

Tempur UK Limited

Report and financial statements

Registered number 2748033

31 December 2016

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Strategic report

Business review

Tempur UK Ltd is part of Tempur Sealy International Inc. a developer, manufacturer, marketer and distributor of bedding products. Tempur UK Ltd sells its products in the United Kingdom and Ireland.

Tempur Sealy International, Inc. sells its products in approximately 100 countries primarily under the Tempur and Sealy brands. It operates in two segments: North America and International. The North America segment consists of Tempur and Sealy manufacturing and distribution subsidiaries, joint ventures and licensees located in the United States and Canada. The International segment consists of Tempur and Sealy manufacturing and distribution subsidiaries, joint ventures and licensees located in Europe, Asia-Pacific and Latin America. Tempur Sealy International, Inc. sells its products through two distribution channels in each segment: Retail and Other.

Company Vision

Improving the sleep of more people every night, all around the world.

Key Performance Indicators (KPIs)

- 2016 Net sales £46,222,000 (+11% vs 2015)
- 2016 Gross profit £10,690,000 (-2% vs 2015)
- 2016 Operating profit £1,606,000 (+62% vs 2015)

The highest proportion of net sales of Tempur UK Limited comes from the retail segment. The UK trading environment did become more challenging after the EU referendum in June 2016 but our strategic goals were met and we achieved growth in all business segments.

Principal Risks and uncertainties

A principal source of the company's net sales is through the retail sector. The global economy improved slightly in 2016, but we expect the UK economic environment to continue to be challenging as continued economic uncertainty has generally given households less confidence to make discretionary purchases of high ticket household goods.

Interest Risk

Interest rate risk is limited as the company does not have any external debt.

Credit Risk

Exposure takes the form of those who may not meet their obligation to agreed terms; the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The company believes its financial risk has been minimised by credit checking new retail customers, offering early settlement discounts and tightly managing our customers within their credit terms.

By order of the board


T James
Director 29/09/17

Caxton Point
Printing House Lane
Hayes
Middlesex
UB3 1AP

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2016.

Principal activity

The principal activity of the company is to distribute and sell mattresses, pillows and beds through furniture/bed stores, department stores and direct sales.

Going Concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives and its exposures to price, credit, liquidity and cash flow risk are described in the Strategic Report on page 1.

The company has sufficient financial resources together with long-term contracts with a number of customers. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Environment

The company is committed to protecting the environment by ensuring all its products meet the European standards and regulations such as RoHS and WEEE.

Outlook

Since the year end, trading conditions remained challenging. However we have continued to make significant investments into national advertising and we expect to achieve our 2017 strategic goals. .

Results and dividends

The profit after tax for the year amounted to £1,231,000 (2015:£1,033,000). The directors recommend the payment of any dividends £nil (2015: £nil). No dividend was paid during the year.

Directors and directors' interests

The directors who held office during the year were as follows:

T James
D Montgomery
B A Hytinen

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Directors' report *(continued)*

Political and charitable contributions

The company made no political contributions during the year (2015: *£nil*). Donations to UK charities amounted to £10,598 (2015: £1,835).

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

By order of the board



T James
Director

29/09/17

Caxton Point
Printing House Lane
Hayes
Middlesex
UB3 1AP

Statement of directors' responsibilities in respect of the Strategic Report, Directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEMPUR UK LIMITED

We have audited the financial statements of Tempur UK Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position and the Statement of Changes in Equity and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard (FRS) 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard (FRS) 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

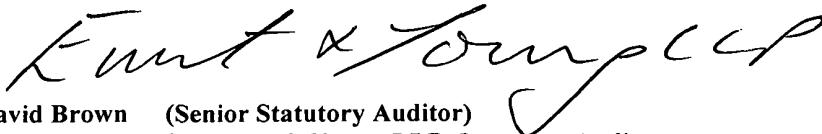
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEMPUR UK LIMITED *(continued)*

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



David Brown (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

Reading

Date

29-09-2017

Statement of Comprehensive Income
for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Turnover	2	46,222	41,731
Cost of sales		(35,532)	(30,833)
Gross profit		10,690	10,898
Administrative expenses		(9,553)	(10,308)
Other operating income		469	402
Operating profit	3	1,606	992
Interest receivable and similar income		3	8
Interest payable and similar charges		(58)	-
Net interest income/(expense)	6	(55)	8
Profit on ordinary activities before taxation		1,551	1,000
Tax on profit on ordinary activities	7	(320)	33
Profit for the financial year		1,231	1,033
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		1,231	1,033

All of the above results are from continuing operations.

