LSF9 Balta Issuer S.à r.l.

2019 QUARTERLY Report

Senior Secured Notes
due 2022

Q2 2019 -
Period ended June 30, 2019

LSF9 Balta Issuer S.à r. l.

Registered office:
15, Boulevard Friedrich Wilhelm Raiffeisen,
L-2411 Luxembourg
R.C.S. Luxembourg: B 198084

Table of Contents

1. Key Figures

(€ thousands)	H1 2019	LFL H1 2018	Impact IFRS 16 transition	Reported H1 2018
Results [1]				
Revenue	**351 413**	**321 896**		**321 896**
Adjusted EBITDA	**37 129**	**37 227**	**3 125**	**34 102**
Adjusted EBITDA Margin	**10,6%**	**11,6%**	**0,9%**	**10,6%**
Integration and restructuring expenses	(3 093)	(2 410)		(2 410)
EBITDA	34 035	34 817	3 125	31 692
Depreciation / amortisation	(19 370)	(19 018)	(2 819)	(16 199)
Operating profit / (loss) for the period	14 665	15 798	306	15 492
Net finance expenses	(12 508)	(13 540)	(823)	(12 717)
Income tax benefit / (expense)	514	(105)		(105)
Profit/(loss) for the period	**2 672**	**2 153**	**(517)**	**2 670**
Cash flow				
Cash at beginning of period	26 853	37 182		37 182
Net cash generated / (used) by operating activities	20 320	9 916	3 125	6 791
Net cash used by investing activities	(11 955)	(14 912)		(14 912)
Net cash generated / (used) by financing activities	(15 477)	(14 868)	(3 125)	(11 743)
Cash at end of period	19 741	17 317		17 317

Note 1: LfL H1 2018 figures contain the like-for-like IFRS 16 impact in order to make the figures comparable

The net cash flow is impacted by the adoption of IFRS 16. We refer to IFRS 16 adoption Note 6.5.1 for more details.

Financial position

In relation to Balta's financing agreements, the documentation provides for the effect of changes in accounting standards to be neutralized. As such, the application of IFRS 16 has no consequence for the Group's financing.

(€ thousands)	H1 2019	H2 2018
Net debt[2]	268 666	261 816
Leverage	3,7	3,6

Note 2: IFRS 16 effect is excluded from the leverage comparison (see glossary)

2. Management discussion and analysis of the results

2.1. Group Financial Highlights

- H1 consolidated: Revenue €351.4m +9.2%, Adjusted EBITDA flat at €37.1m on a like-for-like basis[1], Adjusted EBITDA margin 10.6%
  - Organic revenue growth +7.5% and FX +1.6%
  - Revenue growth by division: Rugs +18.9%, Commercial +14.2%, Residential -4.3%
  - Group EBITDA flat due to lower margin in Rugs division driven by adverse mix and temporarily higher costs
- Net Debt slightly down vs. H1 2018 (reported Net Debt H1 2019 of €311.8m includes €43.2m IFRS16 impact) on a like-for-like basis[2]
- Leverage 3.7x, down from 3.8x as at H1 2018, on a like-for-like basis[2]
- Arrival of the CTO early Q4 finalizes the renewal of the Management Committee.

2.2. Business Update

- The implementation of NEXT, the three year program designed to deliver a significant improvement in earnings, started in Q1 and is on track. NEXT highlights for the quarter across the three key pillars include:
  - Delivering sustainable growth: in Rugs, our US e-commerce sales out of our new dedicated warehouse in Savannah have improved month by month. In Commercial, sales to the targeted new segments for Bentley, as well as the cross-selling of our European carpet tiles into the US are progressing well.
  - Improving Commercial Excellence: we have successfully recruited sales talent as planned. To continuously improve the effectiveness of our sales professionals, we are progressing with Field and Forum training across the divisions, and have redefined a strategy for each key account.
  - Increasing cost competitiveness: our Lean program is progressing well in our Bentley, Tielt and Sint-Baafs-Vijve plants and has started at our Waregem and Zele plants. Procurement improvements were ahead of plan over the period.
- Strong growth in Rugs, benefiting from regained US outdoor rugs programs and the timing of some European program roll-outs which came at a higher cost due to the exceptionally high plant occupancy.
- Strong top line evolution in Commercial, driven by the continued double-digit growth of our US business both in office and new targeted segments. In Europe, volumes are down over H1 but at better prices and margins.
- In Residential, UK revenue was flat year-on-year over H1 as the pre-Brexit stocking from Q1 reversed over Q2. Trading in our Continental European markets remained subdued in the first half, but at better prices and margins.

