of risks must be restricted. Vion assesses its system for risk management and internal control using the COSO 2013 model.

Risk appetite

Vion strives to take a prudent approach to risk. Product quality and safety, worker safety and compliance with laws and regulations are the company's highest priorities. This means that reducing the risks related to food and worker safety and meeting the legal obligations will take priority over all other business objectives. In relation to other risks, the risk appetite differs according to the following categories:

Strategic

Vion will pursue strategies in order to:

1. Continuously improve our infrastructure and results;
2. Position Vion as a game changer in the selected themes of our industry; and
3. Change the business mix, to reduce cyclicality.

The Company accepts the risk inherent in these strategies.

Operational

The highest priority is managing our product quality and safety as well as our worker safety. Procedures are in place, which are monitored and audited by both internal and external parties.

Financial and reporting

With respect to financial risks, Vion has a prudent financing strategy, including a balanced combination of self-insurance and commercial insurance coverage.

Compliance

Vion complies with the applicable laws and regulations everywhere that the company does business.

Risk management

In order to facilitate and coordinate risk management and to oversee compliance with the relevant laws, regulations and policies, Vion has a risk and compliance committee in place. This committee is chaired by the CFO, who is assisted by specialists in the different risk areas. The risk and compliance committee has the following responsibilities:

1. To help the management board to set the tone, develop a risk-conscious culture and promote open discussions regarding risks, such that people at all levels will manage the key risks in accordance with the company's risk appetite and strategy.
2. To provide input to the management board regarding the risk appetite, and strategy and to assist the management board in determining and communicating the company's risk appetite and strategy.
3. To monitor the company's risk profile: its ongoing and potential exposure to risks of various types.
4. To oversee and facilitate the company's enterprise risk assessment and its risk management activities, to provide a consistent approach to identifying, mitigating and monitoring the key business risks throughout Vion.
5. To ensure that an adequate internal control over financial reporting is established and maintained. For this purpose, Vion continues to optimise the Vion Financial Control Framework. Based on this control framework, self-assessments are organised, monitored and reported upon on a quarterly basis.
6. To oversee the company's compliance efforts with respect to the relevant laws, regulations and policies including, but not limited to, a quarterly internal certification process.
7. To assist the management board in informing the audit committee of the supervisory board on matters concerning risk management, compliance with the relevant laws and regulations and the operation of the code of conduct.

Although Vion considers the management of risks to be an important responsibility, it is aware that there are limitations for each form of risk management and internal control. This means that the management systems and procedures cannot prevent the occurrence of specific inaccuracies, errors, fraud or non-compliance with the regulations in full.

Vion has identified various risk categories. In the following section, we will describe how the specific risks in each category are managed and how we see the trend for that risk evolving: Unchanged =, Decreasing ▼ or Increasing ▲:

Strategic

Risk	Managing the risk	Trend and follow-up actions
Market cyclicality risk Vion operates in markets that are characterised by strong competition and price cyclicality. The prices of the raw materials and agricultural products will fluctuate, as will the purchase costs for pigs and cattle. This can lead to significant and unwanted fluctuations in Vion's financial results.	By distributing the activities across different geographical markets and channels, Vion mitigates the specific market threats to some extent. This distribution pattern also allows Vion to exploit the opportunities in various markets and channels. Furthermore, the company aims to reduce the impact of the market cyclicality by matching fixed-term pur-chasing and sales contracts for certain parts of its business.	Due to the Good Farming Balance programme that was introduced in the Pork division, the exposure to discrepancies between developments in the purchase and the sales markets has been reduced. In the coming year, the programme will be further rolled out. ▼

Strategic: market

Risk	Managing the risk	Trend and follow-up actions
Changing consumption patterns in relation to meat Consumer behaviour in relation to meat consumption is changing. In Western markets, people are reducing the meat consumption per person, and the consumption is also shifting over to different species of meat. To ensure continuity and growth, Vion recognises these trends and is adapting to them.	Vion anticipates growth opportunities in Asia where, due to economic growth and the adoption of more western consumption patterns, the consumption of meat per person is increasing. Furthermore, Vion is constantly aligning its product portfolio to match the changing needs of its customers.	Over the last year, we did not identify a reduction in the consumption of meat in our major home markets. Furthermore, we feel confident in our efforts to develop and define new markets and a new consumer portfolio. ▼

Risk	Managing the risk	Trend and follow-up actions
Access to markets Losing access to a market is a major risk and can result from various causes like animal diseases, political developments, breaching legal requirements or mistakes occurring in the supply chain, for instance in the storage or transportation facilities.	Vion has measures in place to mitigate the consequences of an outbreak of animal diseases to the maximal extent. Furthermore, Vion manages the supply chain towards its customers in a standardised and controlled manner, in order to prevent errors in documentation and/or the delivery of sub-standard quality products.	Vion will continue to pursue its procedures aimed at complying with the demands and requirements of its markets. =
Reputation A reputational crisis will have serious consequences in the form of a loss of sales, loss of talent, closer monitoring and increased regulations or penalties from the authorities.	Vion has taken measures to mitigate this by increasing its monitoring skills and its webcare skills in the (social) media landscape. It actively participates in the societal debates including with stakeholder organisations (NGOs), and proactively ensures its media relations are fully aligned with the CSR strategy.	The attention of stakeholders to our industry is increasing, and examples of undercover footage involving other companies in our industry have raised the level of attention in general. An increase of questions from stakeholders through social media channels is likely, resulting in more dialogue and more transparent communication. ▲

Operational: people and organisation

Risk	Managing the risk	Trend and follow-up actions
Health, safety and environment Risks in production processes can adversely affect the results. These risks arise from areas such as personal health and safety, processes and product safety. Unlikely scenarios can result in major incidents with a high impact on the company's internal organisation, causing business continuity risks and reputational damage. Vion has an active commitment to health, safety and the environment (HSE) for all of our employees.	In order to achieve these goals, Vion applies a systematic approach to HSE management which is designed for: (i) the maintenance and promotion of our workers' health and working capacity; (ii) the improvement of the working environment and ensuring work practices become conducive to safety and health; and (iii) the development of work organisations and working cultures in a direction which supports health and safety at work.	This is an inherent risk in our labour-intensive industry and we will continue our systematic approach to HSE management. =

Risk	Managing the risk	Trend and follow-up actions
Attracting and retaining human capital Having the right people, with the right capabilities, experience and mindset, to a large extent, determines the success of our organisation.	"Inspiring people to be best performers" is Vion's mission as an employer. In order to keep our employees motivated so that they will make a meaningful contribution to the company's success, it is important to have the right and suitably qualified personnel. It is Vion's ambition to achieve this, both qualitatively and quantitatively. In order to inspire and support the best performers and those who have ambitions to work in leadership positions in Vion's market, the company has several HR systems and programmes in place or in development.	Unemployment in Germany and the Netherlands is decreasing, as in Eastern Europe, meaning that potential employees are becoming more scarce. In order to be able to recruit sufficient staff to provide for our production needs, we are also striving for process optimisation (including automatisation where possible). At the same time, we are considering increasing the amount of our own staff, instead of hiring workers via third party agencies. As a consequence, the HR support at Vion needs to be strengthened.
Culture and behaviour Vion operates a business culture in which the individual's responsibility, entrepreneurship and commitment are strongly encouraged. This results in a corporate culture and environment where passion for meat unites us into "one Vion", where we are transparent and open-minded and have the drive and willingness to serve our customers and to out-perform our competition. In our view, this is the key for realising our mission and objectives. We also acknowledge that we can do better every day, in order to remain a company that we can be proud of.	To provide the organisation with guidance, and to set the tone for the kind of organisation we are striving to become, we have updated the Good Business Practice Guide. This booklet includes the updated code of conduct and the whistleblower policy. Going forward, the HR departments of Vion will analyse the performance reviews with regard to the elements of culture and behaviour, and will initiate programmes to further support the desired corporate culture where needed.	Vion puts an emphasis on the importance of a healthy business culture, for instance with training and with communication through the updated Good Business Practice Guide.

Operational: execution

Risk	Managing the risk	Trend and follow-up actions
Food safety Wholesome and safe food is one of Vion's top priorities. In view of the nature of the products, it goes without saying that Vion stipulates high standards for food quality and food safety. A quality issue, or even a change in the quality perception of our customers or the authorities, could have substantial consequences for the company's reputation and market position. Demographic developments in the society, such as a more elderly population, also changes the consumer needs towards higher levels of food safety.	Food safety and quality are part of the codes of practice at all of Vion's facilities. In order to manage its own processes such that customer satisfaction and operational excellence are achieved, all of Vion's facillities are ISO 9001 certified. Besides the application of its own Vion–HACCP and the quality standards within its operations, all Vion facilities are certified according to at least one of the food safety and quality schemes that are recognised through the Global Food Safety Initiative (GFSI), such as IFS and BRC.	Food safety is an inherent risk to our industry. Next to following our Vion–HACCP procedures, we will continue to emphasise the importance of food safety and will provide training and pursue continuous monitoring on the local and central level. =
Traceability and product integrity Vion recognises that product and process integrity are essential to being a trustworthy supplier and to preventing public health issues. Traceability is also a key to improving the sustainability in the supply chain. The consumers and customers of Vion expect that the product attributes that are communicated within the market are followed, and that Vion can show its adherence to these attributes, anytime and anywhere.	In order to assure product integrity, Vion is implementing process integrity schemes within its operations. Product integrity and full transparency are recognised as relevant contemporary challenges. In order to professionalise this integrity scheme, Vion is actively cooperating with the standard setting bodies to move toward an internationally recognised and accredited standard. These efforts are being made to ensure an honest chain of custody.	We will continue to implement product integrity schemes in cooperation with the standard setting bodies. =

Risk	Managing the risk	Trend and follow-up actions
Animal welfare in transportation and slaughtering Wholesome and safe animal products can only be derived from healthy livestock. There is a strong correlation between the welfare and the health of livestock, and in addition, Vion values the integrity of the animals. A large-scale outbreak of animal disease could have significant consequences for the continuity of the supply to the company's customers.	The handling of livestock within the food supply chain is integrated in the company's quality schemes. This implies that a humane handling of animals is demonstrated at the farm level, during transport and within the meat processing plants. Intermediaries and hauliers in the supply chain are also required to adopt these standards. At all of Vion's meat processing plants, several animal welfare officers are present who monitor the handling of the animals to ensure that welfare standards are met.	The handling of livestock is integrated in the company's quality schemes. Vion will continue to work with all the parties involved in this regard, to ensure that the welfare standards are met.
Catastrophes at production facilities and/or animal diseases The risk of catastrophes, such as animal diseases or fire, is always present despite Vion's continuous efforts to reduce such risks or the impact of such risks.	Vion's efforts to reduce the related risks include, for example, preventative measures at the farms, fire protection at the (production) facilities and safety inspections. In the event of such a catastrophe, the loss of animals or of a substantial production capacity could cause a significant disruption throughout the entire product chain. This possible impact is being combated in the area of alternative capacities, business continuity, and the testing and improving of calamity plans and insurance plans.	We will continue with preventive measures at the farm level, fire protection at the operating sites and safety inspections. Furthermore, business continuity plans and insurance programme are in place. In 2016 and 2017, an increasing number of African swine fever outbreaks were seen in Eastern Europe. The local authorities are acting upon these incidents. Vion is also taking precautionary measures and is in close contact with the authorities that are monitoring the situation, with the objective to act in a swift and effective manner when needed.

Operational: technology

Risk	Managing the risk	Trend and follow-up actions
Information management Vion's IT strategy is aimed at the converging of its IT landscape into fewer and more up-to-date ERP and production systems, as well as other critical applications. The number of business transactions completed in a digital format with our customers, suppliers and other stakeholders is constantly increasing. However, the non-availability of IT systems or unauthorised access, whether through cybercrime or other events, can have a direct effect on the production processes, the competitive position and the reputation of the company. The importance of information at Vion is of particularly significance for the financial processes, transparency and for production control.	Vion initiated a programme to replace its outdated systems by implementing more up-to-date systems, and to increase the overall level of its information management services. Progress has been made in 2017 on this programme to reduce the production continuity risks. Additionally, an IT control framework is in place, based on which the company monitors the processes and can take additional measures if necessary. Where needed, the control measures and risk management activities are updated and/or new control measures and/or risk management activities are implemented.	Several projects have been initiated: for instance, the replacement of the workplace and wide area network. In relation to IT security, a dedicated security and data privacy officer is now in charge of this topic, and an IT security awareness programme has been initiated. At present, the design and implementation of the IT control framework are insufficient and require major improvements. Additionally, significant effort is needed to improve the currently insufficient embedded segregation of duties in the IT systems. Regarding the organisation of the IT functions within Vion, it was decided to organise the activities for the VIPER ERP environment into a specific entity "The VIPER Software House" (VSH). With this entity, we aim to bring a focus and to align closely with the specific business needs for this ERP system. VSH is working on a roadmap to further develop the application and to roll out the system going forward.

Financial and reporting

Risk	Managing the risk	Trend and follow-up actions
Financing To carry out its operations, Vion uses external financing which expose the company to capital markets and financial risks. In addition, the company carries out transactions in currencies other than the euro, its functional currency, which leads to foreign currency risks.	**Managing the capital markets risks** Vion targets a strong liquidity position by means of committed credit facilities. Obtaining credit from financial institutions and investors is mostly dependent on a company's financial position, its outlook and its reputation. Vion's credit facilities are contracted by the Group Treasury. The interest rates for its interest-bearing borrowings are variable. **Managing the financing risks** Vion monitors its compliance with the agreements made with the financing banks. Periodically, a forecast is drawn up that indicates the extent to which the budget will be realised. Such a forecast includes a prediction of the profit and loss statement, balance sheet, working capital, cash flow and the cash position. This allows the outcome of the various ratios and the liquidity position to be forecasted, so that timely action can be taken should this be necessary. **Managing the foreign currency risks** Vion uses derivative financial instruments to hedge its exposure to foreign exchange risk arising from its operational, financing and investment activities. Vion's policy is not to hold derivative financial instruments for speculative purposes.	In 2017, Vion has repaid its former credit facilities as agreed and was able to acquire a new facility with an increased backing, a longer commitment and under more favourable conditions.

Compliance

Risk	Managing the risk	Trend and follow-up actions
Non-compliance risk The risk is that Vion will be found to be non-compliant with the applicable laws and regulations, which may adversely affect Vion's reputation and expose it to financial losses.	Vion is committed to complying with the laws and regulations in the various countries in which it operates. Vion has established policies and procedures aimed at compliance with the applicable legislation and regulations, and is dedicated to actively communicating the themes of its CSR report. Besides this, Vion has a code of conduct that goes beyond the compliance within the legal and regulatory framework by providing guidance on behaviour. The Vion whistleblower policy supports compliance with the applicable laws, integrity in financial management, a healthier and safer work environment and effective corporate governance. Vion wants to ensure that any employee can make a report under this policy without the risk of retaliation and with the assurance that all reports will be treated confidentially and are promptly investigated. In addition to reporting directly to management, human resources or the management board, employees can also contact the whistleblower line which is operated by an external service provider. This allows employees to report issues anonymously.	In general, Vion recognizes a trend for additional and more complex legislation. ▲

Management statement on assessment of internal risk management and control

The management board is ultimately responsible for the management of the risks that are coupled with the company's objectives, and for the reliability of the internal and external (financial) reporting. The management board is also responsible for evaluating the effectiveness of these risk management measures. Amongst others, the following information is used for this purpose:

- Letters of representation signed on a quarterly basis by the management of the operating companies and divisions and the functional management.
- Quarterly self assessments of the internal control over financial reporting is included in the Vion Financial Control Framework.
- Reports by the internal audit and quality assurance departments on the reviews and audits performed throughout the year. Findings and measures to address the reported matters are discussed by the operating company management, division management and/or the management board. Summaries are discussed by the audit committee. In addition, the internal audit tracks the follow-up on the findings and reports on this on a quarterly basis.
- Management letters from the external auditor with findings and remarks regarding the internal control. Similarly to the reports of the internal audit and quality assurance, these management letters are discussed with the management and a summary is discussed by the audit committee.

On the basis of this evaluation, and to the best of its knowledge and belief, the management board is of the opinion that, at the end of the 2017 financial year and at the date of this annual report, the internal risk management and control measures were functioning sufficiently effectively to provide a reasonable degree of assurance that:

- The management board will be informed in a timely manner about the degree to which the company's strategic, operational and financial objectives are being achieved;
- The internal and external reporting provide sufficient insights into any significant failings in the effectiveness of the internal risk management and control systems and that the financial statements do not contain any material errors;
- Based on the current state of affairs, it is justified that the financial reporting is prepared on a going-concern basis; and
- The annual report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of this report.

All the procedures relating to the internal risk management and control systems and the resulting findings, recommendations and measures have been discussed with the audit committee, the supervisory board and the external auditor.

Report of the supervisory board

In 2017 Vion continued to improve operational performance and refinanced the company's committed working capital facility at a level of € 200 million for a five year period. Vion published in 2017 for the first time a CSR report. The supervisory board is proud that Vion has won the Crystal prize 2017 as the fastest climber in the Dutch Transparency Benchmark. The supervisory board has approved with pleasure the proposal of the management board to reinstate a dividend, with a first payment based on the 2017 results.

Supervisory board activities

In 2017 Vion continued to implement the business plan that was defined in 2016. The supervisory board has been regularly kept informed about the implementation of the business plan.

Consistent themes for the supervisory board in 2017 were major investment decisions such as the acquisition of Otto Nocker (a meat processing company including six wholesale markets) and capital expenditure within the group as well as important commercial initiatives. Furthermore, the importance of a regular dialogue with major stakeholders has only grown over time and has also the attention of the supervisory board.

The supervisory board was briefed about Vion's first CSR report and Vion's progress in the field of CSR which in any event regularly features on the agenda. The supervisory board was also briefed about the strategic information management and technology plan, the closure of the facility in Zeven and the new contracts for the sale and supply of meat by-products. The annual plan 2018 of the internal audit department was discussed and approved by the supervisory board.

During the year presentations were given by the members of the executive committee. Bernd Stark gave an update on Food Service and Frans Stortelder outlined the new initiatives within Pork. Henk van den Bogaart went through a detailed HR plan for the group. Bernd Stange informed the supervisory board about the latest Beef developments in the supervisory board meeting at the end of 2016 and in 2018 he will again give an update to the supervisory board.

The supervisory board visited the Pork facility in Apeldoorn to see the result of the investments that have been made. The visit was very insightful with full access to senior local staff.

The annual evaluation of the supervisory board, as well as its committees and individual members, was carried out with external assistance, following which the supervisory board held a dedicated meeting to discuss the results.
The supervisory board recognised the findings and the areas for improvement will be followed up during the annual evaluation in 2018. In 2017 the supervisory board assessed the performance of the management board and its individual members during a private meeting. The supervisory board was positive about the overall performance of the management board. The members of the management board were subsequently informed about the conclusions reached from this evaluation.

Composition of the supervisory board

Hans Huijbers and Ton van der Laan were reappointed for a period of four years in the general meeting of shareholders held on 4 April 2017. Although the final term of office of Toon van Hoof had expired, he was reappointed in the general meeting of shareholders for a period of one year because the recruitment process to fill his vacancy had not yet been finalised. On 27 November 2017 Theo Koekkoek was appointed as a member of the supervisory board for a period of four years by the general meeting of shareholders to replace Toon van Hoof whose final term will end at the general meeting of shareholders on 27 March 2018.
The profile for the vacancy emphasised that the candidate should preferable be female. However, Vion's principle is that the most suitable candidate for the vacancy will be appointed. Theo Koekkoek was determined to be the most suitable candidate because he brings extensive internal management experience in the food and agri sector. However, the next time a vacancy arises, the search criteria will again emphasise that the candidates should preferably be female.

The supervisory board currently has the following eight members: Sipko Schat (chairman), Hans Huijbers (vice chairman), Marieke Bax, Tom Heidman, Toon van Hoof, Theo Koekkoek, Ton van der Laan and Ronald Lotgerink.