The notes on pages 11 to 20 form part of the financial statements.


Statement of Financial Position

at 31 December 2016

	Note	2016 £000	2015 £000
Fixed assets			
Tangible assets	8	883	1,036
Current assets			
Stocks		4,260	3,597
Debtors	10	11,299	10,979
Cash at bank		262	435
		<u>15,821</u>	<u>15,011</u>
Creditors: amounts falling due within one year	11	(7,817)	(8,463)
Net current assets		<u>8,004</u>	<u>6,548</u>
Total Assets less current liabilities		<u>8,887</u>	<u>7,584</u>
Provisions for liabilities	12	(358)	(335)
Net assets		<u>8,529</u>	<u>7,249</u>
Capital and reserves			
Called up share capital	13	2,200	2,200
Capital contribution reserve	14	580	531
Profit and loss account	14	5,749	4,518
Shareholder's funds		<u>8,529</u>	<u>7,249</u>

The notes on pages 11 to 20 form part of the financial statements.

These financial statements were approved by the board of directors on 29/9/17 and were signed on its behalf by:



T James
Director

Statement of Changes in Equity
for the year ended 31 December 2016

	2016 £000	2015 £000
Profit for the financial year	1,231	1,033
Credit in relation to share based payments (see note 17)	49	47
Dividends on shares classified in shareholders' funds	-	-
	<hr/>	<hr/>
Net addition in shareholder's funds	1,280	1,080
Opening shareholder's funds	7,249	6,169
	<hr/>	<hr/>
Closing shareholder's funds	8,529	7,249
	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

Tempur UK Limited is a limited liability company incorporated in England. The Registered Office is Caxton Point, Printing House Lane, Hayes, Middlesex, UB3 1AP.

The Company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Company for the year ended 31 December 2016.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements:

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards on a going concern basis and under the historical cost accounting rules.

The company is exempt from the requirement to prepare a statement of cash flows since a parent undertaking includes the company in its own publicly available consolidated financial statements.

The company has taken exemption from reporting certain related party transactions being those with wholly owned group companies.

Fixed assets and depreciation

All fixed assets are initially recorded at cost.

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets over their estimated useful economic lives as follows:

Motor vehicles	-	25% on reducing balance basis
Office equipment	-	20%-50% straight line basis
Leasehold improvements	-	Straight line over the life of the lease

Foreign currencies

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the statement of financial position date and the gains or losses on translation are included in the statement of comprehensive income.

Leases

Operating lease rentals are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the statement of comprehensive income represents the contributions payable to the scheme in respect of the accounting period.

Stocks

Stocks are stated at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items.

Notes (continued)

1 Accounting policies (continued)

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable profits from which the future reversal of the underlying differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

Dilapidations provision

A provision is made for the cost that will be required to return leased properties back to the condition in which they were originally leased. This cost is reflected in the statement of comprehensive income in line with the utilisation of the leased property. The provision is not discounted as the impact would not be material.

Revenue Recognition

Turnover represents net invoiced sales of goods delivered, excluding VAT, less trade discounts and provision for estimated returns, provided in the normal course of business. Turnover is recognised on delivery.

Share based payments

The share option programme allows employees to acquire shares of the parent company, Tempur Sealy International, Inc. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value is recognised as an employee expense with a corresponding increase in equity. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

2 Turnover

Turnover relates to the continuing principal activity of distribution and selling of pressure-relieving mattresses, pillows and beds. Sales are made wholly in the UK.