2.3. Management Change

As part of the strengthening of Balta's organisation, to deliver NEXT and build a more agile and flexible company, the Management Committee has been amended and expanded as follows:

- **Cyrille Ragoucy** remains Chief Executive Officer
- **Jan-Christian Werner,** before Head of Group Controlling & Reporting, is Chief Financial Officer following the departure of Tom Gysens who decided to leave Balta to pursue other career

[1] Like-for-like IFRS16 adjustment on H1 2018 EBITDA
[2] Excluding impact of IFRS16

opportunities. Tom and Jan-Christian are working closely together on the transition until mid September.

Jan-Christian has extensive experience in Corporate Finance as well as Financial Controllership at international stock market listed companies. Before joining Balta in February, Jan-Christian was head of the Finance organisation for the EMEA region at Orion Engineered Carbon for five years and afterwards spent one year as acting CFO of AvesOne AG, a listed Investment holding company

- **Marc Dessein** remains Managing Director of Balta Home
- **Jim Harley** remains President of Bentley Mills in the USA and joins the Management Committee
- **Oliver Forberich** will join Balta on 2 September, as Managing Director of Balta carpets, ITC and arc edition. Oliver joins us from Bekaert where he was Chief Marketing Officer and Senior Vice President Stainless Technologies. Oliver spent twelve years at Bekaert in different leadership roles covering various geographies. Before Bekaert, Oliver also held several executive roles at Schott AG
- **Stefan Claeys** joined Balta in April to become Managing Director of modulyss, our European commercial brand for carpet tiles. Stefan has worked for the last five years at Beaulieu as the General Manager of the Technical Textiles Division. Before Beaulieu, he spent ten years at the Wienerberger Group in various leadership positions including Director Corporate Marketing and Export, CEO of Wiekor in Poland and Product Group Business Manager
- **Kris Willaert** joined Balta in June as Human Resources Director. Kris has previously served in international HR executive roles at KONE International, MasterCard Europe and Lloyds Pharma
- **Emmanuel Rigaux** will join Balta early Q4 as Chief Transformation Officer. Emmanuel has spent 20 years at LafargeHolcim in various leadership positions, most recently as Head of West & Central Africa. During his time at LafargeHolcim, Emmanuel has gained extensive experience in leading several transformation programs. Before his time at LafargeHolcim, Emmanuel spent two years at Boston Consulting Group.

.

2.4. Outlook

“First half results were overall in-line with our expectations and we remain on track for the full year 2019 guidance we provided in March. Both our Rugs and Commercial division realized solid top-line growth in the first six months of the year. At the same time, our first half margins were impacted from cost inflation and the investments in NEXT. We are focused and on track with implementing the various growth and cost saving initiatives identified in NEXT which will start benefiting our results later in the second half of the year and will bring a significant improvement in earnings as from 2020.”

3. Operating review per segment

3.1. Revenue and Adjusted EBITDA per segment

3.1.1. H1 2019

(€ million, unless otherwise stated)	*H1 2018*	*Lfl IFRS16 Impact*	Lfl H1 2018	H1 2019	% change Lfl[1]	o/w organic growth	o/w FX
Rugs	100.8		100.8	119.8	18.9%		
Commercial	101.9		101.9	116.4	14.2%		
Residential	105.1		105.1	100.6	(4.3)%		
Non-Woven	14.1		14.1	14.6	3.7%		
Consolidated Revenue	**321.9**		**321.9**	**351.4**	**9.2%**	**7.5%**	**1.6%**
Rugs	12.5	*0.4*	12.9	9.2	(29.0)%		
Commercial	14.1	*2.5*	16.6	19.2	15.8%		
Residential	6.2	*0.2*	6.4	7.9	22.5%		
Non-Woven	1.4	*0.0*	1.4	1.0	(25.3)%		
Consolidated Adjusted EBITDA	**34.2**	***3.1***	**37.3**	**37.3**	**(0.1)%**	**(2.2)%**	**2.1%**
Rugs	12.4%		12.8%	7.6%			
Commercial	13.8%		16.3%	16.5%			
Residential	5.9%		6.1%	7.8%			
Non-Woven	9.8%		9.8%	7.1%			
Consolidated Adjusted EBITDA Margin	**10.6%**		**11.6%**	**10.6%**			

Note: the segment table has been copied from the press release issued by Balta Group NV, where EBITDA is €0.1m higher than at LSF9 Balta Issuer level due to a markup on management services provided at level of Balta Group NV and then charged to LSF9 Balta Issuer and subsidiaries.