Composition of the management board

The composition of the management board did not change in 2017. The management board consists of Francis Kint (CEO) and Joost Sliepenbeek (CFO). The management board is supported by the executive committee in achieving the objectives of the company and implementing the strategic objectives set out in the strategy and business plan.
The executive committee further includes Frans Stortelder

(COO Pork), Bernd Stange (COO Beef), Bernd Stark (COO Food Service) and until his resignation in August 2017 Henk van den Bogaart (Group HR Director).

Corporate governance

The section on the Dutch Corporate Governance Code on page 22 includes information on the independence of members of the supervisory board. The members of the supervisory board do not receive any remuneration that is dependent on the financial performance of the company. In the event of a conflict of interest with regard to a particular topic, the supervisory board member in question may not participate in the discussions or the decision-making on that topic. The supervisory board has drawn up rules of procedure with respect to the performance of its duties and to its assigned tasks. Vion strives for a composition of its supervisory board that is balanced and in which the combination of the member's experience, expertise and independence will ensure that the supervisory board can fulfil its various duties on behalf of Vion and its stakeholders in the best possible way.

Supervisory board meetings

The supervisory board met 10 times in 2017. Except for a limited number of occasions and for valid reasons, all supervisory board members attended each of the supervisory board meetings. In all cases, the supervisory board members who were not able to attend made sure that they were represented. The supervisory board received all the information needed to perform its tasks from the management board and the company's external auditors. The agendas for the supervisory board meetings were drawn up by its chairman, in consultation with the management board and the company secretary.

Remuneration, selection and appointment committee

The members of the remuneration, selection and appointment committee are Tom Heidman (chairman), Hans Huijbers, Ton van der Laan and Sipko Schat.

In 2017 the remuneration, selection and appointment committee met three times. In addition to the remuneration policy of the management board, the remuneration, selection and appointment committee also advised the supervisory board on various human resources-related matters.

Audit committee

The members of the audit committee are Marieke Bax (chairman), Toon van Hoof, Theo Koekkoek and Ronald Lotgerink.

The audit committee met six times in 2017. The members of the audit committee meet in an executive session before each meeting of the audit committee to discuss the agenda. The chairman is in regular contact with the chairman of the supervisory board, the CFO and the external auditor.

The audit committee advised the supervisory board on Vion's financial statements for 2017 and on the consultations with the external auditor related to these financial statements.

In the audit committee meetings a lot of attention was focused on the operational and financial performance of the group. The audit committee highly values the interaction with finance staff. Risk management, compliance and internal control are topics that receive ongoing attention by the audit committee and are fixed agenda items. During meetings of the audit committee a number of managers presented to the audit committee about the following topics: treasury, IT, tax, CSR, quality assurance and the prevention of fraud. Both the external auditor and the internal auditor attend the audit committee meetings. In addition, the audit committee also met with the external auditor without the presence of members of the management board.

Temporary steering committee

As of May 2016 a temporary steering committee was set up for the investigation into the financing opportunities to realise further growth. Tom Heidman, Hans Huijbers and Ton van der Laan were member of this steering committee as representatives of the supervisory board together with the management board members and representatives of the shareholder. The investigation has led to the decision to refinance the company's committed working capital facility (expiring in June 2017) at a level of € 200 million, up € 75 million from the existing € 125 million. The temporary steering committee ended its activities in the course of 2017.

Financial statements

The 2017 financial statements were initially discussed by the audit committee and then by the plenary supervisory board together with the management board and EY, the external auditor. The supervisory board then approved the financial statements. The supervisory board proposes to the general meeting of shareholders that the financial statements 2017 be adopted accordingly.

The supervisory board would like to thank the management and all employees of Vion for their efforts over the past year.

Boxtel, 23 March 2018

On behalf of the supervisory board,
S.N. Schat, chairman

Personal details of the supervisory board

S.N. (Sipko) Schat
Chairman
1960, Dutch nationality

Former functions
Member Executive Board Rabobank Nederland and Director Stichting Administratiekantoor SBT (shareholder of Vion)

Main other positions
Member Supervisory Board OCI N.V., Rothschild & Co, Rothschild Bank AG, Trafigura Group Pte Ltd and Chairman Supervisory Board VanWonen Holding B.V.

J.A.M. (Hans) Huijbers
Vice chairman
1959, Dutch nationality

Function
Agricultural entrepreneur

Main other positions
Chairman Zuidelijke Land- en Tuinbouworganisatie (ZLTO), Member Board LTO Nederland, Chairman Steering Committee Agricultural Innovation Noord-Brabant, Member Governing Board Food, Farming and Agriculture University of Tilburg, Chairman Advisory Board HAS Den Bosch, Member Board Agriplace, Member Advisory Board Staatsbosbeheer and Member Board Council Animal Affairs

M. (Marieke) Bax
1961, Dutch nationality

Former functions
Various functions Sara Lee Corporation (among which Head Strategy and M&A Europe for meat, foodservice and textile division), CFO e-commerce company, Managing Partner governance and communication firm Gooseberry and Initiator Talent to the Top

Main other positions
Board member Euroclear (Audit- and Risk Committee), Member Supervisory Board VastNed Retail (Chairman Remuneration and Appointment Committee), Member Board CLSA B.V. and Member Advisory Board Fonds Podiumkunsten

T. (Tom) Heidman
1959, Dutch nationality

Former functions
CEO C1000 and Retail Network, Operational and Commercial Director Albert Heijn, Director Gall&Gall and interim-CEO Vion (26 January 2015 until 1 September 2015)

Main other positions
Member Supervisory Board Euroma, Vermaat Groep, Remia and The European Candy Group and Senior advisor Roland Berger

A.J.M. (Toon) van Hoof
1954, Dutch nationality

Function
Agricultural and recreation entrepreneur

Main other positions
Chairman Committee IBR and BVD (infectious diseases) and Secretary Stichting geborgde Dierenarts

T.P. (Theo) Koekkoek
1971, Dutch nationality

Function
Agricultural entrepreneur

Main other positions
Chairman Board Agrifirm U.A., various functions Rabobank among which Chairman Supervisory Board Rabobank Altena, Member Board CDA, Member Advisory Board Stichting Achmea Rechtsbijstand and Member Supervisory Board Maatschappij van Welstand

A.T.C. (Ton) van der Laan
1953, Dutch nationality

Former functions
CEO Nidera, Platform leader Cargill, CEO Provimi, Senior-vice president Unilever and Managing Director Philips DAP

Main other positions
Member Supervisory Board of Royal De Heus, Member Supervisory Board Dümmen Orange and Vice chairman Supervisory Board Rainbow Alliance

R.E.M. (Ronald) Lotgerink
1960, Dutch nationality

Function
CEO Zwanenberg Food Group

Main other positions
Member Board 'Ik Kies Bewust' Foundation and Member Advisory Board RAPS GmbH

Rotation plan of the supervisory board

	Commencement date first appointment	Current term expires	Commencement date of latest term	Reappointment possible
Toon van Hoof	21 May 2003	2018	4 April 2017	No
Ronald Lotgerink	1 July 2014	2018	–	Yes
Sipko Schat	1 October 2014	2018	–	Yes
Tom Heidman	20 May 2014	2019	1 September 2015	Yes
Marieke Bax	1 October 2015	2019	–	Yes
Hans Huijbers	11 September 2009	2021	4 April 2017	No
Ton van der Laan	24 April 2014	2021	4 April 2017	Yes
Theo Koekkoek	27 November 2017	2021	–	Yes*

** Theo Koekkoek was member of the supervisory board of Vion from 9 May 2007 until 9 September 2010. This period will be taken into account with respect to the maximum appointment period.*

Remuneration

Summary remuneration policy

The remuneration policy was adopted by the general meeting of shareholders on 13 February 2017. The full text of the remuneration policy can be found on the company's website. The supervisory board is responsible for ensuring that the remuneration policy, and its implementation, are aligned with the company's objectives. To ensure that remuneration is linked to performance, a significant proportion of the remuneration package is variable, and it is dependent on the short term performance of the individual board member and the company. The performance targets must be both realistic and sufficiently stretching and – particularly with regard to the variable remuneration components – the supervisory board ensures that the relationship between the chosen performance criteria and the strategic objectives applied, as well as the relationship between the remuneration and performance, are properly reviewed and accounted for, both ex-ante and ex-post.

In accordance with the requirements of the Dutch Corporate Governance Code, the remuneration, selection and appointment committee, before setting the targets to be proposed for adoption by the supervisory board, carried out scenario analyses of the possible financial outcomes of meeting the target levels, as well as the maximum performance levels, and how they might affect the level and structure of the total remuneration of the members of the management board.

The remuneration, selection and appointment committee consulted a professional independent remuneration expert to ensure an appropriate comparison. It further reviewed the impact on the pay differentials within the company, which was taken into account by the supervisory board when determining the overall remuneration. When other benefits are granted, the supervisory board ensures that these are in line with the market norms.

The objective of Vion's remuneration policy is to attract, motivate and retain experienced executives with an international outlook, and to reward them appropriately for their ability to achieve stretched performance targets.

In setting the remuneration levels for the management board, the relevant statutory requirements, corporate governance guidelines and best practices in the Netherlands are taken into account. The point of reference of the total remuneration of the management board is the median of the peer group in the labour market. To ensure the attraction and retention of highly skilled and qualified management, Vion aims for a total remuneration level that is comparable to the levels provided by other Dutch and European companies that are similar to Vion in terms of size and/or complexity, such as Arla Foods, Tönnies Fleischwerk, Cranswick, Danish Crown, FrieslandCampina, Westfleisch and AVEBE.

Variable compensation, which forms a considerable part of the total remuneration package, is linked to measurable predetermined targets. The incentive targets and performance conditions reflect the key drivers for the company's value creation and growth in shareholder value, and they are closely aligned with Vion's strategies.

Remuneration components

The remuneration for members of the management board comprises of the following components:

- a base salary, which is reviewed annually;
- a short term cash incentive, ranging from 0%-67.5% of the base salary, depending on the achievement of the performance targets; and
- pension contributions.

In addition to the remuneration, a number of additional arrangements apply to the management board, including reimbursement of expenses, a contribution to the health and medical insurance premium and the use of company cars.

Base salary 2017

Upon joining the management board, members receive a base salary that is comparable with the median of the peer group in the labour market. An adjustment of the base salary is applied at the discretion of the supervisory board, which takes into account both the external and internal developments. The annual review date for the base salary is 1 January each year.

The supervisory board decided to refrain from an increase in 2017.

Annual base salaries

Amount in €	2017	2016
Francis Kint, CEO	700,000	700,000
Joost Sliepenbeek, CFO	500,000	500,000
Total	1,200,000	1,200,000

Short term cash incentives 2017

The short term incentive plan (STIP) rewards the management board for its sound operational performance in Vion's competitive environment. 70% of the target incentive is linked to the financial results of Vion and 30% is linked to the personal objectives.

The STIP targets, including the personal objectives, are set at a challenging level each year, taking into account the general trends in the relevant markets.

The STIP related to the financial targets will only be paid if the minimum targets have been achieved.

The STIP targets are revised annually, so as to ensure that they are stretching but also realistic. Considerations regarding the targets are influenced by the operational and strategic course taken by the company and are directly linked to the company's ambitions. The targets are determined by the supervisory board at the beginning of the year, for each member of the management board.

When all their targets have been achieved, the management board members will receive an incentive of 50% of their annual base salary. An outstanding performance with regard to the financial targets can increase the STIP level to 67.5% of the annual base salary.

The supervisory board has established the extent to which the targets set for 2017 were achieved. Regarding the financial targets, the score was on target. The management board members were also assigned individual targets. The score for achieving these targets was 67%.

The average realisation percentage was 44% (2016: 54%) of the base salary. These short-term incentives will be paid out in 2018.

Short-term cash incentives

Amount in €	2017	2016
Francis Kint, CEO	305,377	375,333
Joost Sliepenbeek, CFO	218,126	268,095
Total	523,503	643,428

Adjustment of remuneration

The supervisory board has the 'ultimate remedy' power to adjust the value of the variable remuneration components that are awarded, either downwards or upwards, if this remuneration produces an unfair result. In addition, a variable remuneration component will be recovered from a member of the management board if it appears that such a remuneration component was granted on the basis of incorrect (financial) data (i.e. a clawback).

No revisions or clawbacks of bonuses occurred in 2017.

Pensions

Vion offers to management board members the following pension provisions:

- participation in the collective defined contribution plan, where Vion contributes 12.01% and the employees contribute 6% (2016 Vion: 13.07%, employees: 6%) of the base salary, up to the fiscal maximum for 2017 of € 103,317 (2016: € 101,519) per annum, and starting from a level of € 13,123 (2016: € 12,953) (the so-called franchise); and
- an allowance of 20% of the base salary exceeding € 103,317 (2016: € 101,519) per annum, where the allowance is taxed.

Pay ratio

As from 2017 onwards the company discloses the pay ratio between the management board and the other staff of the company; the total Vion population. We have defined the total Vion population as the average number of FTEs during the year, excluding flex-workers. We see the total own Vion population as a representative group for this ratio.

In the table below the average costs of the management board are compared for the last two years:

	Management Board (A)		Other staff (B)		Total	
(in thousands of euros)	2017	2016	2017	2016	2017	2016
Average number of FTEs	2	2	4,384	4,260	4,386	4,262
Annual total compensation	1,962	2,074	232,489	230,833	234,451	232,907
Average compensation	981.0	1,037.0	53.0	54.2	53.5	54.6

	2017	2016
Pay ratio (A/B)	18.5	19.1

The ratio between the annual total compensation for the management board and the average annual total compensation for our employees was 18.5 for the 2017 financial year and 19.1 for the 2016 financial year.
For both years annual total compensation figures include the annual base salary, including social security costs, variable remuneration and pension benefits, these include some defined benefit pension plan elements.

Management board contracts

Agreements for members of the management board are concluded for an indefinite period. The notice period for a termination of the agreement by the board member is subject to a term of three months; whereas notice by the company is subject to a six-month term. Members of the management board will normally retire in the year when they reach the legal retirement age.

Contract termination

The employment contracts of current members of the management board include a severance payment amount, which is set in accordance with best practice provision 3.2.3 of the Dutch Corporate Governance Code (i.e. a sum equivalent to the annual base salary).

Remuneration of the supervisory board

The remuneration package for the supervisory board comprises an annual fixed fee and an annual committee-membership fee.

Overview of remuneration awarded to the supervisory board in 2017

The annual remuneration of the members of the supervisory board was determined by the general meeting of shareholders on 13 February 2017. The total remuneration (annual fixed fee and annual committee membership fee) of the members of the supervisory board amounted to € 0.4 million (2016: € 0.4 million).

Chairman supervisory board (including membership remuneration, selection and appointment committee)	€ 75,000
Vice chairman supervisory board	€ 45,000
Member supervisory board	€ 40,000
Chairman audit committee	€ 10,000
Member audit committee	€ 7,500
Chairman and member remuneration, selection and appointment committee	€ 7,500
Member temporary steering committee	€ 7,500

Loans

The company does not provide any loans to members of the management and supervisory boards.

Financial statements 2017

1 Consolidated financial statements

(in thousands of euros, unless stated otherwise)

1.1 Consolidated statement of profit and loss

	note	2017	2016
Continuing operations			
Sale of goods		5,062,348	4,750,119
Rendering of services		7,654	8,777
Revenue		**5,070,002**	**4,758,896**
Other operating income	5	22,156	22,010
Raw materials and consumables		3,976,704	3,710,178
Subcontracted work and external costs		489,816	500,096
Employee benefits expense	6	551,598	501,352
Depreciation and amortisation	7	36,142	29,757
Impairment of non-current assets	8	825	4,402
Other operating expenses	9	13,529	4,834
Total operating expenses		**5,068,614**	**4,750,619**
Earnings before interest and taxes		**23,544**	**30,287**
Finance costs	10	–6,875	–7,622
Finance income	10	130	1,060
Share of profit of associates and joint ventures	15	1,217	2,136
Profit before tax from continuing operations		**18,016**	**25,861**
Income tax income/(expense)	11	3,833	12,949
Profit for the year		**21,849**	**38,810**
Attributable to:			
Equity holders of the parent		20,122	36,521
Non-controlling interests		1,727	2,289
Total		**21,849**	**38,810**

1 Consolidated financial statements

(in thousands of euros, unless stated otherwise)

1.2 Consolidated statement of total comprehensive income

	note	2017	2016
Profit for the year		21,849	38,810
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations	23	–2	610
Gross (loss)/gain on cash flow hedges	23	1,141	879
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**1,139**	**1,489**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Remeasurement gains (losses) on defined benefit plans	27.1	724	–3,328
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**724**	**–3,328**
Other comprehensive income/(loss) for the year, net of tax		**1,863**	**–1,839**
Total comprehensive income for the year, net of tax		**23,712**	**36,971**
Attributable to:			
Equity holders of the parent		21,985	34,682
Non-controlling interests		1,727	2,289
Total		**23,712**	**36,971**

1 Consolidated financial statements

(in thousands of euros, unless stated otherwise)

1.3 Consolidated statement of financial position

Assets	note	2017	2016	As at 1 January 2016
Non-current assets				
Property, plant and equipment	12	289,256	251,246	225,157
Investment properties	13	1,450	1,701	1,773
Intangible assets	14	49,974	40,577	32,324
Investment in associates and joint ventures	15	10,094	9,104	6,932
Other non-current financial assets	17	4,011	8,829	10,567
Deferred tax assets	18	32,456	28,574	15,689
Total non-current assets		**387,241**	**340,031**	**292,442**
Current assets				
Inventories	19	176,656	157,980	127,994
Trade and other receivables	20	414,830	435,730	385,364
Prepayments		4,348	11,539	6,606
Other current financial assets	17	2,095	4,679	1,308
Income tax receivable		165	1,514	1,799
Cash and cash equivalents	21	20,858	62,514	122,578
		618,952	**673,956**	**645,649**
Assets held for sale	22	1,714	4,146	5,797
Total current assets		**620,666**	**678,102**	**651,446**
Total assets		**1,007,907**	**1,018,133**	**943,888**

1 Consolidated financial statements

(in thousands of euros, unless stated otherwise)

Equity and liabilities	note	2017	2016	As at 1 January 2016
Equity				
Issued capital		2,285	2,285	2,285
Share premium		372,716	372,716	372,716
Legal reserves		20,593	11,604	3,815
Retained earnings		18,804	–11,849	–2,812
Result for the year		20,122	36,521	–
Equity attributable to equity holders of the parent	23	434,520	411,277	376,004
Non-controlling interests	16	11,616	16,488	16,777
Total equity		446,136	427,765	392,781
Non-current liabilities				
Interest-bearing loans and borrowings	24	16,141	16,248	11,683
Other non-current financial liabilities	25	1,080	6,930	12,742
Provisions	26	1,571	1,486	3,449
Net employee defined benefit liabilities	27	133,414	139,512	140,815
Deferred tax liabilities	18	8	–	2,118
Total non-current liabilities		152,214	164,176	170,807
Current liabilities				
Trade and other payables	28	345,604	350,977	306,024
Interest-bearing loans and borrowings	24	53,656	57,039	45,624
Other current financial liabilities	25	5,086	12,121	11,110
Income tax payable		2,566	1,536	2,271
Provisions	26	2,645	4,519	15,271
Total current liabilities		409,557	426,192	380,300
Total liabilities		561,771	590,368	551,107
Total equity and liabilities		1,007,907	1,018,133	943,888

1 Consolidated financial statements

(in thousands of euros, unless stated otherwise)