Notes (continued)

3 Operating profit

	2016 £000	2015 £000
<i>Operating profit is stated after charging:</i>		
Depreciation of owned fixed assets	378	476
Operating lease rentals:		
Land and buildings	1,320	1,581
Plant and machinery	252	298
Net foreign exchange gain/(loss)	(47)	4

Auditor's remuneration:

	2016 £000	2015 £000
Audit of these financial statements	42	32
Other services relating to taxation	8	8

4 Remuneration of directors

	2016 £000	2015 £000
Directors' emoluments	195	456
Company contributions paid to money purchase schemes	15	109
	210	565

The emoluments are all in respect of one director. All other Directors are remunerated by other Group Companies and their services to this company are incidental to their roles and no remuneration is due to them from Tempur UK Limited.

Number of directors

Retirement benefits are accruing to the following number of directors under:

	2016	2015
Money purchase schemes	1	1
The number of directors who exercised share options was:	-	-
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was:	1	1

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	2016	2015
Management and administrative staff	48	48
Sales staff	57	54
	<u>105</u>	<u>102</u>

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	2,954	3,367
Share based payments (see note 17)	49	47
Social security costs	260	504
Other pension costs	98	111
	<u>3,361</u>	<u>4,029</u>

6 Interest receivable and similar income

	2016 £000	2015 £000
Bank interest receivable	(8)	4
Interest from group undertakings	-	-
Foreign exchange gain	(47)	4
	<u>(55)</u>	<u>8</u>

Notes (continued)

7 Taxation

Analysis of tax charge / (credit) in the year

	2016 £000	2015 £000
<i>UK corporation tax</i>		
Current tax on income for the year	343	(5)
Adjustments in respect of prior periods	-	-
	<hr/>	<hr/>
Total current tax	343	(5)
	<hr/>	<hr/>
<i>Deferred tax</i>		
Origination/reversal of timing differences	(23)	(28)
Impact of share based payments	-	-
Adjustments in respect of prior periods	-	-
	<hr/>	<hr/>
Total deferred tax	(23)	(28)
	<hr/>	<hr/>
Tax on profit on ordinary activities	320	(33)
	<hr/>	<hr/>

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below.

	2016 £000	2015 £000
<i>Tax reconciliation</i>		
Profit on ordinary activities before tax	1,551	1,000
	<hr/>	<hr/>
Current tax at 20% (2015: 20.25%)	310	203
	<hr/>	<hr/>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	4	5
Depreciation in excess of capital allowances	29	53
FRS 20 adjustment	5	6
Impact of share based payments	(7)	(272)
Adjustments to tax charge in respect of previous periods	-	-
Origination/reversal of timing differences	(23)	(28)
Impact of other timing differences	2	-
Adjustments in respect of prior periods	-	-
	<hr/>	<hr/>
Total tax	320	(33)
	<hr/>	<hr/>

Factors affecting the tax charge in future periods

The Finance Act 2015 reduced the main rate of UK corporation tax from 20% to 19% from 1 April 2017. The main rate of UK corporation tax will further reduce to 17% effective from 1 April 2020 as enacted in the Finance Act 2016.

This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

Notes (continued)

The movement of deferred taxation is as follows:

	2016 £000
1st January 2016	15
Movements due to rate changes	16
Releases to profit and loss	(23)
At 31 December 2016	8

The contents of deferred taxation are as follows:

	2016 £000	2015 £000
Depreciation in excess of capital allowances	31	43
Other timing differences	(23)	(28)
	8	15

The impact from the tax rate reduction from 19% to 18% is £1,000.

8 Tangible fixed assets

	Short term leasehold improvements	Office equipment	Total
Cost	£000	£000	£000
1 st January 2016	2,225	2,889	5,114
Additions	84	141	225
At end of year	2,309	3,030	5,339
Depreciation			
1 st January 2016	1,332	2,746	4,078
Charge for year	291	87	378
At end of year	1,623	2,833	4,456
Net book value			
At 31 December 2016	686	197	883
At 31 December 2015	893	143	1,036

9 Stocks

	2016 £000	2015 £000
Finished goods and goods for resale	4,260	3,597

Stocks recognised as cost of sales in the period were £35,532 (2015: £30,833).