3.1.2. Q2 2019

(€ million, unless otherwise stated)	*Q2 2018*	*Lfl IFRS16 Impact*	Lfl Q2 2018	Q2 2019	% change Lfl[1]	o/w organic growth	o/w FX
Rugs	47.6		47.6	54.3	14.1%		
Commercial	53.6		53.6	60.7	13.1%		
Residential	51.5		51.5	45.8	(11.1)%		
Non-Woven	6.9		6.9	7.2	3.2%		
Consolidated Revenue	**159.6**		**159.6**	**167.9**	**5.2%**	**3.5%**	**1.6%**
Rugs	6.6	*0.2*	6.8	2.9	(56.6)%		
Commercial	8.2	*1.2*	9.4	11.5	21.6%		
Residential	3.5	*0.1*	3.6	4.6	28.9%		
Non-Woven	0.6	*0.0*	0.6	0.8	24.6%		
Consolidated Adjusted EBITDA	**18.8**	***1.6***	**20.4**	**19.8**	**(3.0)%**	**(5.1)%**	**2.1%**
Rugs	13.8%		14.2%	5.4%			
Commercial	15.3%		17.6%	18.9%			
Residential	6.7%		6.9%	10.1%			
Non-Woven	9.0%		9.0%	10.9%			
Consolidated Adjusted EBITDA Margin	**11.8%**		**12.8%**	**11.8%**			

Note: the segment table has been copied from the press release issued by Balta Group NV, where EBITDA is €0.1m higher than at LSF9 Balta Issuer level due to a markup on management services provided at level of Balta Group NV and then charged to LSF9 Balta Issuer and subsidiaries.

3.2. Group

Strong revenue growth in Rugs and Commercial was offset on an Adjusted EBITDA level by €2.0m of NEXT investments, and lower margin in Rugs due to adverse revenue mix and temporarily higher costs. Adjusted EBITDA includes a net benefit of €2.0m from the release of accruals, mainly benefiting Residential.

3.3. Rugs

Our Rugs division realized Revenue of €119.8m, up 18.9% versus the first half of 2018. In the US, we benefited from regaining share of wallet for the outdoor rugs programs with two home improvement customers. Our US e-commerce business is progressing, with sales further ramping up over Q2. We moved dedicated stock into the new e-commerce warehouse in Savannah. In Europe, the environment overall remained challenging, although we benefited from the timing of some program roll-outs with key customers.

Adjusted EBITDA in H1 was €9.2m, down from €12.9m on a like-for-like basis[1] in the same period last year. On a like-for-like basis[1], the Adjusted EBITDA margin decreased from 12.8% to 7.6%. Despite solid top-line growth, underlying margins were impacted by unfavourable mix and increased promotional activity as a result of the generally more challenging trading environment and expected cost inflation in raw materials, in particular polypropylene, energy and freight. Furthermore, investments in the various growth and cost saving initiatives from NEXT, €0.5m of which are non-recurring, weighed on our margin.

3.4. Commercial

Commercial realized Revenue of €116.4m, up 14.2% versus the first half of 2018. Our US business continued its double-digit organic growth spurred by share gains in the Office segment and growth in newly targeted segments where, accelerated under NEXT, we hired additional sales resources. In Europe, Revenue declined year on year as the environment remained more challenging.

Adjusted EBITDA in H1 was €19.2m, up from €16.6m on a like-for-like basis[1] in the same period last year with Adjusted EBITDA margin up from 16.3% to 16.5% on a like-for-like basis[1]. Volume growth and the impact from price increases had a positive effect on margins, which was partly offset by cost inflation and the initial cost of expanding our sales teams under NEXT.