1.4 Consolidated statement of changes in equity

		Attributable to the equity holders of the parent									
				Legal reserves							
	note	Issued capital	Share premium	Cash flow hedge reserve	Foreign currency translation reserve	Other legal reserves	Retained earnings	Result for the year	Total	Non-controlling interests	Total Equity
Balance at 1 January 2016		**2,285**	**372,716**	**–**	**–**	**3,815**	**–2,812**	**–**	**376,004**	**16,777**	**392,781**
Profit for the period		–	–	–	–	–		36,521	**36,521**	2,289	**38,810**
Other comprehensive income		–	–	879	610	–	–3,328	–	**–1,839**	–	**–1,839**
Total comprehensive income		**–**	**–**	**879**	**610**	**–**	**–3,328**	**36,521**	**34,682**	**2,289**	**36,971**
Dividends	24	–	–	–	–	–	–	–	**–**	–1,329	**–1,329**
Transactions with minority shareholders	24	–	–	–	–	–	591	–	**591**	–1,172	**–581**
Transfer to legal reserve		–	–	–	–	6,300	–6,300	–	**–**	–	**–**
Deconsolidation former group company		–	–	–	–	–	–	–	**–**	–77	**–77**
Balance at 31 December 2016		**2,285**	**372,716**	**879**	**610**	**10,115**	**–11,849**	**36,521**	**411,277**	**16,488**	**427,765**
Appropriation of results		–	–	–	–	–	36,521	–36,521	**–**	–	**–**
Profit for the period		–	–	–	–	–	–	20,122	**20,122**	1,727	**21,849**
Other comprehensive income		–	–	1,141	–2	–	724	–	**1,863**	–	**1,863**
Total comprehensive income		**–**	**–**	**1,141**	**–2**	**–**	**724**	**20,122**	**21,985**	**1,727**	**23,713**
Dividends		–	–	–	–	–	–	–	**–**	–3,864	**–3,864**
Transfer to legal reserve		–	–	–	–	7,850	–7,850	–	**–**	–	**–**
Transactions with minority shareholders		–	–	–	–	–	1,258	–	**1,258**	–2,735	**–1,477**
Balance at 31 December 2017		**2,285**	**372,716**	**2,020**	**608**	**17,965**	**18,804**	**20,122**	**434,520**	**11,616**	**446,136**

1 Consolidated financial statements

(in thousands of euros, unless stated otherwise)

1.5 Consolidated statement of cash flows

	note	2017	2016
Cash flow from operating activities			
Profit before tax from continuing operations		18,016	25,861
Profit before tax		**18,016**	**25,861**
Non-cash adjustments to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment	12	33,190	32,272
Depreciation and impairment of investment properties	13	251	99
Amortisation and impairment of intangible assets	14	3,527	1,788
Gain on disposal of property, plant and equipment	5	–12,802	–1,459
Finance income	10	–130	–1,060
Finance costs	10	6,351	7,622
Net foreign exchange differences	10	524	–
Share of profit of associates and joint ventures	15	–1,217	–2,136
Movement in provisions, pensions and government grants	26, 27	–7,852	–18,369
Working capital adjustments:			
(Increase)/decrease in trade and other receivables and prepayments	20	28,085	–53,302
(Increase)/decrease in inventories	19	–18,677	–29,986
Increase/(decrease) in trade and other payables	28	–5,193	51,323
Total cash flow from business operations		**44,073**	**12,653**
Interest received		921	747
Interest paid		–5,716	–4,773
Income tax received/(paid)		–214	–2,458
Net cash flow from operating activities		**39,064**	**6,169**

	note	2017	2016
Cash flow from investment activities			
Proceeds from sale of property, plant and equipment	12	14,724	1,894
Purchase of property, plant and equipment	12	–68,026	–61,755
Purchase of investment property	13	–	27
Purchase of intangible assets	14	–2,649	–319
Development expenditures	14	–8,600	–6,931
Proceeds from sale of financial fixed assets		9,937	650
Purchase of subsidiaries		–6,922	–
Net cash flow from investment activities		**–61,536**	**–66,434**
Cash flow from financing activities			
Proceeds from borrowings	24	–	10,186
Repayment of borrowings	24	–4,231	–360
Proceeds from non-bank debts	25	3,152	–
Repayment of non-bank debts	25	–	–542
Acquisition of non-controlling interest		–15,370	–6,711
Dividend paid to non-controlling interests	25	–2,643	–2,267
Net cash flow from financing activities		**–19,092**	**306**
Net increase/(decrease) in cash and cash equivalents		–41,564	–59,959
Net foreign exchange difference		–92	–105
Cash and cash equivalents at 1 January		62,514	122,578
Cash and cash equivalents at 31 December	21	**20,858**	**62,514**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

1 General information

The consolidated financial statements of Vion Holding N.V. and its subsidiaries (collectively, Vion or the company) for the year ended on 31 December 2017 were authorised for publication by the management board following the approval by the supervisory board on 23 March 2018. The financial statements will be submitted to the general meeting of shareholders for adoption.

Vion Holding N.V. is a public limited liability company under Dutch law incorporated and domiciled in the Netherlands. The registered office is located in Best, the Netherlands. Vion has one shareholder and ultimate controlling party: Stichting Administratiekantoor SBT. Vion Holding N.V. is registered with the Dutch Trade Register under number 17053901.

Vion Holding N.V. is a holding company. Vion's product portfolio consists of fresh pork and beef and derived convenience food products.

2 Significant accounting policies

2.1 Basis of preparation

Statement of IFRS compliance

Vion prepares its consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS).

For all periods, up to and including the year ended 31 December 2016, Vion prepared its financial statements in accordance with Dutch generally accepted accounting principles (Dutch GAAP). These financial statements for the year ended 31 December 2017 are the first Vion has prepared in accordance with IFRS. The information on how Vion adopted IFRS and the impact on the financial statements is presented in note 2.4.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and contingent consideration that have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (€000), except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Vion and its subsidiaries as at 31 December 2017. Control is achieved when Vion 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, Vion controls an investee if, and only if, Vion 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 results in control. To support this presumption and when Vion has less than a majority of the voting or similar rights of an investee, Vion considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

– The contractual arrangement(s) with the other vote holders of the investee
– Rights arising from other contractual arrangements
– Vion's voting rights and potential voting rights

Vion 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 Vion obtains control over the subsidiary and ceases when Vion 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 Vion gains control until the date Vion ceases to control the subsidiary.

Profit and loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of Vion 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 Vion's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of Vion 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 Vion 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 and loss. Any investment retained is recognised at fair value.

2.3 Summary of significant accounting policies

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, Vion elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When Vion acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit and loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, Vion re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Vion's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) Investment in associates and joint ventures

An associate is an entity over which Vion has significant influence.

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.

Vion's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in Vion's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit and loss reflects Vion's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of Vion's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, Vion recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between Vion and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of Vion's share of profit and loss of an associate and a joint venture is shown on the face of the statement of profit and loss outside operating profit and represents profit and loss after tax and noncontrolling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as Vion. If financial information is not available for an associate or joint venture when the annual report of Vion is presented, most recently available information is used in determining the value of the associate or joint venture. When necessary, adjustments are made to bring the accounting policies in line with those of Vion.

After application of the equity method, Vion determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, Vion determines whether there is objective evidence that the investment in the associate or joint venture is to be impaired. If there is such evidence, Vion calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as Share of profit of associates and joint ventures in the statement of profit and loss.

Upon loss of significant influence over the associate or joint control over the joint venture, Vion measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit and loss.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

c) Current versus non-current classification

Vion presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:
– Expected to be realised or intended to be sold or consumed in the normal operating cycle
– Held primarily for the purpose of trading
– Expected to be realised within twelve months after the reporting period
Or
– Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period
All other assets are classified as non-current.

A liability is current when:
– It is expected to be settled in the normal operating cycle
– It is held primarily for the purpose of trading
– It is due to be settled within twelve months after the reporting period
Or
– There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period
Vion classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

d) Fair value measurement

Vion measures certain financial instruments such as derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
– In the principal market for the asset or liability
Or
– In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by Vion.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Vion uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
– Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
– Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
– Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, Vion determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Vion determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

External valuators are involved for valuation of significant assets and significant liabilities. Involvement of external valuators is decided upon annually by Vion. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Vion decides, after discussions with Vion's external valuators, which valuation techniques and inputs to use for each case.

At each reporting date, Vion analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per Vion's accounting policies. For this analysis, Vion verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

Vion, in conjunction with Vion's external valuators, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On a periodical basis, Vion and Vion's external valuators present the valuation results to Vion's independent auditors. This includes a discussion of the major assumptions used in the valuations.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

For the purpose of fair value disclosures, Vion has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Vion and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Vion has concluded that it is the principal in the main part of its revenue arrangements, since it is the primary obligor in these revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Rendering of services

Revenue from rendering of services include amongst others: revenues from cross docking (transportation services for third parties) and slaughtering fees. Revenue is recognised after the service is completed.

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit and loss.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit and loss due to its operating nature.

f) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, the amount is deducted from the asset value and is recognised as income in equal amounts over the expected useful life of the related asset.

When Vion receives grants of non-monetary assets, the asset and the grant are recorded at net amounts and released to profit and loss over the expected useful life of the asset.

g) Taxes

Current income tax

Current income tax assets and liabilities 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 in the countries where Vion operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit and loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:
- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when 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 for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:
- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

– In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, 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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit and loss is recognised outside profit and loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax 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 taxation authority. Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit and loss.

Sales tax

Expenses and assets are recognised net of the amount of sales tax, except:

– When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
– When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

h) Foreign currencies

Vion's consolidated financial statements are presented in euros, which is also the parent company's functional currency. For each entity, Vion determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. Vion uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit and loss reflects the amount that arises from using this method.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by Vion's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit and loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit and loss are also recognised in OCI or profit and loss, respectively).

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and their statements of profit and loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit and loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

i) Non-current assets held for sale and discontinued operations

Vion classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding finance costs and income tax expense.

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The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to sell expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:
– Represents a separate major line of business or geographical area of operations
– Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations
Or
– Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit and loss after tax from discontinued operations in the statement of profit and loss.

Additional disclosures are provided in note 22. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

j) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, Vion depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit and loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

– Land	indefinite, no depreciation
– Buildings	25 to 30 years
– Machinery and installations	8 to 15 years
– Other equipment	3 to 15 years

An item of property, plant and equipment and any significant part initially recognised, is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit and loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

k) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Vion as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to Vion is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit and loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that Vion will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit and loss on a straight-line basis over the lease term.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Vion as a lessor
Leases in which Vion does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

l) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

m) Investment properties
Investment properties are measured at cost, including transaction costs.
Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit and loss in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use.

Depreciation of investment properties is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

– Land	indefinite, no depreciation
– Buildings	25 to 30 years
– Machinery and installations	8 to 15 years

n) Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit and loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit and loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level.
The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit and loss when the asset is derecognised.

Research and development costs
Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when Vion can demonstrate:
– The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
– Its intention to complete and its ability and intention to use or sell the asset
– How the asset will generate future economic benefits
– The availability of resources to complete the asset
– The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses.
Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Amortisation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

– Software	3 to 5 years
– Other	15 years

o) Financial instruments – initial recognition and subsequent measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The following financial instruments are applicable for Vion:
– Trade and other receivables
– Other financial assets (including derivatives)
– Cash and cash equivalents
– Loans and borrowings
– Trade and other payables
– Other financial liabilities (including derivatives)

Within Vion none of these items are measured at fair value, except for derivatives.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as at fair value through profit and loss, loans and receivables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that Vion commits to purchase or sell the asset.

Subsequent measurement loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit and loss. The losses arising from impairment are recognised in the statement of profit and loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to other financial assets and trade and other receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from Vion's consolidated statement of financial position) when:
– The rights to receive cash flows from the asset have expired
Or
– Vion has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) Vion has transferred substantially all the risks and rewards of the asset, or (b) Vion has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When Vion has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement (eg. factoring), it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, Vion continues to recognise the transferred asset to the extent of its continuing involvement. In that case, Vion also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Vion has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Vion could be required to repay.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:
– Disclosures for significant assumptions Note 3
– Other financial assets Note 17
– Trade and other receivables Note 20

Vion assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is to be impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or Vion of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, Vion first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Vion determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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(in thousands of euros, unless stated otherwise)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit and loss. Interest income (recorded as finance income in the statement of profit and loss) continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to Vion. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit and loss.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit and loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit and loss.

This category generally applies to interest-bearing loans and borrowings. See note 24 for more information.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit and loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

p) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

Vion uses forward currency contracts to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit and loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit and loss when the hedged item affects profit and loss.

For the purpose of hedge accounting, the hedges Vion uses classify as cash flow hedges, as Vion is hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, Vion formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.
The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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(in thousands of euros, unless stated otherwise)

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit and loss.

Vion uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised in other operating income or expenses.

Amounts recognised as OCI are transferred to profit and loss when the hedged transaction affects profit and loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

q) Inventories
Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:
– Raw materials: purchase cost on a first-in/first-out basis
– Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

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.

r) Impairment of non-financial assets
Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

– Disclosures for significant assumptions	Note 3
– Property, plant and equipment	Note 12
– Intangible assets (including goodwill)	Note 14

Vion assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, Vion estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Vion bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of Vion's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit and loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, Vion estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit and loss.

Goodwill is tested for impairment annually in the fourth quarter and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

s) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

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 as they are considered an integral part of Vion's cash management.

t) Provisions

General

Provisions are recognised when Vion has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When Vion expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit and loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Restructuring provisions

Restructuring provisions are recognised only when Vion has a constructive obligation, which is when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan's main features.

Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

u) Pensions and other post-employment benefits

Vion holds besides defined contribution plans, a defined benefit pension plan in Germany and several multi-employer plans and a jubilee plan in the Netherlands.

Defined contribution plan

According to this pension scheme, defined contributions are paid to independent pension funds. Besides the defined contributions, Vion has no obligation to make additional payments to the scheme to make up for deficits resulting from actuarial or investment risk.

The regular contributions in the defined contribution schemes qualify as net periodic costs in the year in which they are due and are recognised within the employee benefits expense. Employee contributions are deducted from this expense.

Defined benefit plan

Vion holds defined benefit pension schemes for employees and former employees of the German group companies. The schemes are not open to new participants. A part of the schemes will be funded using a so-called 'Unterstützungsfonds', while liabilities are direct.

The net liability related to these schemes are calculated annually by an independent actuary according to the projected unit credit method and discounted with a maturity corresponding to the time of benefit payments to the members.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements of the net liabilities comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised 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. Remeasurements are not reclassified to profit and loss in subsequent periods.

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(in thousands of euros, unless stated otherwise)

Past service costs are recognised in profit and loss on the earlier of:
– The date of the plan amendment or curtailment, and
– The date that Vion recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Vion recognises the following changes in the net defined benefit obligation under 'Employee benefits expense' and 'Finance costs' in the consolidated statement of profit and loss:
– Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
– Net interest expense or income

Multi-employer plan
Vion participates for its employees in The Netherlands in several multi-employer pension schemes, which are all under the supervision of an independent pension administrator. Participation to these multi-employer plans is obligatory by law. Vion can only exit these multi-employer plans if it would start its own pension plan or collective labour agreement. As these plans qualify as a defined benefit plans, IFRS requires these plans to be accounted for as such. However, as Vion is not able to obtain sufficient information for defined benefit accounting the exception of IAS 39.34 is applied by which the plans are accounted for as defined contribution plans. The pension benefits are based on a moderate career-average scheme. Based on the contributions paid to these plans and the number of participants, it can be concluded that Vion has a limited to low level of participation in these plans.

Premiums owed in the financial year to the pension administrators are recognised as costs.

Jubilee benefit commitments
The liability and cost of providing benefits under the jubilee benefits plan are determined by actuary using the projected unit credit method. Actuarial results are recognised in the statement of profit and loss.

2.4 First-time adoption of IFRS
These financial statements, for the year ended 31 December 2017, are the first Vion has prepared in accordance with IFRS. For periods, up to and including the year ended 31 December 2016, Vion prepared its financial statements in accordance with Dutch generally accepted accounting principle (Dutch GAAP).

Accordingly, Vion has prepared financial statements that comply with IFRS applicable as at 31 December 2017, together with the comparative period data for the year ended 31 December 2016, as described in the summary of significant accounting policies. In preparing the financial statements, Vion's opening statement of financial position was prepared as at 1 January 2016, Vion's date of transition to IFRS. This note explains the principal adjustments made by Vion in restating its Dutch GAAP financial statements, including the statement of financial position as at 1 January 2016 and the financial statements for the year ended 31 December 2016.

Exemptions applied
IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

Vion has applied the following exemptions:
– IFRS 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2016. Use of this exemption means that the Dutch GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. Vion did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.
IFRS 1 also requires that the Dutch GAAP carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, Vion has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2016.
– Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2016.
– Vion has applied the transitional provision in IFRIC 4 Determining whether an arrangement contains a Lease and has assessed all arrangements based upon the conditions in place as at the date of transition.
– Vion applied the transitional provisions in IAS 23 Borrowing Costs and capitalises borrowing costs relating to all qualifying assets after the date of transition. Similarly, Vion has not restated for borrowing costs capitalised under Dutch GAAP on qualifying assets prior to the date of transition to IFRS.

Estimates
The estimates at 1 January 2016 and at 31 December 2016 are consistent with those made for the same dates in accordance with Dutch GAAP (after adjustments to reflect any differences in accounting policies) apart from the following items where application of IFRS requires additional estimations:
– Pensions and other postemployment benefits
– Assets held for sale

The estimates used by Vion to present these amounts in accordance with IFRS reflect conditions at 1 January 2016, the date of transition to IFRS and as at 31 December 2016.