Notes (continued)

10 Debtors

	2016 £000	2015 £000
Trade debtors	9,093	8450
Amounts owed by group undertakings	1,484	1,614
Prepayments and accrued income	722	915
	<u>11,299</u>	<u>10,979</u>

11 Creditors: amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	1,522	1,123
Amounts owed to group undertakings	431	1,751
Other taxation and social security	457	534
Accruals and deferred income	5,064	5,055
Corporation tax	343	-
	<u>7,817</u>	<u>8,463</u>

12 Provisions for liabilities

Provisions for liabilities are made up only by the deferred taxation as well as the provision for dilapidations:

	2016 £000	2015 £000
Deferred tax liability (Note 7)	8	15
Dilapidations provision	350	320
	<u>358</u>	<u>335</u>

Notes (continued)

13 Called up share capital

	2016 £000	2015 £000
Authorised		
2,500,000 ordinary shares of £1 each	2,500	2,500
50,000 cumulative non-voting preference shares of £1 each	50	50
	<u>2,550</u>	<u>2,550</u>
	2016 £000	2015 £000
Allotted, called up and fully paid		
2,200,000 ordinary shares of £1 each	2,200	2,200
	<u>2,200</u>	<u>2,200</u>

The holders of the cumulative non-voting preference shares shall not be entitled to attend or carry any voting rights in any meeting of the members whether an Annual General Meeting or an Extraordinary General Meeting.

Except for the above, the ordinary shares and the cumulative non-voting preference shares rank *pari-passu* in all respects.

14 Reserves

	Capital Contribution reserve £000	Profit and loss account £000
1 st January 2016	531	4,518
Profit for the year	-	1,231
Credit in relation to share-based payments	49	-
Dividends	-	-
	<u>580</u>	<u>5,749</u>
At end of year	<u>580</u>	<u>5,749</u>

15 Commitments

Commitments under non-cancellable operating leases are as follows:

	2016		2015	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	1,391	115	414	23
In the second to fifth years inclusive	4,581	89	2,531	467
Over five years			1,425	-
	<u>5,972</u>	<u>204</u>	<u>4,370</u>	<u>490</u>

Notes (continued)

16 Pension scheme

The company operates a defined contribution scheme. The pension cost charged in the period represents contributions payable by the company to the scheme and amounted to £98,000 (2015: £111,000).

At the year end £12,034 of contributions were due to be paid to the scheme. (2015: £11,475).

17 Employee share schemes

Share based payments

Certain employees of the company are selected to participate in share-based payment arrangements of Tempur Sealy International, Inc., under the terms of the 2003 Equity Incentive Plan and 2013 Equity Incentive Plan.

Share options expire ten years from grant date and vest over service periods ranging from one to five years. The option price is usually set at the closing day share price at grant date. Performance restricted share units (PRSU) vest following the end of the applicable performance period and achievement of applicable performance metrics

	2016 Options	2016 PRSU	2015 Options	2015 PRSU
Outstanding At the beginning of the Period	5,840	4,801	38,769	3,675
Granted during the Period	-	2,326	2,012	1,126
Forfeited during the Period	-	(2,393)	(256)	-
Exercised during the period	(928)	(506)	(34,685)	-
Expired during the Period	-	-	-	-
Outstanding at the end of the period	<u>4,912</u>	<u>4,228</u>	<u>5,840</u>	<u>4,801</u>
Exercisable at the end of the period	<u>3,224</u>	<u>-</u>	<u>3,093</u>	<u>-</u>

Notes *(continued)*

17 Employee share schemes *(continued)*

Share options are granted under a service condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

The total expenses recognised for the period arising from share based payments are as follows:

	2016	2015
	£000	£000
Equity-settled share based payments	49	47
	<u> </u>	<u> </u>

18 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a wholly owned subsidiary undertaking of Dan-Foam ApS, a company incorporated in Denmark and the ultimate parent company is Tempur Sealy International, Inc., a company incorporated in the state of Delaware, United States of America.

The smallest group in which the results of the company are consolidated is that headed by Dan-Foam ApS, a company incorporated in Denmark. The consolidated financial statements of this group are available to the public and may be obtained from Holmelunden 43, 5560 Arup, Denmark.

The largest group in which the results of the company are consolidated is that headed by Tempur Sealy International, Inc. The consolidated financial statements of this group are available to the public and may be obtained from 1000 Tempur Way, Lexington, KY 40511 USA.