3.5. Residential

Our Residential division realized Revenue of €100.6m, down 4.3% versus the first half of 2018. In the UK, while Revenue was flat year-on-year, the environment generally remained volatile. As anticipated, the positive impact in Q1 from pre-Brexit stocking by some of our UK customers reversed in Q2. The overall first half Revenue decline for the division was driven by the subdued trading environment in Continental Europe, where volume declines more than offset the positive effect from price increases we introduced across Continental Europe at the start of the year. We continue our focus on higher margin products, which grew mid-single digit in H1, and now represent 36% of Residential Revenue.

Adjusted EBITDA in H1 was €7.9m, up from €6.4m on a like-for-like basis[1] in the same period last year. On a like-for-like basis[1], Adjusted EBITDA margin in Residential of 7.8% was up from 6.1%, benefiting from a

[1] Like-for-like IFRS16 adjustment on H1 2018 EBITDA

growing share of higher margin products, price increases we realized outside of the UK, and the net impact from the non-recurring release of accruals which mainly impacted Residential.

4. Other financial items review

4.1. Integration and Restructuring Expenses

Non-recurring expenses for integration and restructuring over the first six months of 2019 amounted to €3.1m, as compared to €2.4m in the same period last year. The expense in the current period is mainly driven by one-off costs related to the previously announced holistic NEXT program.

4.2. Net financing expenses

Net finance expenses for the first six months of 2019 are equal to €12.5m, as compared to €12.7m in the same period last year. This decrease is mainly driven by the result from foreign exchange rate differences on intercompany transactions, offset by the interest charge as a result of the change in accounting policy (IFRS 16).

4.3. Taxation

Income tax benefit equal to €0.5m for the six months ended June 30, 2019, as compared to an income tax expense of €0.1m in the same period last year. The income tax benefit for the period is primarily driven by the recognition of deferred tax assets for new tax credits and the positive impact of the reversal of pre-acquisition deferred positions in Bentley Mills Inc. The normalized effective tax rate of the Group amounts to around 27%.

4.4. Earnings per share

Net earnings per share for the first six months of 2019 were €0.02, compared to €0.02 for the same period last year.

4.5. Cashflow and net debt

Net debt at the end of June 2019 is equal to €268.7m (excluding IFRS 16 effect), versus €261.8m at the end of December 2018. The increase in working capital is driven by the seasonality of our business operations. We intentionally build up inventories during the months of June and July in preparation for the increase in demand and the annual shutdown of the majority of our manufacturing facilities in August. As a result, our trade working capital is higher during the summer months compared to the rest of the year.

Net Debt slightly lower vs H1 2018 (reported Net Debt H1 2019 of €311.8m includes €43.2m IFRS 16 impact) on a like-for-like basis.

5. Risk Factors

There are no material changes related to the risks and uncertainties for the Group as explained in the section “Summary of main risks” of the 2018 annual report.

6. Consolidated Interim Financial Statements

6.1. Consolidated Statement of Comprehensive Income

(€ thousands)	Q2 2019	Q2 2018	H1 2019	H1 2018
I. CONSOLIDATED INCOME STATEMENT				
Revenue	167 881	159 622	351 413	321 896
Raw material expenses	(79 817)	(79 427)	(167 334)	(154 290)
Changes in inventories	(1 831)	4 319	(1 393)	5 202
Employee benefit expenses	(41 577)	(39 816)	(85 702)	(80 346)
Other income	386	927	1 493	1 824
Other expenses	(25 287)	(26 779)	(61 349)	(60 184)
Depreciation/ amortization	(9 723)	(8 106)	(19 370)	(16 199)
Adjusted Operating Profit [1]	**10 033**	**10 740**	**17 759**	**17 902**
Gains on asset disposals	-	-	-	-
Integration and restructuring expenses	(2 252)	(1 606)	(3 093)	(2 410)
Operating profit / (loss) [1]	**7 779**	**9 134**	**14 665**	**15 492**
Finance income	188	43	190	50
Finance expenses	(6 723)	(6 289)	(12 697)	(12 767)
Net finance expenses	**(6 536)**	**(6 247)**	**(12 508)**	**(12 717)**
Profit / (loss) before income taxes	**1 244**	**2 887**	**2 158**	**2 775**
Income tax benefit / (expense)	(41)	(1 525)	514	(105)
Profit / (loss) for the period from continuing operations	**1 203**	**1 362**	**2 672**	**2 670**
Profit/ (loss) for the period from discontinued operations	-	-	-	-
Profit/(loss) for the period	**1 203**	**1 362**	**2 672**	**2 670**
Attributable to:				
Equity holders	1 203	1 362	2 672	2 670
Non-controlling interest	-	-	-	-
II. CONSOLIDATED OTHER COMPREHENSIVE INCOME				
Items in other comprehensive income that may be subsequently reclassified to P&L				
Exchange differences on translating foreign operations	(2 571)	2 486	(5 822)	(11 140)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	1 082	202	313	160
Changes in deferred taxes		(49)	-	(49)
Items in other comprehensive income that will not be reclassified to P&L				
Changes in deferred taxes	(119)	(16)	389	41
Changes in employee defined benefit obligations	(839)	19	(2 051)	(163)
Other comprehensive income for the period, net of tax	**(2 449)**	**2 643**	(7 172)	**(11 150)**
Total comprehensive income for the period	**(1 246)**	**4 004**	**(4 500)**	**(8 481)**
Basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the company	**0,01**	**0,01**	**0,02**	**0,02**