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(in thousands of euros, unless stated otherwise)

Group reconciliation of financial position as at 1 January 2016 (date of transition to IFRS)	note	Dutch GAAP	Remeasure-ments	IFRS as at 1 January 2016
Assets				
Non-current assets				
Property, plant and equipment	B, E, Q	229,911	–4,754	225,157
Investment properties	B	–	1,773	1,773
Intangible assets		32,324	–	32,324
Investment in associates and joint ventures	A, Q	7,949	–1,017	6,932
Other non-current financial assets	I, L	10,353	214	10,567
Deferred tax assets	N	15,689	–	15,689
Total non-current assets		**296,226**	**–3,784**	**292,442**
Current assets				
Inventories		127,994	–	127,994
Trade and other receivables	A, I, L, P	389,839	–4,475	385,364
Prepayments		6,606	–	6,606
Other current financial assets	G	–	1,308	1,308
Income tax receivable	A	1,863	–64	1,799
Cash and cash equivalents	A	122,737	–159	122,578
		649,039	**–3,390**	**645,649**
Assets held for sale	E, P, Q	–	5,797	5,797
Total current assets		**649,039**	**2,407**	**651,446**
Total assets		**945,265**	**–1,377**	**943,888**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

	note	Dutch GAAP	Remeasure-ments	IFRS as at 1 January 2016
Equity and liabilities				
Equity				
Issued capital		2,285	–	2,285
Share premium		372,716	–	372,716
Legal reserves		2,834	981	3,815
Retained earnings		21,848	–24,660	–2,812
Equity attributable to equity holders of the parent		**399,683**	**–23,679**	**376,004**
Non-controlling interests		16,777	–	16,777
Total equity		**416,460**	**–23,679**	**392,781**
Non-current liabilities				
Interest-bearing loans and borrowings	M	12,393	–710	11,683
Other non-current financial liabilities	K, L	11,451	1,291	12,742
Provisions	H	18,736	–15,287	3,449
Net employee defined benefit liabilities	I, J	119,720	21,095	140,815
Deferred tax liabilities		2,118	–	2,118
Total non-current liabilities		**164,418**	**6,389**	**170,807**
Current liabilities				
Trade and other payables	A, K	309,656	–3,632	306,024
Interest-bearing loans and borrowings	L, M	46,833	–1,209	45,624
Other current financial liabilities	G, K	5,612	5,498	11,110
Income tax payable	A	2,286	–15	2,271
Provisions	H	–	15,271	15,271
Total current liabilities		**364,387**	**15,913**	**380,300**
Total liabilities		**528,805**	**22,302**	**551,107**
Total equity and liabilities		**945,265**	**–1,377**	**943,888**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Group reconciliation of financial position as at 31 December 2016	note	Dutch GAAP	Remeasure-ments	IFRS as at 31 December 2016
Assets				
Non-current assets				
Property, plant and equipment	B, D, E	254,831	-3,585	251,246
Investment properties	B	–	1,701	1,701
Intangible assets	F	38,900	1,677	40,577
Investment in associates and joint ventures	A	8,853	251	9,104
Other non-current financial assets	I, L	8,492	337	8,829
Deferred tax assets	N	28,574	–	28,574
Total non-current assets		**339,650**	**381**	**340,031**
Current assets				
Inventories		157,980	–	157,980
Trade and other receivables	A, I, L, P	439,442	–3,712	435,730
Prepayments		11,539	–	11,539
Other current financial assets	G	1,870	2,809	4,679
Income tax receivable	A, D, E, L, N	1,505	9	1,514
Cash and cash equivalents	A	62,747	–233	62,514
		675,083	**–1,127**	**673,956**
Assets held for sale	E, P	–	4,146	4,146
Total current assets		**675,083**	**3,019**	**678,102**
Total assets		**1,014,733**	**3,400**	**1,018,133**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

	note	Dutch GAAP	Remeasure-ments	IFRS as at 31 December 2016
Equity and liabilities				
Equity				
Issued capital		2,285	–	2,285
Share premium		372,716	–	372,716
Legal reserves		13,072	–1,468	11,604
Retained earnings		43,118	–18,446	24,672
Equity attributable to equity holders of the parent		**431,191**	**–19,914**	**411,277**
Non-controlling interests		16,488	–	16,488
Total equity		**447,679**	**–19,914**	**427,765**
Non-current liabilities				
Interest-bearing loans and borrowings	M	17,191	–943	16,248
Other non-current financial liabilities	K, L	5,751	1,179	6,930
Provisions	H	5,983	–4,497	1,486
Net employee defined benefit liabilities	I, J	118,518	20,994	139,512
Deferred tax liabilities		–	–	–
Total non-current liabilities		**147,443**	**16,733**	**164,176**
Current liabilities				
Trade and other payables	A, K, R	355,421	–4,444	350,977
Interest-bearing loans and borrowings	L, M	57,019	20	57,039
Other current financial liabilities	G, K, L	5,612	6,509	12,121
Income tax payable	A	1,559	–23	1,536
Provisions	H	–	4,519	4,519
Total current liabilities		**419,611**	**6,581**	**426,192**
Total liabilities		**567,054**	**23,314**	**590,368**
Total equity and liabilities		**1,014,733**	**3,400**	**1,018,133**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Group reconciliation of total comprehensive income for the year ended 31 December 2016	note	Dutch GAAP	Remeasure-ments	IFRS for the year ended 31 December 2016
Statement of profit and loss				
Continuing operations				
Sale of goods	A	4,748,853	1,266	4,750,119
Rendering of services	C	–	8,777	8,777
Revenue		**4,748,853**	**10,043**	**4,758,896**
Other operating income	A, C, E	36,954	–14,944	22,010
Raw materials and consumables used	A	3,711,614	–1,436	3,710,178
Subcontracted work and external costs		503,739	–3,643	500,096
Employee benefits expense	A, I, J	505,306	–3,954	501,352
Depreciation and amortisation	D-F	31,858	–2,101	29,757
Impairment of non-current assets		4,402	–	4,402
Other operating expenses	A, F	1,173	3,661	4,834
Total operating expenses		**4,758,092**	**–7,473**	**4,750,619**
Earnings before interest and taxes		**27,715**	**2,572**	**30,287**
Finance costs	H, I, J, L	–10,355	2,733	–7,622
Finance income	A, L	949	111	1,060
Share of profit of associates and joint ventures	A	2,011	125	2,136
Profit before tax from continuing operations		**20,320**	**5,541**	**25,861**
Income tax income / (expense)	N	12,867	82	12,949
Profit for the year		**33,187**	**5,623**	**38,810**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

	note	Dutch GAAP	Remeasure-ments	IFRS for the year ended 31 December 2016
Statement of total comprehensive income				
Profit for the year		**33,187**	**5,623**	**38,810**
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):				
Exchange differences on translation of foreign operations	O	610	–	610
Gross (loss)/gain on cash flow hedges	G	–	879	879
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**610**	**879**	**1,489**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):				
Remeasurement gains (losses) on defined benefit plans	I	–	–3,328	–3,328
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**–**	**–3,328**	**–3,328**
Other comprehensive income/(loss) for the year, net of tax		**610**	**–2,449**	**–1,839**
Total comprehensive income for the year, net of tax		**33,797**	**3,174**	**36,971**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

	note	31 December 2016	1 January 2016
Group reconciliation of equity			
Total equity Dutch GAAP		**447,679**	**416,460**
Depreciation of property, plant and equipment: component approach, residual value and useful life	D	316	–
Property, plant and equipment: Assets held for sale or idle assets	E	77	–258
Goodwill	F	1,677	–
Other financial assets and liabilities (derivatives)	G	139	–740
Provisions: current portion and amortised cost	H	–22	16
Employee benefits: Defined benefit obligation	I	–19,518	–19,885
Employee benefits: Jubilee benefit plans	J	–1,299	–1,058
Loans and borrowings: dividend guarantee	K	–1,213	–1,366
Financial assets and liabilities recognised at amortised cost	L	–526	–388
Interest-bearing loans and borrowings: finance leases – current portion	M	19	–
Acquisition of minority shares	R	436	–
Total equity IFRS		**427,765**	**392,781**

	note	2016
Group reconciliation of profit for the year ended 31 December 2016		
Profit for the year Dutch GAAP		**33,187**
Depreciation of property, plant and equipment: component approach, residual value and useful life	D	316
Property, plant and equipment: Assets held for sale or idle assets	E	334
Goodwill	F	1,677
Provisions: current portion and amortised cost	H	–38
Employee benefits: Defined benefit obligation	I	3,694
Employee benefits: Jubilee benefit plans	J	–241
Financial assets and liabilities recognised at amortised cost	L	–138
Interest-bearing loans and borrowings: finance leases – current portion	M	19
Profit for the year IFRS		**38,810**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Notes to the reconciliation of equity as at 1 January 2016 and 31 December 2016 and to the reconciliation of total comprehensive income for the year ended 31 December 2016

A. Joint ventures: from proportionate consolidation to equity method

Under Dutch GAAP Vion used proportionate consolidation for its joint ventures. As proportionate consolidation is not allowed under IFRS 11, these entities have to be accounted for under the equity method. Consequently, the opening balance for 2016 is adjusted to reflect this. For 2016, all income statement line items have to be aggregated to the one single line item, ‘share of profit of associates and joint ventures’.

	IFRS as at 1 January 2016	IFRS as at 31 December 2016
Remeasurements financial position		
Investment in associates and joint ventures	156	250
Trade and other receivables	–132	–187
Income tax receivable	–64	–22
Cash and cash equivalents	–159	–233
Total assets	**–199**	**–192**
Trade and other payables	–184	–169
Income tax payable	–15	–23
Total liabilities	**–199**	**–192**

(in thousands of euros, unless stated otherwise)

	IFRS for the year ended 31 December 2016
Remeasurements statement of profit and loss	
Sale of goods	–1,112
Revenue	**–1,112**
Other operating income	–3
Raw materials and consumables used	714
Employee benefits expense	45
Other operating expenses	181
Finance income	–1
Share of profit of associates and joint ventures	125
Profit before tax	**–51**
Income tax expense	51
Profit for the year	**–**

In accordance with IAS 36 as at the date of transition to IFRS, Vion tested their investments for impairment, regardless of whether there is any indication that it may be impaired. The impairment tests did not result in any impairment.

B. Investment property

Under IFRS, investment property is classified as separate items in the balance sheet. Under Dutch GAAP, investment property is classified under property, plant and equipment.
The income generated from investment property is classified as other operating income.
At the date of transition Vion recognised investment property € 1,773 thousand (31 December 2016: € 1,701 thousand). During 2016 the rental income amounted to € 204 thousand.

C. Revenues and other operating income

IFRS requires income from rendering of services, to be presented as revenue. Under Dutch GAAP Vion presented these income items as other operating income for an amount of € 8,777 thousand.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

D. Depreciation of property, plant and equipment: component approach, residual value and useful life

IAS 16 requires that the residual value and the useful life of an asset are reviewed at least at each annual reporting date and amended if expectations differ from previous estimates. Dutch GAAP is less strict. Furthermore, IAS 16 requires significant component parts of an item of property, plant and equipment to be depreciated separately.

At the date of transition to IFRS the carrying value under Dutch GAAP is used as opening balance under IFRS.

At 31 December 2016, as a result of applying the component approach and due to the changes in residual value and useful life, an increase of € 316 thousand was recognised in property, plant and equipment against depreciation in the statement of profit and loss. Because of the recognition of the valuation allowance (see section P of this paragraph) there was no impact on current or deferred taxes.

E. Property, plant and equipment: assets held for sale or idle assets

Under IFRS, property plant and equipment that qualify as assets held for sale in accordance with IFRS 5 are classified as separate item in the balance sheet. Under Dutch GAAP, assets held for sale are classified under property, plant and equipment.

Under IFRS 5, an asset or disposal group classified as held for sale should be valued at the lower of: (i) the carrying amount; and (ii) the fair value less selling expenses.

Under IFRS 5 property, plant and equipment held for sale are no longer depreciated. An impairment test is carried out to establish whether the fair value less cost to sell is lower than the carrying amount and hence whether an impairment loss should be recognised.

Property, plant and equipment retired from active use and not classified as held for sale in accordance with IFRS 5 are reported as a separate item of property, plant and equipment.

At transition date Vion reclassified € 3,481 thousand property, plant and equipment to assets held for sale (31/12/2016: € 2,200 thousand). The reclassification resulted in an impairment charge of € 257 thousand, at transition date. Under Dutch GAAP, in 2016, Vion recognised the € 257 thousand as a loss, this amount has been reversed under IFRS as it is already impaired at transition date. Furthermore, the reclassification to assets held for sale resulted in the reversal of depreciation cost of € 46 thousand, during 2016.

F. Goodwill

Under Dutch GAAP, Vion amortised goodwill, whereas goodwill is not amortised under IFRS. The recognised goodwill amortisation (€ 1,739 thousand) under Dutch GAAP is reversed for 2016. Vion applied the exemption from IFRS 1 to prospectively apply IFRS 3 Business combinations. Therefore, the opening balance at transition date is the same as the carrying amount of goodwill under Dutch GAAP.

During 2016, under Dutch GAAP, Vion recognised transaction cost (€ 62 thousand) relating to previous acquisitions as goodwill. Under IFRS these costs are expensed.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

G. Other financial assets and liabilities (derivatives)

The fair value of forward foreign exchange contracts is recognised under IFRS, and was not recognised under Dutch GAAP. The contracts, which were designated as hedging instruments under Dutch GAAP, have been designated, under IFRS, as hedging instruments in cash flow hedges of either expected future sales, for which Vion has firm commitments, or expected purchases from suppliers that are highly probable.

IFRS 1, allows hedge accounting to be used only from the date that the designation and documentation of a hedge relationship is completed. However, IAS 39, stipulates that hedge relationship designated under an entity's previous GAAP should be reflected in its opening IFRS statement of financial position if that hedging relationship is of a type that does qualify for hedge accounting under IAS 39, IFRS 1.B4-B6 and IG60A-60B.
As Vion's hedging policy, applied under Dutch GAAP, results in a 100% hedge of applicable risks, hedge accounting conform IAS 39 is assumed to be in place. Therefore, hedge accounting has been applied in the comparative figures.

Vion meets the requirements for cash flow hedge accounting under IFRS as from 1 January 2017. In 2017, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge are recognised directly in equity as a separate component of equity, in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument are recognised in profit and loss.

As at transition date to IFRS, Vion recognised a net liability of € 740 thousand, offsetting Vion's derivative positions with one legal counter party: € 1,308 thousand assets and € 2,048 thousand liabilities.

As at 31 December 2016, Vion recognised a net asset of € 139 thousand, offsetting Vion's derivative positions with one legal counter party: € 2,809 thousand assets and € 2,670 thousand liabilities.

H. Provisions: current portion and amortised cost

IFRS requires that provisions should be disclosed separately in the statement of financial position, the current portion under current liabilities and the non-current portion under non-current liabilities. Reclassification of the current provisions amounts to € 15,271 thousand at transition date to IFRS (31 December 2016: € 4,519 thousand).

Under IFRS provisions are reported at amortised cost, resulting in a discount of € 16 thousand at transition date (31 December 2016: € 22 thousand negative). As a result, an interest charge of € 38 thousand is recognised during 2016.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

I. Employee benefits: Defined benefit obligation

Under IFRS, as well as under Dutch GAAP, the defined benefit obligations (DBO) are calculated based on the projected unit credit method. However, IFRS requires the inclusion of futures salary and pension increases and anticipated changes in mortality rates, resulting in a DBO increase of € 20,037 thousand at transition date (31 December 2016: € 19,695 thousand). An asset has been recognised for an amount of € 464 thousand at transition date (31 December 2016: € 475 thousand). Also impacting the result for € 3,694 thousand positive (before tax) and OCI for € 3,328 thousand negative (before tax) for 2016.

J. Employee benefits: Jubilee benefit plans

Under IFRS, jubilee benefit plans qualify as a defined benefit plans and the projected unit credit method is applied to calculate jubilee benefit obligations, resulting in an increase of the Jubilee benefit plans liability of € 1,058 thousand at transition date (31 December 2016: € 1,299 thousand), resulting from inclusion of future salary increases. Unlike under pension plans, remeasurements (actuarial gains and losses, etc.) are recognised directly in profit and loss, resulting in additional cost of € 241 thousand during 2016.

K. Loans and borrowings: dividend guarantee

With a number of minority shareholders Vion has annual fixed dividend agreements. Under IFRS, opposite to Dutch GAAP, those fixed dividend agreements lead to the recognition of financial liabilities. As a result, a liability has been recognised in the opening balance sheet on the transition date of € 1,366 thousand (against retained earnings). At the end of December 2016, Vion recognised a liability of € 1,213 thousand. Because of the recognition of the valuation allowance (see section P of this paragraph) there was no impact on current or deferred taxes.

L. Financial assets and liabilities recognised at amortised cost

Under IFRS, financial assets and liabilities are recognised at amortised costs using the effective interest method.
Under Dutch GAAP, the straight-line method of amortisation, is allowed if such does not result in any significant differences from the effective interest method. Under IFRS, amortised cost is based on the annuity method of amortisation of premiums, discounts and transaction costs.

Under Dutch GAAP, Vion presented the transaction costs of the received credit facility separately as other receivables. Under IFRS these costs are recognised as part of the credit facility which is measured at amortised cost.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

The impact on the financial position and profit and loss (excluding tax) can be summarised as follows:

Financial position	**IFRS as at 1 January 2016**	**IFRS as at 31 December 2016**
Other non-current financial assets	–250	–138
Trade and other receivables	–2,132	–1,327
Total assets	**–2,382**	**–1,465**
Interest-bearing loans and borrowings	–1,919	–905
Other non-current financial liabilities	–75	–34
Total liabilities	**–1,994**	**–939**

Profit and loss *(in thousands of euros, unless stated otherwise)*	**IFRS for the year ended 31 December 2016**
Finance costs	250
Finance income	-112

M. Interest-bearing loans and borrowings: finance leases - current portion

Under IFRS, the current portion of interest-bearing loans and borrowings are disclosed separately in the statement of financial position. Dutch GAAP allows to aggregate the current and non-current portion.
Under Dutch GAAP, Vion already reported the current portion of interest-bearing loans and borrowings separately, except for their finance lease obligations. At transition date the current portion of the finance lease obligations amounted € 710 thousand (31 December 2016: € 924 thousand) and is reclassified from non-current to current interest-bearing loans and borrowings.

N. Deferred tax

The various transitional adjustments lead to different temporary differences. According to the accounting policies in note 2.3, Vion has to account for such differences. Deferred tax adjustments are recognised in correlation to the underlying transaction either in retained earnings or a separate component of equity. At transition date and at 31 December 2016, Vion recognised valuation allowances for the differences resulting from the IFRS transition.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

O. Foreign currency translation
Under Dutch GAAP, Vion recognised translation differences on foreign operations in a separate component of equity. Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2016. The resulting adjustment was recognised against retained earnings.

P. Assets held for sale – Other receivables
Under Dutch GAAP, Vion recognised non-current assets held for sale as other receivables for the amount of € 1,900 thousand. Under IFRS, non-current assets that meet the held-for-sale criteria, are presented in a separate category of the balance sheet as assets held for sale.

As the non-current assets were expected to be sold within 1 year at transition date, the non-current assets are reclassified to assets held for sale at 1 January 2016. No impairment loss is recognised as the carrying amount of € 1,900 thousand is less than the fair value less selling expenses.

Q. Assets held for sale – Associates
Under IFRS, associates which meet the held-for-sale criteria are presented in a separate category of the balance sheet as assets held for sale. Under Dutch GAAP, associates continue to be classified as non-current financial assets.

During 2016 Vion sold its participating interest in Fleischversorgungszentrum Rhein-Main GmbH & Co. Vermietungs KG and Zweckverband 'Fleischzentrum Emsland'. The decision of disposal was taken before year-end 2015. Therefore, at transition date these associates qualify as non-current assets held for sale and are presented under current assets.
Under Dutch GAAP an impairment of € 500 thousand was recognised at year-end 2015. At transition date, no additional impairment losses were recognised. In total, an amount of € 674 thousand has been recognised as assets held for sale at transition date to IFRS.
Total proceeds from the sale amount to € 650 thousand, resulting in a net loss of € 24 thousand during 2016.

R. Acquisition of minority shares
During 2016 transactions have taken place between Vion and minority shareholders of one of its subsidiaries. The difference between the payments for the shares and the relative share in the equity of the subsidiary was recorded as a liability under Dutch GAAP. For IFRS the transaction has to be reported as a transaction between shareholders, in equity. A reclassification has taken place from liabilities to retained earnings for € 436 thousand.

Statement of cash flows
The transition from Dutch GAAP to IFRS has not had a material impact on the statement of cash flows.

2.5 Changes in accounting policies and disclosures
Vion has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(in thousands of euros, unless stated otherwise)

2.6 Future accounting standards

On 22 September 2016 the European Union endorsed IFRS 15 Revenue from Contracts with Customers. The standard will be applicable for years starting on 1 January 2018 or after and Vion will first apply the standard for book year 2018. The expected impact for Vion is limited to a restatement of several revenue items currently presented as being part of the sales of goods to rendering of services. The amount of the restatement has not yet been assessed.

On 22 November 2016 the European Union endorsed IFRS 9 Financial Instruments. The standard will be applicable for years starting on 1 January 2018 or after and Vion will first apply the standard for book year 2018. As Vion has already setup its accounting for hedging to be compliant with both the current standard IAS 39 and the future standard IFRS 9 and following an initial analysis on the financial instruments, the impact of the new standard is expected to be limited.

On 9 November 2017 the European Union endorsed IFRS 16 Leases. The standard will be applicable for years starting on 1 January 2019 or after and Vion will first apply the standard for book year 2019. The implementation of this new standard will result in an increased amount of fixed assets and liabilities on the balance sheet, therefore resulting in deteriorated solvency ratios. As lease costs will move from operational expenses to depreciation and interest expenses, the operating profit will increase. The impact on fixed assets, liabilities and operating profit is currently being assessed by Vion. In note 29 commitments and contingencies an overview is provided with the current rental and operating lease contracts.

2.7 Restatement of items in profit and loss

To improve comparability and to increase comprehensibility of the annual accounts several items in the 2016 statement of profit and loss have been restated. The main adjustment involves items previously presented as other income for an amount of € 9,054 thousand, now included in both revenues and various cost categories. Vion assesses that the restatements are not material.

3 Significant accounting judgements, estimates and assumptions

The preparation of Vion's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to Vion's exposure to risks and uncertainties includes:

– Financial instruments risk management and policies	Note 32
– Sensitivity analyses disclosures	Notes 14, 26 and 32

Judgements

In the process of applying Vion's accounting policies, management has made judgements, as described in the paragraph estimates and assumptions, which have the most significant effect on the amounts recognised in the consolidated financial statements.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. Vion based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of Vion. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that Vion is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by Vion. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in note 14.

Taxes

Deferred tax assets are recognised for 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 judgement is required to determine the amount of 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.

Vion has € 1.308 million (2016: € 1.486 million) of tax losses carried forward. This represents a gross deferred tax asset of € 225 million (2016: € 255 million). These losses relate to subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in Vion. The subsidiaries neither have any taxable temporary difference nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. On this basis, Vion has determined that it cannot recognise deferred tax assets on the tax losses carried forward for the amount of € 1.118 million (2016: € 1.259 million). This represents a write-down of the deferred tax asset for € 190 million (2016 € 223 million). Out of the total amount of unrecognised losses an amount of € 149 million (2016: € 158 million) expire in the period 2020 – 2023. The remaining losses do not expire.

Vion is subject to various VAT audits in various countries the company operates in. Since discussions with the tax authorities are ongoing, the final result of these tax audits is unknown to date. However, Vion believes it has strong arguments to refute potential additional VAT assessments in this respect.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Defined benefit plans (pension benefits)

The cost of the defined benefit pension plan and jubilee benefits plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an AA rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

Further details about pension obligations are provided in note 27.1.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See note 32.4 for further disclosures.

Development costs

Vion capitalises development costs for software in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2017, the carrying amount of capitalised development costs was € 13.2 million (2016: € 7.5 million).

This amount includes significant investment in the development of VIPER software house and the project to implement a new work place based on current technology and software products (the so-called Meadow project).

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

4 Acquisitions and disposals

Acquisitions

On 25 July Vion signed the purchase agreement regarding the acquisition of certain assets of Otto Nocker, a meat processing company, and six wholesale markets from the insolvent companies of the Lutz Group. The assets acquired are mainly related to property, plant and equipment and inventories of raw materials and (semi) finished products. The acquisition underlines the growth strategy announced by the company and fits with the strategy to move up in the value chain. As part of the acquisition no further contingent consideration agreements have been agreed with the seller, nor have any indemnification assets been agreed.

The total consideration paid for the assets acquired amounts € 6.9 million, while the fair value of the assets and liabilities was determined at € 8.9 million. As part of the acquisition intangible assets (brand name and customer relations) have been identified for a total amount of € 1.9 million. The intangibles are amortised on a straight-line basis over a 15 year period. In addition to the assets acquired a deferred tax liability was recognised for the temporary valuation differences of € 0.7 million, which has been deducted from the fair value of the assets to determine the gain on the transaction.

As a result a gain on the transaction, after deferred taxes, has been recognised of € 1.3 million which is included in the line Other operating expenses in the consolidated statement of profit and loss.

After receiving the final regulatory approvals Vion gained control over the assets acquired as from 30 September 2017 onwards. The results realised with the assets have been included in the consolidated results of the Group as from 30 September 2017.

Disposals

During 2017, Vion completed the disposal of several immaterial subsidiaries.

5 Other operating income

	2017	2016
Profit/(loss) from sales of fixed assets	12,251	3,777
Rental income	903	717
Insurance coverage	286	1,041
Governmental grants	28	2,518
Other	8,688	13,957
Total other operating income	**22,156**	**22,010**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Government grants have been received for the private storage of meat. In order to achieve a balance on the market and to stabilize market prices, the European Commission supports operators affected by a particularly difficult market situation in placing goods on the market only after a certain storage period, and thus to relieve pressure on the market and achieve price support.

Other includes in 2016 a damage compensation received for costs incurred in prior years (€ 6.9 million).

6 Employee benefits expense

	2017	2016
Wages and salaries	192,652	190,458
Social security costs	32,358	32,461
Contributions to defined contribution plans	8,953	9,551
Expenses related to post-employment defined benefit plans	347	214
Post-employee benefits other than pensions	141	223
Termination benefits	7,074	–1,193
Temporary staff	295,007	260,992
Other employee benefit costs	15,066	8,646
Total employee benefits expense	**551,598**	**501,352**

7 Depreciation and amortisation

	2017	2016
Depreciation of property, plant and equipment	32,615	27,969
Amortisation of intangible assets	3,527	1,788
Total depreciation and amortisation	**36,142**	**29,757**

8 Impairment of non-current assets

	2017	2016
Impairment of property, plant and equipment	**825**	**4,402**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

9 Other operating expenses

	2017	2016
Restructuring expenses	5,490	280
Lease costs buildings and non-production equipment	2,683	3,184
Other	5,356	1,370
Total other operating expenses	**13,529**	**4,834**

Restructuring expenses mainly include legal and consulting expenses for restructuring projects.

10 Finance costs and income

Finance costs	2017	2016
Interest accretion pension provision	–1,827	–2,220
Interest and charges Financing facility	–1,256	–1,738
Finance charges payable under finance leases and hire purchase contracts	–447	–389
Interest accretion jubilee provision	–53	–223
Other	–1,970	–286
Total interest expense	**–5,553**	**–4,856**
Financing fee	–798	–1,433
Currency exchange losses	–524	–1,255
Unwinding of discount and effect of changes in discount rate on provisions and subsequent payments and earn out agreements related to acquisitions.	–	–78
Total finance costs	**–6,875**	**–7,622**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Finance income	2017	2016
Interest income on a loan to an associate	19	19
One-off interest refund tax authorities	–	289
Capital gains investments	–	279
Interest income from escrow	–	112
Currency exchange profit	–	221
Other	111	140
Total finance income	**130**	**1,060**

11 Income tax income/(expense)

	2017	2016
Current income tax		
Current income tax charge	–1,077	–2,009
Adjustments in respect of current income tax of previous year	–66	–82
Deferred tax		
Relating to origination and reversal of temporary differences	4,976	15,040
Income tax income/(expense) reported in the statement of profit or loss	**3,833**	**12,949**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Reconciliation between the statutory and effective tax rate	2017	2016
Statutory income tax rate	25%	25%
Profit before tax from continuing operations	18,016	25,861
Profit before income tax	**18,016**	**25,861**
Statutory income tax amount	4,504	6,465
Change in valuation of available losses and timing differences	–12,583	–16,820
Effect of participation exemption	1,935	–4,458
Non-deductible expenses for tax purposes	2,523	1,418
Effect of different foreign tax rates	182	303
Other	–394	143
Income tax expense reported in the statement of profit or loss	**–3,833**	**–12,949**
Effective tax rate	**–21.3%**	**–50.1%**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

12 Property, plant and equipment

	Freehold land and buildings	Plant and equipment	Other equipment	Construction in progress	Idle property, plant and equipment	Total
Cost						
Balance at 1 January 2016	**629,367**	**431,332**	**14,689**	**42,101**	**689**	**1,118,178**
Additions	9,445	20,732	179	31,344	–	61,700
Disposals	–59,857	–4,099	465	–159	–689	–64,339
Reclassifications	17,711	19,087	1,423	–41,012	–	–2,791
Effect of movements in exchange rates	–6	–29	3	–	–	–32
Balance at 31 December 2016	**596,660**	**467,023**	**16,759**	**32,274**	**–**	**1,112,716**
Additions	**10,256**	**19,540**	**2,950**	**35,280**	**–**	**68,026**
Additions through business combinations	**3,310**	**1,234**	**213**	**–**	**–**	**4,757**
Disposals	**–16,168**	**–34,467**	**–10,063**	**–168**	**–**	**–60,866**
Reclassifications	**13,346**	**16,545**	**1,912**	**–31,582**	**–**	**221**
Effect of movements in exchange rates	**–1**	**–**	**–76**	**–**	**–**	**–77**
Balance at 31 December 2017	**607,403**	**469,875**	**11,695**	**35,804**	**–**	**1,124,777**
Depreciation and impairment						
Balance at 1 January 2016	**522,373**	**356,716**	**13,243**	**–**	**689**	**893,021**
Depreciation	7,180	20,013	677	–	–	27,870
Impairment	2,536	1,866	–	–	–	4,402
Disposals	–59,685	–3,929	480	–	–689	–63,823
Balance at 31 December 2016	**472,404**	**374,666**	**14,400**	**–**	**–**	**861,470**
Depreciation	**9,535**	**18,632**	**4,151**	**–**	**–**	**32,318**
Impairment	**805**	**–130**	**45**	**105**	**–**	**825**
Disposals	**–15,449**	**–34,273**	**–9,405**	**100**	**–**	**–59,027**
Effect of movements in exchange rates	**–1**	**–**	**–64**	**–**	**–**	**–65**
Balance at 31 December 2017	**467,294**	**358,895**	**9,127**	**205**	**–**	**835,521**
Carrying amounts						
Balance at 31 December 2016	**124,256**	**92,357**	**2,359**	**32,274**	**–**	**251,246**
Balance at 31 December 2017	**140,109**	**110,980**	**2,568**	**35,599**	**–**	**289,256**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Impairment

On 9 March 2017 Vion announced that it is concentrating its activities in Lower Saxony, Germany in Emstek and closing its pork slaughtering and deboning facility in Zeven. The site in Zeven was in use until the end of April 2017. At year-end 2016, the carrying amount related to the total property, plant and equipment of site Zeven amounted € 7.3 million. Management estimated the total recoverable amount of these property, plant and equipment at € 3.0 million resulting in a total impairment loss of € 4.3 million at year end 2016. For 2017 an additional impairment of € 0.8 million was recognized in relation to the closure of site Zeven.

The fair value of the land and buildings is determined using several current offers for similar land and buildings in the neighbourhood deducted by 15% risk-margin. The demolition costs are based on an offer received from a contractor to tear down the buildings.

The estimated recoverable amount for machinery and equipment has been determined based on local internal expert's opinion. The machinery and equipment are categorised in asset groups and valued individually asset by asset.

Finance leases

The carrying value of land and buildings held under finance leases contracts at 31 December 2017 was € 5.9 million (2016: € 6.4 million) , the carrying value of plant and equipment held under finance leases contracts at 31 December 2017 was € 1.2 million (2016: € 1.2 million). During the year no additions (2016: € 1.2 million) of plant and equipment under finance leases took place. Leased assets are pledged as security for the related finance lease.

Assets under construction

Assets under construction per end of 2017 and 2016 mainly relate to investment programs for the Leeuwarden, Waldkraiburg and Landshut production sites.

(in thousands of euros, unless stated otherwise)

13 Investment properties

	2017	2016
Balance at 1 January	**1,701**	**1,773**
Additions (subsequent expenditure)	–	27
Depreciation and impairment charges	–251	–99
Balance at 31 December	**1,450**	**1,701**

	2017	2016
Accumulated cost	5,170	5,170
Accumulated depreciation and impairment	–3,720	–3,469
Balance at 31 December	**1,450**	**1,701**

Vion's investment properties consist of apartments, houses and a storage location in Germany that are leased to third parties. The rental income derived from these properties amounts € 0.3 million (2016: € 0.2 million).

Vion has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

14 Intangible assets

	Goodwill	Software	Software under development	Other	Total
Cost					
Balance at 1 January 2016	**25,252**	**41,649**	**3,973**	**245**	**71,119**
Additions – internally developed	–	–	4,995	–	4,995
Additions – separately acquired	–	319	1,936	–	2,255
Reclassifications	–	6,349	–3,445	–113	2,791
Disposal	–	–2,075	–	–109	–2,184
Balance at 31 December 2016	**25,252**	**46,242**	**7,459**	**23**	**78,976**
Additions – internally developed	–	–	8,600	–	8,600
Additions – separately acquired	–	1,124	1,525	–	2,649
Additions through business combinations	–	–	–	1,897	1,897
Reclassifications	–	6,344	–6,533	–32	–221
Disposal	–	–1,461	–	–21	–1,482
Balance at 31 December 2017	**25,252**	**52,249**	**11,051**	**1,867**	**90,419**
Amortisation and impairment					
Balance at 1 January 2016	**–**	**38,663**	**–**	**132**	**38,795**
Amortisation	–	1,788	–	–	1,788
Disposal	–	–2,075	–	–109	–2,184
Balance at 31 December 2016	**–**	**38,376**	**–**	**23**	**38,399**
Amortisation	–	3,527	–	–	3,527
Disposal	–	–1,460	–	–21	–1,481
Balance at 31 December 2017	**–**	**40,443**	**–**	**2**	**40,445**
Carrying amounts					
Balance at 31 December 2016	**25,252**	**7,866**	**7,459**	**–**	**40,577**
Balance at 31 December 2017	**25,252**	**11,806**	**11,051**	**1,865**	**49,974**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Software under development

No borrowing costs have been capitalised in 2017 (2016: nil) as part of software under development.

Reclassifications

The transfer of assets fully relates to assets under development which were brought to use during 2017. A part of the software under development was capitalised as tangible fixed assets in the opening balance, resulting in an incoming amount at intangible fixed assets and an outgoing amount in tangible fixed assets in current year.

Goodwill

For impairment testing, goodwill is allocated to (groups of) cash-generating units, which represent the lowest level at which the goodwill is monitored internally for management purposes. Goodwill acquired through business combinations is allocated to the divisions Pork and Food Service.

Carrying amount of goodwill allocated to each of the divisions:

	2017	2016
Pork	2,384	2,384
Food Service	22,868	22,868
Total	**25,252**	**25,252**

Pork and Food Service

The recoverable amounts of the divisions Pork and Food Service, have been determined based on a value in use calculation. In the annual impairment test performed in the fourth quarter of 2017, the estimated recoverable amounts of the cash-generating units tested exceeded the carrying value of the units, therefore no impairment loss was recognised.

The key assumptions used in the impairment test are set out below. The pre-tax cash flow projections were determined using the managements' internal forecasts that cover an initial period from 2017 to 2022, after which a terminal value was calculated. Management believes that this period is justified due to the long-term development of the concerning markets and past experiences. The values assigned to the key assumptions represent management's assessment of future trends in the food service industry and have been based on historical data from both external and internal sources.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

(in percent)	2017	2016
Discount rate Pork	8.48%	8.57%
Discount rate Food Service	7.91%	8.14%
Budgeted EBITDA growth rate (average of next five years) Pork	23.5%	47.1%
Budgeted EBITDA growth rate (average of next five years) Food Service	9.3%	2.8%
Future growth rate used	nil	nil

The discount rate was a pre-tax measure estimated based on the historical industry weighted-average cost of capital, with a possible debt leveraging of 50.5% at a market interest rate of 0.5% (2016: 0.5%).

The cash flow projections used included financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the increased demand for products.

The estimated recoverable amount of Pork exceeded its carrying amount by approximately € 37.0 million (2016: € 0.2 million) and for Food Service by approximately € 190.0 million (2016: € 174.4 million). Management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following changes could, individually, cause the value the estimated recoverable amount to be equal to the carrying amount:

	2017	2016
Pork		
Increase discount rate, basis points	110	1
Decrease forecasted EBITDA growth rate (average of next four years), basis points	–118	–1
Food Service		
Increase discount rate, basis points	2,109	2,131
Decrease forecasted EBITDA growth rate (average of next four years), basis points	–1,952	–1,789

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

15 Investment in associates and joint ventures

	2017	2016
Interests in associates	9,829	8,854
Interests in joint ventures	265	250
Balance at 31 December	**10,094**	**9,104**

Associates

Immaterial associates

Vion has interests in a number of individually immaterial associates. The following table analyses, in aggregate, the carrying amount and share of profit and OCI of these associates.

	2017	2016
Carrying amount of interests in immaterial associates	9,829	8,854
Vion's share of:		
Profit from continuing operations	994	2,011
Total comprehensive income	**994**	**2,011**

This relates to the following participating interests with a share of 20% or more:

BestHides GmbH, Eching-Weixerau (Germany)	40.00%
LQB Landwirtschaftliche Qualitätssich. Bayern GmbH (Germany	24.42%
Topigs Group B.V., Helvoirt (the Netherlands)	22.50%

On 1 January 2018 the share in BestHides increased with 20% to 60%. As from 1 January 2018 BestHides is integrated in the consolidated figures.

Joint ventures

Immaterial joint ventures

Vion has interests in a number of individually immaterial joint ventures. The following table analyses, in aggregate, the carrying amount and share of profit and OCI of these joint ventures.

(in thousands of euros, unless stated otherwise)

	2017	2016
Carrying amount of interests in immaterial joint ventures	265	250
Vion's share of:		
Profit from continuing operations	223	125
Total comprehensive income	**223**	**125**

16 Material partly-owned subsidiaries

Material partly-owned subsidiaries relate to the non-controlling interest amounting to € 11.6 million (2016: € 16.5 million). Below the financial position of the material partly-owned subsidiaries is disclosed.

Proportion of equity interest held by Vion:

	Country	2017	2016
Vion SBL Landshut GmbH	Germany	51%	51%
Vion EGN Südostbayern GmbH	Germany	51%	51%

Accumulated balances of material non-controlling interest:

	2017	2016
Vion SBL Landshut GmbH	6,622	6,878
Vion EGN Südostbayern GmbH	2,802	3,277

Profit allocated to material non-controlling interest:

	2017	2016
Vion SBL Landshut GmbH	69	296
Vion EGN Südostbayern GmbH	745	679

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Summarised statement of profit and loss for 2017	Vion SBL Landshut GmbH	Vion EGN Südostbayern GmbH
Revenue	**202,069**	**191,201**
Raw materials and consumables used	167,329	163,395
Other operational expenses	35,897	25,409
Finance costs	508	195
Profit before tax	**–1,665**	**2,202**
Income tax	–13	–571
Profit for the year from continuing operations	**–1,678**	**1,631**
Total comprehensive income	**–1,678**	**1,631**
Attributable to non-controlling interests	69	745
Dividends paid to non-controlling interests	69	745

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Summarised statement of profit and loss for 2016	Vion SBL Landshut GmbH	Vion EGN Südostbayern GmbH
Revenue	**165,059**	**180,863**
Raw materials and consumables used	138,143	153,699
Other operational expenses	34,115	25,190
Finance costs	423	353
Profit before tax	**–7,622**	**1,621**
Income tax	–55	–114
Profit for the year from continuing operations	**–7,677**	**1,507**
Total comprehensive income	**–7,677**	**1,507**
Attributable to non-controlling interests	296	679
Dividends paid to non-controlling interests	296	592

The part of comprehensive income attributable to non-controlling interests is based on existing agreements regarding the distribution of result and therefore does not reflect the share of ownership.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Summarised statement of financial position as at 31 December 2017	Vion SBL Landshut GmbH	Vion EGN Südostbayern GmbH
Total non-current assets	**26,753**	**9,800**
Total current assets	**15,631**	**15,901**
Total current liabilities	**–21,239**	**–13,957**
Total non-current liabilities	**–7,630**	**–3,080**
Total provisions	**–**	**–2,945**
Total equity	**13,515**	**5,719**
Attributable to:		
Equity holders of the parent	6,893	2,917
Non-controlling interest	6,622	2,802

Summarised statement of financial position as at 31 December 2016	Vion SBL Landshut GmbH	Vion EGN Südostbayern GmbH
Total non-current assets	27,884	9,291
Total current assets	23,019	17,911
Total current liabilities	–30,046	–15,938
Total non-current liabilities	–6,821	–2,370
Total provisions	–	–2,206
Total equity	14,036	6,688
Attributable to:		
Equity holders of the parent	7,158	3,411
Non-controlling interest	6,878	3,277

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Summarised cash flow information for year ended 31 December 2017	Vion SBL Landshut GmbH	Vion EGN Südostbayern GmbH
Operating	7,105	3,258
Investing	–1,282	–1,351
Financing	–5,977	–3,392
Net increase/(decrease) in cash and cash equivalents	**–154**	**–1,485**

Summarised cash flow information for year ended 31 December 2016	Vion SBL Landshut GmbH	Vion EGN Südostbayern GmbH
Operating	–9,644	344
Investing	–11,377	–1,025
Financing	21,034	4,155
Net increase/(decrease) in cash and cash equivalents	**13**	**3,474**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

17 Other financial assets

	2017	2016
Non-current other financial assets		
Deferred receipts	3,100	2,884
Loan to an associate	479	479
Escrow	–	4,565
Other	432	901
Total non-current other financial assets	**4,011**	**8,829**
Current other financial assets		
Derivatives	2,095	2,809
Short term loan	–	1,870
Total current other financial assets	**2,095**	**4,679**
Total other financial assets	**6,106**	**13,508**

Deferred receipts

In 2016, the call option on the last piece of land in the UK has been exercised by the buyer. As the sales price is dependent on the developed value of the land, the estimated sales price and receivable are based on an external appraisal report.