(1) Adjusted Operating Profit / Operating profit/(loss) are non-GAAP measures.
Adjusted EBITDA is calculated as Adjusted Operating Profit (Loss) adjusted for depreciation and amortization charges.

The accompanying notes form an integral part of these consolidated condensed interim financial statements.

6.2. Consolidated Statement of Financial Position

(€ thousands)	30 June 2019	31 Dec 2018
Property, plant and equipment	380 676	301 259
(Of which IFRS 16 related right-of-use assets)	*42 077*	-
Land and buildings	191 047	153 752
Plant and machinery	135 228	132 632
Other fixtures and fittings, tools and equipment	12 323	14 875
Goodwill	190 903	194 643
Other intangible assets	10 602	11 399
Deferred income tax assets	4 560	4 927
Trade and other receivables	1 144	996
Total non-current assets	**545 809**	**513 222**
Inventory	156 302	153 894
Derivative financial instruments	496	119
Trade and other receivables	68 607	60 745
Current income tax assets	24	278
Cash and cash equivalents	19 741	26 853
Total current assets	**245 171**	**241 889**
Total assets	**790 980**	**755 111**
Share capital	137 848	137 848
Share premium	155 486	155 486
Other comprehensive income	(40 558)	(33 386)
Retained earnings	7 428	6 286
Other reserves	(14 283)	(14 283)
Total equity	**245 920**	**251 951**
Senior Secured Notes	231 033	230 065
Senior Term Loan Facility	34 969	34 908
Bank and Other Borrowings	49 591	12 225
Of which IFRS 16 related lease liabilities	*37 636*	-
Deferred income tax liabilities	44 186	47 837
Provisions for other liabilities and charges	2 473	2 458
Employee benefit obligations	4 755	3 106
Total non-current liabilities	**367 007**	**330 598**
Senior Secured Notes	3 425	3 425
Senior Term Loan Facility	(113)	(118)
Bank and Other Borrowings	6 860	1 261
Of which IFRS 16 related lease liabilities	*5 532*	-
Provisions for other liabilities and charges	313	1 165
Derivative financial instruments	101	55
Other payroll and social related payables	34 535	36 655
Trade and other payables	128 385	125 940
Income tax liabilities	4 546	4 178
Total current liabilities	**178 052**	**172 562**
Total liabilities	**545 059**	**503 160**
Total equity and liabilities	**790 980**	**755 111**

The accompanying notes form an integral part of these consolidated condensed interim financial statements.