Loan to an associate

The loan issued to the non-consolidated participating interest Topigs Group B.V. is unsecured and expires on 1 December 2019. An interest rate is charged for the current facility amounting to the 3-month Euribor plus a mark-up, at year-end total interest rate 4.0% (2016: 4.0%).

Escrow

The escrow account relates to a deferred receipt of the sale of group companies in previous years. The remaining balance of the escrow has become available to Vion in 2017.

Short term loan

The € 1.9 million short term loan relates to the deferred payment of the sales price for the divestment of the Oerlemans group. This loan has been repaid in 2017. An interest rate of 4.0% was charged for this loan.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

18 Deferred tax assets and liabilities

	2017	2016
Deferred tax assets	32,456	28,574
Deferred tax liabilities	–8	–
Total deferred tax	**32,448**	**28,574**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Origin of deferred tax assets and tax liabilities 2017	Net balance at 1 January	Recognised in profit or loss	Recognised directly in equity	Other	Net balance at 31 December
Property, plant and equipment	10,536	3,119	–	–	13,655
Intangible assets	256	120	–	–	376
Derivatives	–35	35	–	–	–
Employee benefits	6,948	9,607	–	–	16,555
Provisions	1,410	13	–	–	1,423
Loans and borrowings	397	–374	–	–	23
Other temporary differences	26	–8	–	–	18
Tax losses and tax credits	253,194	–27,856	–	–	225,338
Total gross deferred tax assets	**272,732**	**–15,344**	**–**	**–**	**257,388**
Unrecognised deductible temporary differences, tax losses and tax credits	–240,519	20,966	–	–	–219,553
Subtotal net deferred tax assets	**32,213**	**5,622**	**–**	**–**	**37,835**
Offsetting	–3,639	–1,740	–	–	–5,379
Net deferred tax assets	**28,574**	**3,882**	**–**	**–**	**32,456**
Property, plant and equipment	–3,639	–313	–	–	–3,952
Intangible assets	–	–	–	–724	–724
Derivatives	–	–34	–380	–	–414
Other temporary differences	–	–297	–	–	–297
Total gross deferred tax liabilities	**–3,639**	**–644**	**–380**	**–724**	**–5,387**
Offsetting	3,639	1,740	–	–	5,379
Net deferred tax liabilities	**–**	**1,096**	**–380**	**–724**	**–8**

Vion offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Origin of deferred tax assets and tax liabilities 2016	Net balance at 1 January	Recognised in profit or loss	Recognised directly in equity	Other	Net balance at 31 December
Property, plant and equipment	825	9,711	–	–	10,536
Intangible assets	328	–72	–	–	256
Derivatives	185	–	–220	–	–35
Employee benefits	8,705	–2,750	993	–	6,948
Provisions	928	482	–	–	1,410
Loans and borrowings	381	16	–	–	397
Other temporary differences	2,709	–2,683	–	–	26
Tax losses and tax credits	270,750	–17,556	–	–	253,194
Total gross deferred tax assets	**284,811**	**–12,852**	**773**	**–**	**272,732**
Unrecognised deductible temporary differences, tax losses and tax credits	–263,319	22,800	–	–	–240,519
Subtotal net deferred tax assets	**21,492**	**9,948**	**773**	**–**	**32,213**
Offsetting	–5,803	2,164	–	–	–3,639
Total net deferred tax assets	**15,689**	**12,112**	**773**	**–**	**28,574**
Property, plant and equipment	–4,685	1,046	–	–	–3,639
Other temporary differences	–3,236	3,241	–	–5	–
Total gross deferred tax liabilities	**–7,921**	**4,287**	**–**	**–5**	**–3,639**
Offsetting	5,803	–2,164	–	–	3,639
Net deferred tax assets (liabilities)	**–2,118**	**2,123**	**–**	**–5**	**–**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Overview tax losses and other carry forwards 2017

Expiring term recognised deferred tax assets	
2022	15,519
2023	1,531
Indefinite	18,327
Total	**35,377**
Netted deferred tax liability	–2,921
Total deferred tax assets	**32,456**

Overview tax losses and other carry forwards 2016

Expiring term recognised deferred tax assets	
2022	14,370
2023	6,680
Indefinite	11,081
Total	**32,131**
Netted deferred tax liability	–3,557
Total deferred tax assets	**28,574**

A total amount of € 29.6 million (2016: 17.5 million) of unrecognised deductible temporary differences will expire in the years after 2022 (2016: 2020).

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

19 Inventories

	2017	2016
Finished goods	142,711	128,421
Raw materials and consumables	31,224	26,870
Work in progress	2,721	2,689
Total	**176,656**	**157,980**
Allowance for obsolete inventory	4,007	800

Raw materials and consumables include packaging materials and spare parts for an amount of € 21.8 million (2016: € 19.9 million).

20 Trade and other receivables

	2017	2016
Trade receivables	378,413	393,855
VAT receivable	23,722	34,151
Receivables from associated companies	4,670	4,670
Interest receivables	–	584
Other receivables	8,025	2,470
Total	**414,830**	**435,730**

Trade receivables are non-interest bearing and are generally on terms of 15 to 45 days.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

As at 31 December 2017, trade receivables with an initial carrying value of € 5.5 million (2016: € 6.3 million) were impaired and fully provided for. See below for the movements in the provision for impairment of receivables, the receivables are individually impaired:

	Total
Balance at 1 January 2016	**7,766**
Charge for the year	1,948
Utilised	–2,807
Unused amounts reversed	–628
Balance at 31 December 2016	**6,279**
Charge for the year	259
Utilised	–556
Unused amounts reversed	–518
Balance at 31 December 2017	**5,464**

As at 31 December, the ageing analysis of trade receivables is, as follows:

	Total	Neither past due nor impaired	Past due but not impaired: 1-7 days	8-14 days	15 - 30 days	> 30 days
2017	378,413	293,417	53,725	21,785	6,705	2,781
2016	393,855	319,106	53,940	15,323	4,359	1,127

See note 32 on credit risk of trade receivables, which explains how Vion manages and measures credit quality of trade receivables that are neither past due nor impaired.

Vion has provided full securities for two credit facilities with pledges on its trade receivables At 31 December 2017, an amount of € 53.1 million (2016: € 55.8 million) was drawn under the credit facilities.

(in thousands of euros, unless stated otherwise)

21 Cash and cash equivalents

	2017	2016
Total cash and cash equivalents	**20,858**	**62,514**

The cash and cash equivalents include no amounts (2016: € 1.7 million) that are only available to Vion under certain conditions, as agreed with credit insurers.

22 Assets held for sale

	2017	2016
Freehold land and buildings held for sale	970	3,803
Plant and equipment held for sale	744	343
Total assets held for sale	**1,714**	**4,146**

Vion has no liabilities associated with assets held for sale per balance sheet date.

Vion intends to dispose several parcels of freehold land it no longer utilises in the next 12 months. The property located on the freehold lands was previously used in Vion's operations. Vion is actively searching for buyers. No additional impairment loss was recognised at 31 December 2017 as the management of Vion expects that the fair value (estimated based on the recent market prices of similar properties in similar locations) less costs to sell is higher than the carrying amount.

The real estate in Pfärrkirchen, Straubing, Helmond, Lievelde and Nürnberg have been sold during 2017.

23 Equity

Issued capital

The share capital of Vion Holding N.V. amounts to € 4.5 million divided into 100,000 shares with a nominal value of € 45. Vion Holding N.V. holds 3,566 shares (2016: 3,566, no movements during 2016). On 31 December 2017, there were 50,784 fully paid-up shares issued to third parties (2016: 50,784, no movements during 2016).

Vion does not actively manage the outstanding number of shares or share capital and has no capital management objective or policy to do so. As a result the number or issued shares did not change during 2017 and 2016.
The current financing facility includes a minimum equity requirement. Vion complied with this covenant in 2017 and 2016. More information about liquidity and capital management is stated in the section liquidity risk, as part of chapter financial risk management.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Share premium

The share premium reserve consists of the income from share issues insofar as this income is higher than the nominal amount of the shares.

All other reserves are as stated in the consolidated statement of changes in equity.

Legal reserves

The disaggregation of changes of OCI, net of tax, by each type of reserve in equity is shown below:

As at 31 December 2017	Cash flow hedge reserve	Foreign currency translation reserve	Total
Currency forward contracts	2,020	–	2,020
Foreign exchange translation differences	–	608	608
Total	**2,020**	**608**	**2,628**

As at 31 December 2016	Cash flow hedge reserve	Foreign currency translation reserve	Total
Currency forward contracts	879	–	879
Foreign exchange translation differences	–	610	610
Total	**879**	**610**	**1,489**

The other legal reserves relates to capitalised internally developed software (2017: € 15.5 million; 2016: € 8.2 million) and to not free distributable profits and reserves of shareholdings (2017: € 2.5 million; 2016: € 1.9 million).

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

24 Interest-bearing loans and borrowings

	Interest rate	Maturity	2017	2016
Non-current interest-bearing loans and borrowings				
Loans from minority shareholders	2.50%	No end date	9,932	9,191
Financial lease obligations	5.0% - 6.0%	2019-2027 (2018-2027)	6,209	6,727
Bank loan of € 1.8 million	2.43%	30 August 2018	–	330
Total non-current interest-bearing loans and borrowings			**16,141**	**16,248**
Current interest-bearing loans and borrowings				
Secured financing facility of € 200 million (2016: € 125 million)	based on 1 month Euribor	Mid-2017	52,396	55,755
Financial lease obligations	5.0% - 6.0%	2018 (2017)	930	924
Bank loan of € 1.8 million	2.43%	30 August 2018 (2017)	330	360
Total current interest-bearing loans and borrowings			**53,656**	**57,039**
Total interest-bearing loans and borrowings			**69,797**	**73,287**

Secured financing facility

On 24 May 2017 Vion entered into a new working capital facilities agreement of € 200 million with ABN AMRO Commercial Finance, NIBC, UniCredit and Deutsche Bank. This is a committed facility with a term of five years and replaces the previous facility.
The effective interest rate is 1.98% (2016: 5.53%).

The interest rate is based on Euribor plus a margin. The facility contains customary covenants including a minimum capital, a minimum net working capital and maximum capital expenditure. During 2017, Vion was in compliance with these covenants.

At 31 December 2017, an amount of € 53.1 million (2016: € 56.6 million) was drawn under the credit facility. Vion has provided full securities for both facilities with pledges on its trade receivables.

Loans from minority shareholders

Loans provided by the minority shareholders of group companies concerning their proportional share in investments made in these group entities.

(in thousands of euros, unless stated otherwise)

Financial lease obligations	2017			2016		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	953	5-6%	930	978	5-6%	924
Between one and five years	4,263	5-6%	3,605	4,533	5-6%	3,699
More than five years	4,076	6%	2,604	4,964	6%	3,028

The carrying value of the related assets amounts to € 7.1 million (2016: € 7.7 million).

Bank loan

The bank loan is a stand-alone bank facility provided to a partly-owned subsidiary.

25 Other financial liabilities

	2017	2016
Non-current other financial liabilities		
Dividend payable to minority shareholders	992	1,213
Subsequent payments and earn out agreements related to acquisitions	–	5,717
Other payables	88	–
Total non-current other financial liabilities	**1,080**	**6,930**
Current other financial liabilities		
Dividend payable to minority shareholders	3,741	3,839
Subsequent payments and earn out agreements related to acquisitions	936	5,612
Derivatives	409	2,670
Total current other financial liabilities	**5,086**	**12,121**
Total other financial liabilities	**6,166**	**19,051**

Subsequent payments and earn out agreements related to acquisitions relate to the acquisition of Salomon Hitburger GmbH and Vion SA.

Dividend payable to minority shareholders relate to Vion's minimum dividend agreements with a number of minority shareholders.

(in thousands of euros, unless stated otherwise)

Reconciliation of liabilities arising from financing activities

The total movement in the balance sheet in interest bearing loans and borrowings as disclosed in note 24 and other financial liabilities (excluding derivatives) in note 25 for a total amount of € 14.1 million do not correspond to the total net cash flow from financing activities of € 19.1 million due to the cash flow for the acquisition of non-controlling interest for an amount of € 5.0 million, which were initiated during 2017 and were hence not a financial liability at 31 December 2016.

26 Provisions

Breakdown of provisions 2017	Restructuring	Onerous operating lease	Other	Total
At 1 January	2,550	597	2,858	6,005
Arising during the year	8,400	–	9	8,409
Utilised	–8,576	–34	–159	–8,769
Unused amounts reversed	–418	–	–1,065	–1,483
Unwinding of discount	8	32	14	54
At 31 December	**1,964**	**595**	**1,657**	**4,216**
Current	1,549	33	1,063	2,645
Non-current	415	562	594	1,571

Breakdown of provisions 2016	Restructuring	Onerous operating lease	Other	Total
At 1 January	12,510	600	5,610	18,720
Arising during the year	763	–	1,384	2,147
Utilised	–8,360	–35	–3,179	–11,574
Unused amounts reversed	–2,358	–	–990	–3,348
Unwinding of discount	3	32	33	68
Exchange differences	–8	–	–	–8
At 31 December	**2,550**	**597**	**2,858**	**6,005**
Current	2,476	35	2,008	4,519
Non-current	74	562	850	1,486

(in thousands of euros, unless stated otherwise)

Restructuring
The restructuring provision is recognised for costs, mainly employee related, that occurred due to the closing of several locations in previous years. All closures have taken place at balance sheet date.

Onerous operating lease
This provision relates to rent payments for a long-term rent agreement. As the building is currently not in use by Vion a provision was recognised.

Other
Other provisions are recognised for various claims and other obligations.

27 Net employee defined benefit liabilities

	2017	2016
Pension commitments	129,382	135,558
Jubilee benefit commitments	3,899	3,954
Other	133	–
Total	**133,414**	**139,512**

27.1 Pension commitments
Defined benefit pension schemes
The pension plan liabilities in the balance sheet fully apply to the defined benefit pension schemes for employees and former employees of the German group companies. These schemes are moderate career-average schemes with conditional indexation.

The schemes are not open to new participants. A part of the schedules will be funded using a so-called ‘Unterstützungsfonds’, while liabilities are direct. The obligations are measured on the basis of actuarial calculations using the Projected Unit Credit method as at yearend and applying a full discount rate curve of high-quality corporate bonds. The curve is based on Towers Watson’s Rate:Link which is comprised of data from corporate bonds rated AA or equivalent. Local mortality table ‘Richttafeln 2005G’ is used.

An amount of € 7.7 million (2016: € 7.4 million) of the employee benefits liabilities has a term of less than one year. The anticipated yearly pension payments for the coming 5 years varies between € 6.9 million and € 7.7 million.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

The following tables summarise the components of net benefit expense recognised in the statement of profit and loss and the funded status and amounts recognised in the statement of financial position for the respective plans:

Breakdown of pension commitments	2017	2016
Present value of defined benefit obligations	130,002	136,195
Less: fair value of plan assets	–620	–637
Total pension commitments	**129,382**	**135,558**

Change in present value of defined benefit obligations	2017	2016
Present value as at 1 January	**136,195**	**137,773**
Current service cost	172	233
Interest expense	1,828	2,239
Net actuarial (gain) / loss on financial assumptions	302	4,580
Net actuarial (gain) / loss due to liability experience	–1,052	–1,247
Benefits paid	–7,443	–7,383
Present value as at 31 December	**130,002**	**136,195**

Change in fair value of the plan assets	2017	2016
Present value as at 1 January	**637**	**631**
Expected return of plan assets	9	10
Net actuarial gain / (loss)	–26	–4
Present value as at 31 December	**620**	**637**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Breakdown of investments of the plan assets	2017	2016
Reinsured	**620**	**637**

Breakdown of pension costs	2017	2016
Current service cost	172	233
Interest cost on benefit obligation	1,828	2,239
Net benefit expense	**2,000**	**2,472**

Statement of other comprehensive income	2017	2016
Balance as at 1 January	**–3,328**	**–**
Net actuarial gain / (loss) on financial assumptions	–302	–4,571
Net actuarial gain / (loss) due to liability experience	1,052	1,247
Difference between actual return on plan assets and expected interest income on plan assets	–26	–4
Balance as at 31 December	**–2,604**	**–3,328**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

The main actuarial parameters at year-end	2017	2016
Discount rate	1.36%	1.38%
Salary increase rate	2.00%	2.00%
Pension increase rate	1.50%	1.50%
Weighted average duration of the defined benefit obligation	12.04 years	12.33 years

	31 December 2017	
Sensitivity present value of pension obligations 2017	In thousands of euros	Change in %
Discount rate +0.5%	122,738	5.55%
Discount rate -0.5%	137,931	6.14%
Salary increase rate +0.5%	130,064	0.08%
Salary increase rate -0.5%	129,850	0.08%
Pension increase rate +0.5%	137,191	5.57%
Pension increase rate -0.5%	123,291	5.13%

	31 December 2016	
Sensitivity present value of pension obligations 2016	In thousands of euros	Change in %
Discount rate +0.5%	128,420	–5,68%
Discount rate -0.5%	144,716	6.29%
Salary increase rate +0.5%	136,288	0.10%
Salary increase rate -0.5%	136,027	–0.09%
Pension increase rate +0.5%	143,843	5.65%
Pension increase rate -0.5%	129,042	–5.22%

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

Multi-employer pension schemes

Vion participates for its employees in the Netherlands in several multi-employer pension schemes. As three of these plans qualify as a defined benefit plans, IFRS requires these plans to be accounted for as such. However, as Vion is not able to obtain sufficient information for defined benefit accounting the exception of IAS 39.34 is applied by which the plans are accounted for as defined contribution plans. The reason that the pension funds cannot provide for the required information is that they are unable to allocate the plan assets to the individual entities connected to the pension funds. The pension benefits are based on a moderate career-average scheme.

The pension schemes are administered by the industry-wide pension funds ‘Stichting Bedrijfstakpensioenfonds voor Vlees, Vleeswaren, Gemaksvoeding en Pluimvee’, abbreviated as VLEP, ’Bedrijfstak Pensioenfonds Slagers’, ‘Bedrijfstak Pensioenfonds Vervoer VLN’ and a premium pension institution.

The most important elements of the Dutch pension schemes in place are:

– VLEP runs a defined benefit scheme for pensionable salaries up to € 65,060 topped with a defined contribution scheme for pensionable salaries exceeding this, tax driven maximised at € 103,317.
– Bedrijfstak Pensioenfonds Slagers runs a defined benefit scheme for pensionable salaries up to the fiscal maximum of € 103,317.
– Bedrijfstak Pensioenfonds Vervoer VLN runs a defined benefit scheme for pensionable salaries up to € 53,701 topped with a defined contribution scheme for pensionable salaries exceeding this, tax driven maximised at € 103,317.
– For Vion N.V. and ICT personnel a defined contribution pension scheme up to the fiscal maximum of € 103,317 is applicable.

If there are shortfalls in these pension funds, Vion is not obliged to make additional contributions other than in the form of higher future premiums. The expected contribution to the pension funds for 2018 is € 9.0 million (2016: for 2017 expected contribution amounted € 8.6 million)

At year end, there was only a shortfall in the VLEP pension fund. At year end, the coverage ratio was 98.9% (2016: 93.8%) for the VLEP pension fund, 111.1% (2016: 101.4%) for the Pension Fund for the Butcher’s Trade, and 107.3% (2016: 101.4%) for the Pension Fund for the Transport Sector.

Risks of future wage increases, price indexations, adjustments to mortality tables and to investment yields of fund assets may lead to future adjustments in the annual contributions to the pension funds. These risks are not provided for.

Other than the premiums due no further liabilities from the Dutch pension schemes occur which need to be provided for.

The actuarial method ‘projected unit credit method is used to determine the provision.

(in thousands of euros, unless stated otherwise)

27.2 Jubilee benefit commitments

Change in present value of jubilee benefit commitments	2017	2016
Present value as at 1 January	**3,954**	**3,673**
Current service cost	229	208
Interest addition	53	67
Benefits paid	–213	–295
Transfer in / (out)	–124	73
Net actuarial results on change in assumptions:		
Mortality rate	–	–1
Retirement age	–	64
Discount rate	–	165
Present value as at 31 December	**3,899**	**3,954**

For the year 2018, the expected cost amounts to € 0.3 million and the expected benefits to be paid amounts to € 0.3 million.

The main actuarial parameters at year-end	2017	2016
Discount rate	1.30%	1.30%
Salary increase rate	1.62-2.50%	1.62-2.50%
Dismissal change	Depending on age, between 1.0-8.0%	Depending on age, between 1.0-8.0%

(in thousands of euros, unless stated otherwise)

28 Trade and other payables

	2017	2016
Trade payables	224,636	229,582
Employee benefit payables	25,978	28,746
Invoices to be received	77,394	75,760
Taxes and social security contributions	8,806	10,337
Related parties	–	1,944
Interest payable	–	127
Other payables	8,790	4,481
Total	**345,604**	**350,977**

29 Commitments and contingencies

Contractual commitments to acquire property, plant and equipment

At year-end 2017 Vion has contractual commitments to acquire property, plant and equipment for the amount of € 3.9 million (2016: € 2.8 million). These commitments mainly relate to the new slaughtering facility for cattle in Leeuwarden € 2.1 million and investments for Südfleisch € 0.7 million.

Rental and operational leasing of assets and service contracts

Some of Vion companies have long-term liabilities arising from the rental and operational leasing of assets and service contracts. The composition of these obligations is as follows:

	2017	2016
< 1 years	€ 20 million	€ 18 million
1 to 5 years	€ 24 million	€ 24 million
> 5 years	€ 8 million	€ 10 million

Purchase contracts non-food

Vion entered into purchase contracts regarding energy and fuel. Liability is based on actual consumption and market prices.

Bank guarantees

For group companies, an amount of € 7.5 million was issued in bank guarantees (2016: € 1.7 million).

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Credit facilities

Commitments and contingencies related to credit facilities are presented in note 24.

Long-term sales contracts

Vion entered into long-term sales contracts with minimum delivery requirements with different customers. The relevant sales prices depend on the market prices of the relevant products at the time of sale.

Claims

Claims have been made against Vion and/or its group companies that are contested by Vion. Although the outcome of these disputes cannot be predicted with certainty, legal advice and the information available leads to the assumption that this will not have a significant adverse effect on the consolidated financial position.

Fiscal unity

Vion Holding N.V. heads the Dutch fiscal unity for corporate income tax. As a result, all entities within the fiscal unity are jointly and severally liable for the corporate income tax for the entire Dutch fiscal unity.

403-statements

With respect to the separate financial statements of the Dutch legal entities included in the consolidation, Vion Holding N.V. availed itself of the exemption laid down in section 403, subsection 1 of Book 2 of the Dutch Civil Code. Pursuant to said section 403, Vion Holding N.V. has assumed joint and several liability for the debts arising out of the legal acts of a number of subsidiaries in the Netherlands, which form part of the consolidation. The names of the subsidiaries for which Vion Holding N.V. has issued 403 are open for inspection at the trade register as managed by the Netherlands Chamber of Commerce.

(in thousands of euros, unless stated otherwise)

30 Related parties

The following tables provide the total amount of transactions that have been entered into with related parties for the relevant financial year.

		Sales to related parties	Purchases from related parties	Rendering or receiving of services	Amounts owed by related parties	Amounts owed to related parties
Entity with significant influence over Vion						
Zuidelijke Land- en Tuinbouworganisatie ('ZLTO')	2017	–	–	368	–	–
	2016	–	–	498	–	–
Associates						
BestHides GmbH	2017	53,124	–	–	4,670	–
	2016	54,600	–	–	4,670	1,944
Landwirtschaftliche Qualitätssicherung Bayern GmbH	2017	–	–	9	–	–
	2016	–	–	29	–	–
Fleischmarkt Nürnberg GmbH	2017	–	–	–	–	–
	2016	–	–	123	–	–
Topigs Group B.V.	2017	–	118	–	–	–
	2016	–	287	–	–	–

Stichting Administratiekantoor SBT (SBT) is the sole shareholder of the company. SBT has issued depositary receipts for its shares in the company without cooperation of the company. All depositary receipts are held by Noordbrabantse Christelijke Boerenbond, Rooms-Katholieke Vereniging van Boeren en Tuinders - Ontwikkeling (NCB-Ontwikkeling). NCB-Ontwikkeling is related to Zuidelijke Land-en Tuinbouworganisatie (ZLTO). ZLTO is an association for entrepreneurs working in agricultural sectors and has approximately 15,000 members in Noord Brabant, Zeeland and the southern part of Gelderland. Certain members of ZLTO are suppliers to the company. This is on an individual basis and is not related to their ZLTO membership.

(in thousands of euros, unless stated otherwise)

		Interest received	Amounts owed by related parties
Loans from/to related parties			
Associates			
Topigs Group B.V.	2017	19	479
	2016	19	479

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2017, Vion has not recorded any impairment of receivables relating to amounts owed by related parties (2016: € nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.
Vion received services from ZLTO. ZLTO carried out a number of projects for, and made facilities available to Vion during 2017 and 2016.

Commitments with related parties

Vion entered into a four year agreement ending 6 January 2018 with BestHides to provide all hides of slaughtered cattle. During 2017, Vion has sold hides to BestHides for an amount of € 53.1 million (2016: € 54.6 million). The selling price is at arm's length.

31 Remuneration of key management

The table below specifies the remuneration of key management.

2017	F.J.L.J. Kint	J.L.M. Sliepenbeek	Total
Short-term employee benefits:			
– Fixed remuneration	700	500	1,200
– Variable remuneration	305	218	523
Post-employment pension benefits	141	98	239
Other	42	50	92
Total	**1,188**	**866**	**2,054**

(in thousands of euros, unless stated otherwise)

2016	F.J.L.J. Kint	J.L.M. Sliepenbeek	Total
Short-term employee benefits:			
– Fixed remuneration	700	500	1,200
– Variable remuneration	373	266	639
Post-employment pension benefits	138	97	235
Other	41	43	84
Total	**1,252**	**906**	**2,158**

The post-employment pension benefits consist of the premiums paid to the defined contribution plans of the entity.

Supervisory board members' remuneration
Remuneration paid to the supervisory board members amounted to € 393 thousand in 2017 (2016: € 383 thousand).

32 Financial risks and financial instruments

32.1 Financial assets

	2017	2016
Derivatives designated as hedging instruments		
Foreign exchange forward contracts	2,095	2,809
Total financial instruments at fair value	**2,095**	**2,809**
Financial assets at amortised cost		
Trade and other receivables	414,830	435,730
Loan to an associate	479	479
Total financial assets	**415,309**	**436,209**
Total	**417,404**	**439,018**
Total current	416,925	438,539
Total non-current	479	479
Total	**417,404**	**439,018**

(in thousands of euros, unless stated otherwise)

Derivatives designated as hedging instruments reflect the positive change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable forecast sales in several currencies, mainly US dollars (USD) and in Japanese yen (JPY).

Loans and receivables are non-derivative financial assets carried at amortised cost which generate a fixed or variable interest income for Vion. The carrying value may be affected by changes in the credit risk of the counterparties.

32.2 Financial liabilities	2017	2016
Interest-bearing loans and borrowings		
Secured financing facility of € 200 million (2016: € 125 million)	52,396	55,755
Loans from minority shareholders	9,932	9,191
Financial lease obligations	7,139	7,651
Bank loan of € 1.8 million	330	690
Total interest-bearing loans and borrowings	**69,797**	**73,287**
Derivatives designated as hedging instruments		
Foreign exchange forward contracts	409	2,670
Financial liabilities at fair value through profit or loss		
Subsequent payments and earn out agreements related to acquisitions	936	11,329
Total financial instruments at fair value	**1,345**	**13,999**
Other financial liabilities at amortised cost, other than interest-bearing loans and borrowings		
Trade and other payables	345,604	350,977
Dividend payable to minority shareholders	4,733	5,052
Other payables (note 25 Other financial liabilities)	88	–
Total financial liabilities	**350,425**	**356,029**
Total	**421,567**	**443,315**
Total current	404,346	420,137
Total non-current	17,221	23,178
Total	**421,567**	**443,315**

(in thousands of euros, unless stated otherwise)

Interest-bearing loans and borrowings
Details regarding interest-bearing loans and borrowings are disclosed in note 24 Interest-bearing loans and borrowings.

Derivatives designated as hedging instruments
Derivatives designated as hedging instruments reflect the negative change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable future sales in several currencies, mainly in USD and JPY.

Subsequent payments and earn out agreements related to acquisitions
As part of the purchase agreement with the previous minority owners of Vion SA, a contingent consideration has been agreed. This consideration is dependent on the average EBITDA over de years 2010 until 2014 times a multiplier. This multiplier is dependent on several performance targets during a three year period. The fair value decreased due to payments during 2017. The contingent consideration is due for final measurement and payment to the former shareholders on 31 March 2018.

Dividend payable to minority shareholders
Dividend payable to minority shareholders relate to Vion's minimum dividend agreements with a number of minority shareholders.

32.3 Hedge accounting and derivatives
Cash flow hedges
Foreign currency risk
Foreign exchange forward contracts measured at fair value through OCI are designated as hedging instruments in cash flow hedges of forecast sales in foreign currencies where delivery will not take place within one week. This mainly comprise of sales in US dollar, Japanese yen, Australian dollar, Singapore dollar and Canadian dollar. These forecast transactions are highly probable, and they comprise 100% of Vion's total sales orders in these currencies.
The foreign exchange forward contract balances vary with the level of expected foreign currency sales and changes in foreign exchange forward rates.

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Foreign currency forward contracts designated as hedging instruments				
Fair value	2,095	409	2,809	2,670

The terms of the foreign currency forward contracts are in line with the terms of the expected highly probable forecast transactions. As a result, the hedge ineffectiveness recognised in the statement of profit and loss is minimal.

The cash flow hedges of the expected future sales in 2017 were assessed to be highly effective and a net unrealised gain of € 1.5 million (2016: € 0.1 million gain), with a deferred tax liability of € 0.4 million (2016: € 0.0 million) relating to the hedging instruments, is included in OCI.

The amount removed from OCI during the year and included in the carrying amount of the hedged items as a basis adjustment for 2017 amounts to € 1.1 million (2016: € 0.9 million). The amounts retained in OCI at 31 December 2017 are expected to mature and affect the statement of profit and loss in 2018.

32.4 Fair values

Comparison of carrying amounts and fair values

The management assessed that the fair values of Cash and cash equivalents, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Loan to an associate is evaluated by Vion based on parameters such as interest rates, specific country risk factors and individual creditworthiness of the associate. Based on this evaluation, no allowance is taken into account for this loan receivables.
- The fair value of loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. The valuation requires management to use unobservable inputs in the model, of which the significant unobservable inputs are disclosed in the tables below. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.
- Vion enters into derivative financial instruments with financial institutions which all have investment grade credit ratings. Foreign exchange forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing models using fair value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies and currency basis spreads between the respective currencies.
- The fair values of Vion's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2017 and 2016 are as shown below:

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Subsequent payments and earn out agreements related to acquisitions	Nominal value	Own non-performance risk	2017: - 2016: -	The payment is based on several agreed upon targets relating to the years 2015 – 2017. The valuation is based on the actual performance. Therefore no sensitivity is applicable.
Dividend payable to minority shareholders	Nominal value	Own non-performance risk	2017: - 2016: -	The current part of the dividend payable fully relates to the results of the current year. The non-current part relates to 2018 and is based on the contractual mininum. Any increase is fully related to next year's performance of the concerning entities.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Fair value measurement hierarchy

The following table provides the fair value measurement hierarchy of Vion's assets and liabilities:

Fair value measurement hierarchy for liabilities as at 31 December 2017	note	Date of valuation	Total	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value						
Derivative financial assets	17					
– Foreign exchange forward contracts USD		31-12-2017	887		887	
– Foreign exchange forward contracts JPY		31-12-2017	1,029		1,029	
– Foreign exchange forward contracts other currencies		31-12-2017	179		179	
Assets for which fair values are disclosed						
Investment properties	13					
– Retail properties		31-12-2017	1,450		1,450	
Loan to an associate	17	31-12-2017	479			479
Liabilities measured at fair value						
Derivatives financial liabilities	25					
– Foreign exchange forward contracts USD		31-12-2017	131		131	
– Foreign exchange forward contracts JPY		31-12-2017	40		40	
– Foreign exchange forward contracts other currencies		31-12-2017	238		238	
Subsequent payments and earn out agreements related to acquisitions	25	31-12-2017	936			936
Liabilities for which fair values are disclosed						
Interest-bearing loans and borrowings	24					
– Secured financing facility of € 200 million (2016: € 125 million)		31-12-2017	52,396		52,396	
– Financial lease obligations		31-12-2017	7,139		7,139	
– Loans from minority shareholders		31-12-2017	9,932		9,932	
– Bank loan of € 1.8 million		31-12-2017	330		330	
Dividend payable to minority shareholders	25	31-12-2017	4,733			4,733
Other payables	25	31-12-2017	88			88

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Fair value measurement hierarchy for liabilities as at 31 December 2016	note	Date of valuation	Total	Fair value measurement using Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value						
Derivative financial assets	17					
– Foreign exchange forward contracts USD		31-12-2016	215		215	
– Foreign exchange forward contracts JPY		31-12-2016	2,213		2,213	
– Foreign exchange forward contracts other currencies		31-12-2016	381		381	
Assets for which fair values are disclosed						
Investment properties	13					
Retail properties		31-12-2016	1,701		1,701	
Loan to an associate	17	31-12-2016	479			479
Liabilities measured at fair value						
Derivatives financial liabilities	25					
– Foreign exchange forward contracts USD		31-12-2016	2,418		2,418	
– Foreign exchange forward contracts JPY		31-12-2016	27		27	
– Foreign exchange forward contracts other currencies		31-12-2016	225		225	
Subsequent payments and earn out agreements related to acquisitions	25	31-12-2016	11,329			11,329
Liabilities for which fair values are disclosed						
Interest-bearing loans and borrowings	24					
– Secured financing facility of € 200 million (2016: € 125 million)		31-12-2016	55,755		55,755	
– Financial lease obligations		31-12-2016	7,651		7,651	
– Loans from minority shareholders		31-12-2016	9,191		9,191	
– Bank loan of € 1.8 million		31-12-2016	690		690	
Dividend payable to minority shareholders	25	31-12-2016	5,052			5,052

32.5 Financial risk management objectives and policies

Vion's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance Vion's operations. Vion's principal financial assets include loans, trade and other receivables, and Cash and cash equivalents that derive directly from its operations.

Financial risk management

Vion is exposed to a variety of financial risks, such as credit risk, foreign currency risk, interest rate risk and liquidity risk. These risks are inherent to the way Vion operates as a multinational with several local operating companies. Vion's overall risk management policy is to identify, assess and, if necessary, mitigate these financial risks in order to minimise potential adverse effects on its financial performance.

The treasury policies include the use of derivative financial instruments to hedge certain exposures. The management board is ultimately responsible for risk management. Financial risk management is, except for credit risk of non-financial counterparties, carried out by Group Treasury in line with clearly formalised treasury policies.

Group Treasury identifies, evaluates and hedges financial risks at corporate level and monitors compliance with its policies within Vion. Vion has a risk management and compliance committee that advises the management board on risk management.

The capitalisation and funding of operating companies is a responsibility of Group Treasury, but managed in close cooperation with Group Tax as the combination of equity and short term intercompany loans is mostly used as a financing structure. Decisions regarding the debt-to-equity ratio are based on various aspects including minimum regulatory requirements and the flexibility to change the structure. Vion has no restrictions in paying intercompany cash dividends or in repaying intercompany loans. The divisions and operating companies are primarily responsible for identifying and managing financial risks, especially in relation to transactions in foreign currencies.

Within the boundaries set in the treasury policies, the operating companies execute appropriate foreign currency risk management activities. Vion does not purchase or hold any financial derivatives for trading purposes, and primarily uses derivative financial instruments to manage its foreign currency risk. These financial transactions are all executed through Group Treasury and qualify for hedge accounting. Therefore, gains or losses arising from changes in the fair value of derivatives are included in the profit and loss statement (under cash flow hedge accounting) when these changes are compensated by an equivalent change in the fair value of the hedged items.

Group Treasury is responsible for reporting to the management board on Vion's exposure to a number of financial risks, including liquidity, foreign exchange and interest exposure.

The sensitivity analyses in the following sections relate to the position as at 31 December in 2017 and 2016. The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2017.

The analyses exclude the impact of movements in market variables on: the carrying values of pension and other post-retirement obligations; provisions; and the non-financial assets and liabilities of foreign operations.
The following assumptions have been made in calculating the sensitivity analyses:
– The sensitivity of the relevant statement of profit and loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2017 and 2016 including the effect of hedge accounting.
– The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges at 31 December 2017 for the effects of the assumed changes of the underlying risk.

Credit risk
Credit risk represents the accounting loss that has to be recognised on the reporting date if counterparties fail to perform as contracted. Credit risk is carried out by Corporate Credit Risk Management (CCRM). In line with clearly formalised policies and terms of the agreement with the external credit insurer, CCRM is operating as a credit insurer within Vion. All guidelines and procedures are audited and checked by banks and insurance companies. Vion has a history of very low credit losses.

Vion only trades with creditworthy parties and has adopted procedures to monitor the creditworthiness of these parties. Vion has established guidelines to limit the magnitude of the credit risk for each party. In addition, Vion continually monitors its receivables and uses a strict collection procedure. These measures minimise the credit risk for Vion. There are no significant concentrations of credit risk within Vion.

Foreign currency risk
Vion is exposed to currency risks in the following areas:
– transaction risk on anticipated sales, and on the balance sheet receivables or payables arising from such transactions;
– currency conversion risk arising from currency conversion differences on intercompany and external payables and deposits in foreign currency;
– currency conversion risk on net investments in consolidated foreign entities;
– currency conversion risk on the net result of foreign entities.
Vion makes use of a financial policy to deal with currency risks. This policy states that committed transactional positions should be hedged using forward contracts. In general, the average duration of these contracts is three to four months. Vion generally strives to fund local entities in their functional currency. The currency of the external funding and deposits of Vion is based on the financial policy coupled with the required funding of companies within Vion. This can be either directly by external foreign currency loans and deposits or through currency swaps.

The currency conversion risk on the capital invested in consolidated foreign entities financed with their own resources is partially hedged based on the policy approved by the management board. If these types of hedging transactions are entered into, these are recognised as a hedge of a net investment in a foreign entity. Vion does not hedge the currency conversion risk on the net result of foreign entities.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

The notional value of the forward exchange contracts to hedge the described currency risks, particularly the US dollar, Japanese yen and British pound, amounted to a total of € 168 million net at year-end 2017 (2016: € 194 million). The fair value of these contracts at the balance sheet date was a positive amount totalling € 1.7 million (2016 positive € 0.1 million). The fair values of all financial instruments approximate the book values. All forward exchange contracts are to be settled within 1 year.

Foreign currency sensitivity
The following tables demonstrate the sensitivity to a reasonably possible change in USD and JPY exchange rates, with all other variables held constant. The impact on Vion's profit before tax is due to changes in the fair value of monetary assets and liabilities. As Vion fully hedges these currencies, the impact on the profit before tax is nil. The impact on Vion's pre-tax equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges. Vion's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	Effect on profit before tax	Effect on pre-tax equity
2017	**+5%**	**–**	**+ 2,467**
	–5%	**–**	**– 2,726**
2016	+5%	–	+ 4,214
	–5%	–	– 4,657

	Change in JPY rate	Effect on profit before tax	Effect on pre-tax equity
2017	**+5%**	**–**	**+ 2,083**
	–5%	**–**	**– 2,302**
2016	+5%	–	+ 2,569
	–5%	–	– 2,839

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

Interest rate risk

Vion is partly financed with interest-bearing borrowings, but Vion's exposure to interest rate risk (especially due to limited long-term debt) is limited. Vion considers the financial policy to deal with interest rate risk. This policy allows for the use of derivatives. However, no interest rate swaps were held in 2017 (2016: none).