6.3. Consolidated Statement of Cash Flows

(€ thousands)	H1 2019	H1 2018
I. CASH FLOW FROM OPERATING ACTIVITIES		
Net profit / (loss) for the period	**2 672**	**2 670**
Adjustments for:		
Income tax expense/(income)	(514)	105
Finance income	(190)	(50)
Financial expense	12 697	12 767
Depreciation, amortisation (incl. depreciation of IFRS 16 right-of-use assets - as from 2019)	19 370	16 199
(Gain)/loss on disposal of non-current assets	-	(2)
Movement in provisions and deferred revenue	(852)	(3 139)
Fair value of derivatives	(18)	(34)
Cash generated before changes in working capital	**33 165**	**28 516**
Changes in w orking capital:		
Inventories	(3 482)	(12 478)
Trade receivables	(5 207)	(4 113)
Trade payables	2 248	120
Other w orking capital	(4 839)	(1 977)
Cash generated after changes in working capital	**21 885**	**10 068**
Net income tax (paid)	(1 565)	(3 277)
Net cash generated / (used) by operating activities	**20 320**	**6 791**
II. CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(13 984)	(14 728)
Acquisition of intangibles	(253)	(599)
Proceeds from non-current assets	2 282	415
Acquisition of subsidiary	-	-
Net cash used by investing activities	**(11 955)**	**(14 912)**
IIII. CASH FLOW FROM FINANCING ACTIVITIES		
Interest and other finance charges paid, net	(11 337)	(10 506)
Proceeds from borrow ings w ith third parties		-
Proceeds from capital contributions		-
Repayments of Senior Secured Notes		-
Repayments of borrow ings w ith third parties (incl. IFRS 16 lease liabilities - as from 2019)	(4 140)	(1 236)
Net cash generated / (used) by financing activities	**(15 477)**	**(11 743)**
NET INCREASE/ (DECREASE) IN CASH AND BANK OVERDRAFTS	**(7 112)**	**(19 864)**
Cash, cash equivalents and bank overdrafts at the beginning of the period	26 853	37 182
Cash, cash equivalents and bank overdrafts at the end of the period	19 741	17 317

The accompanying notes form an integral part of these consolidated condensed interim financial statements.

6.4. Consolidated Statement of Changes in Equity

(€ thousands)	Share capital	Share premium	Other comprehensive income	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance 31 December 2017	**137 848**	**155 486**	**(19 913)**	**433**	**(14 283)**	**259 571**	**-**	**259 571**
Adoption of accounting policies	-	-	-	(1 308)	-	(1 308)	-	
Balance 1 January 2018	**137 848**	**155 486**	**(19 913)**	**(875)**	**(14 283)**	**258 263**	**-**	**258 263**
Profit / (loss) for the period	-	-	-	7 171	-	7 171	-	7 171
Equity-settled share-based payment plans	-	-	-	7	-	7	-	7
Other comprehensive income								
Exchange differences on translating foreign operations	-	-	(13 833)	-	-	(13 833)	-	(13 833)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	-	-	87	-	-	87	-	87
Cumulative changes in deferred taxes	-	-	(107)	-	-	(107)	-	(107)
Cumulative changes in employee defined benefit obligations	-	-	379	-	-	379	-	379
Total comprehensive income for the period	**-**	**-**	**(13 474)**	**-**	**-**	**(13 474)**	**-**	**(13 474)**
								-
Balance at 31 December 2018	**137 848**	**155 486**	**(33 386)**	**6 286**	**(14 283)**	**251 951**	**-**	**251 951**
Adoption of accounting policies	-	-	-	(1 530)	-	(1 530)	-	(1 530)
Balance 1 January 2019	**137 848**	**155 486**	**(33 386)**	**4 756**	**(14 283)**	**250 421**	**-**	**250 421**
Profit / (loss) for the period	-	-	-	2 672	-	2 672	-	2 672
Equity-settled share-based payment plans	-	-	-	-	-	-	-	-
Other comprehensive income					**-**			
Exchange differences on translating foreign operations	-	-	(5 822)	-	-	(5 822)	-	(5 822)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	-	-	313	-	-	313	-	313
Cumulative changes in deferred taxes	-	-	389	-	-	389	-	389
Cumulative changes in employee defined benefit obligations	-	-	(2 051)	-	-	(2 051)	-	(2 051)
Total comprehensive income for the period	**-**	**-**	**(7 172)**	**-**	**-**	**(7 172)**	**-**	**(7 172)**
							-	-
Balance at 30 June 2019	**137 848**	**155 486**	**(40 558)**	**7 428**	**(14 283)**	**245 920**	**-**	**245 920**

6.5. Selected Explanatory Notes to the Condensed Consolidated Interim Financial Statements

6.5.1. Significant Accounting Policies

These consolidated condensed interim financial statements for the six months ended June 30, 2019 have been prepared in accordance with IAS 34 *Interim financial reporting*. They do not include all the notes of the type normally included in an annual report. Accordingly, this report is to be read in conjunction with the annual report for the year ended December 31, 2018 and any public announcements made by the Balta Group during the interim reporting period.

The amounts in this document are presented in thousands of euro, unless otherwise stated. Rounding adjustments have been made in calculating some of the financial information included in these consolidated condensed interim financial statements.

The accounting policies are consistent with those of the previous financial year and corresponding interim period, except for the adoption of new and amended standards as set out below.

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group has to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments.*

- IFRS 16 Leases

As of January 1, 2019, the Group changed its accounting policies to adopt IFRS 16. IFRS 16 has replaced IAS 17 *Leases*, and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Under the IFRS 16 adoption method chosen by the Group (simplified approach), prior years are not restated to conform to the new policies. Consequently, the year over year changes in profit, assets and liabilities and cash flows are impacted by the new policies.

The transition impact of the policy changes as of January 1, 2019, was as follows:

- Property plant and equipment are higher by €43.6m resulting from the recognition of right-of-use assets,
- Financial liabilities are higher by €43.6m due to the recognition of lease liabilities,

The Group expects that net profit after tax will not be materially impacted for 2019 as a result of adopting the new rules. Adjusted EBITDA for 2019 is expected to increase between approximately €6m and €8m, as the operating lease payments are included in the Adjusted EBITDA, but the amortization of the right-of-use assets and interest on the lease liability are excluded from this measure. The IFRS 16 adjustments will increase the Net Debt to Adjusted EBITDA ratio by between 0.2x – 0.3x.

In relation to Balta's financing agreements, the documentation provides for the effect of changes in accounting standards to be neutralized. As such, the application of IFRS 16 has no consequences for the Group's financing. We will continue to calculate Leverage in line with the definition in our financing agreement.

The key judgments involved in the evaluation relate to the applied discount rates and the lease term. We have reviewed the applied rates and concluded that the applied rates of January are still valid and accurate.

- IFRIC 23 Uncertainty over Income Tax Treatments

This interpretation clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over whether tax taken by a Group will be accepted by the tax authority. It is applied to both current and deferred tax where there is uncertainty over a Group's tax position.

Balta made a detailed assessment of all tax uncertainties within the Group having the following implications on the accounting policies:

a. It has decided whether to consider its uncertain tax positions (UTPs) individually or collectively, based on which approach provided the best predictions of the resolution of the uncertainties with the tax authority;

b. It has assumed that the tax authority will examine the position (if entitled to do so) and will have full knowledge of all the relevant information;

c. On a case by case basis the Group has decided to recognize a UTP (group of UTPs) using either the most likely amount or the expected value, depending on which is thought to give a better prediction of the resolution of each (group of) UTP(s), to reflect the likelihood of an adjustment being realised on examination.

The Group applied this Interpretation retrospectively with the cumulative effect of initially applying the Interpretation recognized on 1 January 2019. In accordance with the transitional provisions of IFRIC 23 it has opted not to restate comparative information. Instead, the cumulative effect of initially applying the Interpretation as an adjustment has been recognized to the opening balance of the reserves.

6.5.2. Segment Reporting

Segment information is presented in respect of the Company's business segments. The performances of the segments is reviewed by the chief operating decision maker, which is the Management Committee.