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, Vion's profit before tax is affected through the impact on floating rate borrowings, as follows:

		Increase/ decrease in basis points	Effect on profit before tax
2017	Euro	**+50**	**–312**
	Euro	**–50**	**+312**
2016	Euro	+50	–168
	Euro	–50	+168

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment.

Liquidity risk

The primary objective of liquidity management is to provide sufficient cash and cash equivalents at all times to enable Vion to meet its payment obligations. Management monitors forecasts of Vion's liquidity reserves on the basis of expected cash flows. Vion has a committed credit facilities of € 200 million maturing in May 2022.

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

The table below summarises the maturity profile of Vion's financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2017	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings						
– Secured financing facility of € 200 million (2016: € 125 million)	–	52,396	–	–	–	52,396
– Financial lease obligations	–	240	690	3,605	2,604	7,139
– Loans from minority shareholders	–	–	–	–	9,932	9,932
– Bank loan of € 1.8 million	–	–	330	–	–	330
Dividend payable to minority shareholders	–	–	3,741	992	–	4,733
Other payables (note 25 Other financial liabilities)	–	–	–	88	–	88
Subsequent payments and earn out agreements related to acquisitions	–	–	936	–	–	936
Trade and other liabilities	–	330,607	14,997	–	–	345,604
Derivatives financial liabilities	–	385	24	–	–	409
Total	**–**	**383,628**	**20,718**	**4,685**	**12,536**	**421,567**

Year ended 31 December 2016	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings						
– Secured financing facility of € 200 million (2016: € 125 million)	–	55,755	–	–	–	55,755
– Financial lease obligations	–	242	682	3,699	3,028	7,651
– Loans from minority shareholders	–	–	–	–	9,191	9,191
– Bank loan of € 1.8 million	–	–	330	360	–	690
Dividend payable to minority shareholders	–	–	3,839	1,213	–	5,052
Other payables (note 25 Other financial liabilities)	–	–	–	–	–	–
Subsequent payments and earn out agreements related to acquisitions	–	–	5,612	5,717	–	11,329
Trade and other liabilities	–	344,897	6,080	–	–	350,977
Derivatives financial liabilities	–	2,300	367	3	–	2,670
Total	**–**	**403,194**	**16,910**	**10,992**	**12,219**	**443,315**

2 Notes to the consolidated financial statements

(in thousands of euros, unless stated otherwise)

33 List of principal subsidiaries

(in percent)

	Proportion of ordinary shares directly held by Vion	Country of incorporation
A. Moksel GmbH		Germany
De Groene Weg B.V.		the Netherlands
Encebe Vleeswaren B.V.		the Netherlands
Salomon Hitburger GmbH		Germany
SFB Fleisch- und Kühlcentrale GmbH&Co KG	62.5	Germany
Südfleisch GmbH		Germany
Südfleisch Waldkraiburg GmbH		Germany
Südost-Fleisch GmbH		Germany
VION Apeldoorn B.V.		the Netherlands
VION Boxtel B.V.		the Netherlands
VION Convenience GmbH		Germany
VION Crailsheim GmbH		Germany
VION EGN Südostbayern GmbH	51	Germany
VION Emstek GmbH		Germany
VION Enschede B.V.		the Netherlands
VION Farming B.V.		the Netherlands
VION FKM Furth im Wald GmbH	70	Germany
VION Food (NL Division) Ltd *		United Kingdom
VION Food Group Ltd *		United Kingdom
VION Food International B.V.		the Netherlands
VION Food North GmbH		Germany
VION Food Schotland Ltd *		United Kingdom
VION Groenlo B.V.		the Netherlands
VION Holdorf TK GmbH		Germany
VION International B.V.		the Netherlands
VION Perleberg GmbH		Germany
VION Retail Groenlo B.V.		the Netherlands
VION Retail Nederland B.V.		the Netherlands
VION SBL Landshut GmbH	51	Germany
VION Subco JJT Ltd (i.L) *		United Kingdom
VION Scherpenzeel B.V.		the Netherlands
VION Tilburg B.V.		the Netherlands
VION Zucht- und Nutzvieh GmbH		Germany

* The marked UK registered participating interests are exempt from the Companies Act 2006 requirements relating to the audit of their individual financial statements by virtue of Section 479A of the Act as Vion has guaranteed the subsidiary companies under Section 479C of the Act.

An entity is assumed to be a principal subsidiary if it is representing more than 5% of either consolidated group sales or operating result (before any intra-group eliminations). In addition subsidiaries with a legal disclosure requirement are included in the list of principal subsidiaries.

Consolidated subsidiaries

Unless otherwise indicated, these are wholly owned subsidiaries. The disclosed significant subsidiaries represent the most important subsidiaries based on revenues and operating result, before elimination of intercompany transactions within the Group. The list of companies represents approx. 82.7% of consolidated net sales. Subsidiaries not important to providing an insight into Vion are omitted from this list. A full list of all subsidiaries part of the Group is laid down at the Dutch Chamber of Commerce.

34 Subsequent events

On 27 December 2017 Vion signed the purchase agreement for the acquisition of an additional 20% of the shares in BestHides GmbH, a globally active supplier of chilled and wet salted hides and wet salted calfskins from north, central and south Germany. The effective date of the acquisition is 1 January 2018. The acquisition underlines the growth strategy announced by the company and fits with the strategy to move up in the value chain.

After the transaction Vion holds 60% of the shares in BestHides GmbH. Based on the purchase agreements and the shareholder agreement between the shareholders Vion gains control over BestHides GmbH as from the acquisition date. Therefore Vion will include the results of BestHides GmbH in its consolidated financial statements as from 1 January 2018 onwards.

The consideration paid at the beginning of 2018 for the additional shares acquired amounts to € 2.3 million. As the valuation of the assets and liabilities acquired as part of the purchase price allocation is not yet finalised, the goodwill value or bargain purchase gain has not been determined yet. Nor has the value of the remaining minority share been determined. The purchase price allocation is expected to be completed in the first half of 2018. As part of the acquisition no further contingent consideration agreements have been agreed with the seller, nor have any indemnification assets been agreed.

3 Company financial statements

(in thousands of euros, unless stated otherwise)

3.1 Company statement of financial position

Assets	note	2017	2016	As at 1 January 2016
Non-current assets				
Subsidiaries	2	407,452	389,301	379,472
Other non-current financial assets	3	–	4,565	4,498
Deferred tax assets	4	16,151	19,488	–
Total non-current assets		**423,603**	**413,354**	**383,970**
Current assets				
Receivables from group companies		10,259	–	54,714
Other receivables		663	44	15
Cash and cash equivalents		–	–	55
Total current assets		**10,922**	**44**	**54,784**
Total assets		**434,525**	**413,398**	**438,754**

3 Company financial statements

(in thousands of euros, unless stated otherwise)

Equity and liabilities	note	2017	2016	As at 1 January 2016
Equity				
Issued capital		2,285	2,285	2,285
Share premium		372,716	372,716	372,716
Legal reserves		19,612	10,623	2,834
Retained earnings		19,785	–10,868	–1,831
Result for the year		20,122	36,521	–
Total equity	5	**434,520**	**411,277**	**376,004**
Current liabilities				
Payables to group companies	6	–	2,088	62,749
Other payables		5	33	1
Cash and cash equivalents		–	–	–
Total liabilities		**5**	**2,121**	**62,750**
Total equity and liabilities		**434,525**	**413,398**	**438,754**

3.2 Company statement of profit and loss

	2017	2016
Result from group companies after taxation	15,030	11,077
Other results after taxation	5,092	25,444
Net result for the period	**20,122**	**36,521**

4 Notes to the company financial statements

(in thousands of euros, unless stated otherwise)

1 Accounting policies for the company financial statements

1.1 General information

The company financial statements have been prepared in accordance with the provisions of Part 9, Book 2, of the Dutch Civil Code. The company uses the option of Article 362.8 of Part 9, Book 2, of the Dutch Civil Code to prepare the company financial statements, using the same accounting policies as in the consolidated financial statements. Valuation is based on recognition and measurement requirements of accounting standards adopted by the EU (i.e. only IFRS that is adopted for use in the EU at the date of authorisation) as explained further in the notes to the consolidated financial statements. The company presents a condensed income statement, using the facility of Article 402 of Part 9, Book 2, of the Dutch Civil Code.

A list of consolidated entities, referred to in Articles 379 and 414 of Book 2 of the Dutch Civil Code, has been filed with the Trade Register of the Chamber of Commerce of Utrecht.

1.2 Significant accounting policies

Group companies

Group companies are subsidiaries, associates and joint ventures in which Vion Holding N.V. participates. Group companies are recognised using the equity method of accounting.

Movements in the carrying amounts arising from the share of profit of subsidiaries are recognised in accordance with the accounting policies of Vion Holding N.V. in profit and loss. The distributable reserves of subsidiaries are recognised in other reserves.

Receivables from and payables to group companies

Positions with group companies are recognised at amortised cost.

First–time adoption of IFRS

The impact of the first–time adoption of IFRS is described in section 4.2.4 Significant accounting policies, First–time adoption of IFRS. Except for the valuation of the Escrow for an amount of € 112 thousand, all remeasurements have their impact on the valuation of subsidiaries.

4 Notes to the company financial statements

(in thousands of euros, unless stated otherwise)

Reconciliation of equity as at 1 January 2016 (date of transition to IFRS)

	Dutch GAAP	Remeasure-ments	IFRS as at 1 January 2016
Assets			
Non-current assets			
Subsidiaries	402,901	–23,429	379,472
Other non-current financial assets	4,748	–250	4,498
Deferred tax assets	–	–	–
Total non-current assets	**407,649**	**–23,679**	**383,970**
Current assets			
Receivables from group companies	54,714	–	54,714
Other receivables	15	–	15
Cash and cash equivalents	55	–	55
Total current assets	**54,784**	**–**	**54,784**
Total assets	**462,433**	**–23,679**	**438,754**

	Dutch GAAP	Remeasure-ments	IFRS as at 1 January 2016
Equity			
Issued capital	2,285	–	2,285
Share premium	372,716	–	372,716
Legal reserves	2,834	–	2,834
Retained earnings	21,848	–23,679	–1,831
Total equity	**399,683**	**–23,679**	**376,004**
Current liabilities			
Payables to group companies	62,749	–	62,749
Other payables	1	–	1
Total liabilities	**62,750**	**–**	**62,750**
Total equity and liabilities	**462,433**	**–23,679**	**438,754**

4 Notes to the company financial statements

Reconciliation of equity as at 31 December 2016

	Dutch GAAP	Remeasure-ments	IFRS as at 31 December 2016
Assets			
Non-current assets			
Subsidiaries	409,077	–19,776	389,301
Other non-current financial assets	4,703	–138	4,565
Deferred tax assets	19,488	–	19,488
Total non-current assets	**433,268**	**–19,914**	**413,354**
Current assets			
Other receivables	44	–	44
Total current assets	**44**	**–**	**44**
Total assets	**433,312**	**–19,914**	**413,398**

	Dutch GAAP	Remeasure-ments	IFRS as at 31 December 2016
Equity			
Issued capital	2,285	–	2,285
Share premium	372,716	–	372,716
Legal reserves	9,744	879	10,623
Retained earnings	46,446	–20,793	25,653
Total equity	**431,191**	**–19,914**	**411,277**
Current liabilities			
Payables to group companies	2,088	–	2,088
Other payables	33	–	33
Total liabilities	**2,121**	**–**	**2,121**
Total equity and liabilities	**433,312**	**–19,914**	**413,398**

4 Notes to the company financial statements

Group reconciliation of Statement of profit or loss for the year ended 31 December 2016

	Dutch GAAP	Remeasure-ments	IFRS as at 31 December 2016
Result from group companies after taxation	5,566	5,511	11,077
Other results after taxation	25,332	112	25,444
Net result for the period	**30,898**	**5,623**	**36,521**

2 Subsidiaries

	2017	2016
Balance at 1 January	**389,301**	**379,472**
Result	15,030	11,077
Transactions with minority shareholders	1,258	591
Other comprehensive income	1,863	–1,839
Balance at 31 December	**407,452**	**389,301**

3 Other non-current financial assets

	2017	2016
Balance at 1 January	**4,565**	**4,498**
Additions	–	67
Interest	138	–
Settlement	–4,703	–
Balance at 31 December	**–**	**4,565**

The escrow account has been settled during 2017, further details are presented in note 17 Other financial assets, in the section Notes to the consolidated financial statements.

4 Notes to the company financial statements

4 Deferred tax assets

	2017	2016
Balance at 1 January	**19,488**	**–**
Additions	–	19,488
Deduction	–3,337	–
Balance at 31 December	**16,151**	**19,488**

The deferred tax assets relate to the valuation of losses carried forward concerning the Dutch fiscal unity of which Vion Holding N.V. is the parent company.

5 Equity

Statement of changes in equity	Issued capital	Share premium	Legal reserves: Cash flow hedge reserve	Legal reserves: Foreign currency translation reserve	Legal reserves: Other Legal reserves	Retained earnings	Result for the year	Total
Balance at 1 January 2016	**2,285**	**372,716**	**–**	**–981**	**3,815**	**–1,831**	**–**	**376,004**
Profit for the period	–	–	–	–	–	–	36,521	36,521
Other comprehensive income	–	–	879	610	–	–3,328	–	–1,839
Total comprehensive income	**–**	**–**	**879**	**610**	**–**	**–3,328**	**36,521**	**34,682**
Transfer to legal reserve	–	–	–	–	6,300	–6,300	–	–
Transactions with minority shareholders	–	–	–	–	–	591	–	591
Balance at 31 December 2016	**2,285**	**372,716**	**879**	**–371**	**10,115**	**–10,868**	**36,521**	**411,277**
Appropriation of result	–	–	–	–	–	36,521	–36,521	–
Profit for the period	–	–	–	–	–	–	20,122	20,122
Other comprehensive income	–	–	1,141	–2	–	724	–	1,863
Total comprehensive income	**–**	**–**	**1,141**	**–2**	**–**	**724**	**20,122**	**21,985**
Transfer to legal reserve	–	–	–	–	7,850	–7,850	–	–
Transactions with minority shareholders	–	–	–	–	–	1,258	–	1,258
Balance at 31 December 2017	**2,285**	**372,716**	**2,020**	**–373**	**17,965**	**19,785**	**20,122**	**434,520**

The other legal reserves relates to capitalised internally developed software (2017: € 15.5 million; 2016: € 8.2 million) and to not free distributable profits and reserves of shareholdings (2017: € 2.5 million; 2016: € 1.9 million).

Further details are presented in note 23 Equity, in the section Notes to the consolidated financial statements.

4 Notes to the company financial statements

6 Payables to group companies

	2017	2016
Payables	–	2,088

7 Commitments and contingencies

Vion Holding N.V. heads the Dutch fiscal unity for corporate income tax. As a result, Vion Holding N.V. is jointly and severally liable for the corporate income tax for the entire Dutch fiscal unity. With respect to the separate financial statements of the Dutch legal entities included in the consolidation, Vion Holding N.V. availed itself of the exemption laid down in section 403, subsection 1 of Book 2 of the Dutch Civil Code. Pursuant to said section 403, Vion Holding N.V. has assumed joint and several liability for the debts arising out of the legal acts of a number of subsidiaries in the Netherlands, which form part of the consolidation. The names of the subsidiaries for which Vion Holding N.V. has issued 403 are open for inspection at the trade register as managed by the Netherlands Chamber of Commerce.

8 Auditor's fee

Ernst & Young Accountants LLP and other Ernst & Young lines of service charged the following fees pursuant to Section 382a(3) of Book 2 of the Dutch Civil Code to Vion, its subsidiaries and other consolidated entities:

	2017			2016		
	EY The Netherlands	EY International	Total	EY The Netherlands	EY International	Total
Annual accounts audit	616	680	1,296	637	783	1,420
Other audit related services	217	336	553	36	228	264
Tax related activities	–	–	–	137	–	137
Other	–	–	–	5	5	10
	833	1,016	1,849	815	1,016	1,831

The other audit related services include an amount of € 180 thousand related to the IFRS implementation.

4 Notes to the company financial statements

9 Proposed appropriation of profit and loss

With the approval of the supervisory board, the management board has decided that out of the net result for 2017 of € 20.1 million a sum of € 10.6 million should be added to the reserves. The remaining € 9.5 million is at the disposal of the general meeting of shareholders. We propose that the remaining sum be distributed as dividend, implying a dividend for 2017 of € 187.07 (€ 9.5 million/50,784) per share.

	2017
Addition to reserves	10,622
Dividend distribution	9,500
Net result 2017	**20,122**

10 Subsequent events

On 27 December 2017 Vion signed the purchase agreement for the acquisition of an additional 20% of the shares in BestHides GmbH, a globally active supplier of chilled and wet salted hides and wet salted calfskins from north, central and south Germany. The effective date of the acquisition is 1 January 2018. The acquisition underlines the growth strategy announced by the company and fits with the strategy to move up in the value chain.

After the transaction Vion holds 60% of the shares in BestHides GmbH. Based on the purchase agreements and the shareholder agreement between the shareholders Vion gains control over BestHides GmbH as from the acquisition date. Therefore Vion will include the results of BestHides GmbH in its consolidated financial statements as from 1 January 2018 onwards.

The consideration paid at the beginning of 2018 for the additional shares acquired amounts to € 2.3 million. As the valuation of the assets and liabilities acquired as part of the purchase price allocation is not yet finalised, the goodwill value or bargain purchase gain has not been determined yet. Nor has the value of the remaining minority share been determined. The purchase price allocation is expected to be completed in the first half of 2018. As part of the acquisition no further contingent consideration agreements have been agreed with the seller, nor have any indemnification assets been agreed.

Boxtel, 23 March 2018

Management board
F.J.L.J. Kint, CEO
J.L.M. Sliepenbeek, CFO

Supervisory board
S.N. Schat, chairman
J.A.M. Huijbers, vice chairman
M. Bax
T. Heidman
A.J.M. van Hoof
T.P. Koekkoek
A.T.C. van der Laan
R.E.M. Lotgerink

5 Other information

(in thousands of euros, unless stated otherwise)

5.1 Profit and loss appropriation according to the articles of association

Article 23 of the Articles of Association reads as follows:

Paragraph 1

The management board, subject to approval by the supervisory board, will reserve amounts from the result as specified in the annual accounts adopted by the general meeting of shareholders. The remaining result is at the disposal of the general meeting of shareholders.

Paragraph 2

The company may only make distributions to the shareholders and other parties entitled to the result available for distribution insofar as the equity exceeds the amount of the issued capital plus the reserves that must be maintained by law.

5 Other information

5.2 Independent auditor's report

To: the shareholders and management of Vion Holding N.V.

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

We have audited the financial statements 2017 of Vion Holding N.V., based in Best.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Vion Holding N.V. as at 31 December 2017, and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:
- The consolidated and company statement of financial position as at 31 December 2017;
- The following statements for 2017: the consolidated and company statement of profit and loss, the consolidated statement of total comprehensive income, changes in equity and cash flows; and
- The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Vion Holding N.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

5 Other information

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Management review, including Foreword;
- Information regarding Company profile, Key figures, Mission, vision and strategy, Corporate governance, Risk management and Remuneration;
- Report of the Supervisory Board;
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements;
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management board's report (Management review) in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

5 Other information

Description of responsibilities for the financial statements

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.,:

– Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
– Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
– Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

5 Other information

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company'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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

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

Eindhoven, 23 March 2018

Ernst & Young Accountants LLP

signed by R.E.J. Pluymakers

Vion

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