(€ thousands)	Q2 2019	Previous reported figures (1)	H1 2019	Previous reported figures (1)
Revenue by segment	**167 881**	**159 622**	**351 413**	**321 896**
Rugs	54 281	47 559	119 786	100 764
Commercial	60 691	53 644	116 413	101 925
Residential	45 754	51 488	100 622	105 132
Non-Woven	7 155	6 930	14 592	14 074
Revenue by geography	**167 881**	**159 622**	**351 413**	**321 896**
Europe	99 612	94 651	214 534	198 754
North America	58 232	50 034	116 046	95 680
Rest of World	10 038	14 936	20 834	27 462
Adjusted EBITDA by segment 2	**19 755**	**18 847**	**37 129**	**34 102**
Rugs	2 949	6 561	9 126	12 431
Commercial	11 429	8 197	19 133	14 067
Residential	4 604	3 468	7 841	6 228
Non-Woven	773	621	1 029	1 376
Net capital expenditure by segment	**6 479**	**8 069**	**11 955**	**14 912**
Rugs	2 140	2 875	4 919	4 642
Commercial	2 022	2 989	3 186	5 187
Residential	2 163	2 004	3 589	4 688
Non-Woven	154	201	261	395
Inventory by segment	**156 302**	**153 894**	**156 302**	**153 894**
Rugs	63 729	72 940	63 729	72 940
Commercial	37 098	33 170	37 098	33 170
Residential	50 733	43 622	50 733	43 622
Non-Woven	4 742	4 162	4 742	4 162
Trade receivables by segment	**45 377**	**51 558**	**45 377**	**51 558**
Rugs	8 548	11 895	8 548	11 895
Commercial	24 189	23 774	24 189	23 774
Residential	11 301	14 665	11 301	14 665
Non-Woven	1 339	1 223	1 339	1 223

Note 1: For Revenue, Adjusted EBITDA and Capital Expenditure, the previous reporting period refers to June 30, 2018. The previous reported period for Net Inventory and Trade Receivables refers to December 31, 2018.

Note 2: IFRS 16 is applied as from 2019, this new accounting policy impacts the Adjusted EBITDA

6.5.3. Integration and Restructuring Expenses

The following table sets forth integration and restructuring expenses for the period ended June 30, 2019 and 2018. This comprises various items which are considered by management as non-recurring or unusual by nature.

(€ thousands)	H1 2019	H1 2018
Integration and restructuring expenses	**3 093**	**2 410**
Corporate restructuring	41	-
Business restructuring	3 393	1 846
Acquisition related expenses	-	-
Idle IT costs	-	-
Strategic advisory services	-	358
Other	(341)	208

Integration and restructuring expenses over the first six months of 2019 amounted to €3.1m, as compared to €2.4m in the same period last year. The expense in the current period is primarily driven by the one-off costs related to the previously announced holistic NEXT program. During the six months ended June 30, 2018, €1.8m in the period is driven by the previously announced optimization of the Residential operational footprint. In addition, a minor part is fees incurred for strategic advisory services supporting the execution of the six key priorities for delivering improved performance as detailed in the 2017 annual report.

6.5.4. Goodwill

The goodwill decreased by €3.7m from €194.6m as of December 31, 2018 to €190.9m as of June 30, 2019. The decrease in goodwill reflects the changes in foreign exchange rate from the US dollar to euro from the date of acquisition of Bentley. The related foreign exchange fluctuations are presented in other comprehensive income.

The Group considers that the assumptions used in 2018 to test the goodwill for impairment remain valid in all respects.

6.5.5. Net Debt Reconciliation

The following table reconciles the net cash flow to movements in net debt:

	Liabilities from financing activities									*Cash and Cash equivalents*	
(€ thousands)	Senior Secured Notes due after 1 year	Senior Secured Notes due within 1 year	Senior Term Loan Facility due after 1 year	Senior Term Loan Facility due within 1 year	Lease liabilities due after 1 year	Lease liabilities due within 1 year	Super Senior RCF	Bentley RCF	Total gross financial debt	Cash and Cash equivalents	Total net financial debt
Net debt as at 31 December 2018	**(234 900)**	**(5 360)**	**(35 000)**	**(20)**	**(12 225)**	**(1 166)**	**-**	**-**	**(288 671)**	**26 853**	**(261 818)**
Adoption of IFRS 16	-				(37 953)	(5 655)			**(43 608)**		**(43 608)**
Net debt as at 1 January 2019	**(234 900)**	**(5 360)**	**(35 000)**	**(20)**	**(50 178)**	**(6 821)**	**-**	**-**	**(332 279)**	**26 853**	**(305 426)**
Cashflows	-	-	-	2	-	-	-	-	**2**	(7 112)	**(7 110)**
Proceeds of borrowings with third parties	-	-	-	-	-	-	-	-	**-**	-	**-**
Business combinations	-	-	-	-	-	-	-	-	**-**	-	**-**
Foreign exchange adjustments	-	-	-	-	-	-	-	-	**-**	-	**-**
Repayments of borrowings with third parties	-	-	-	-	-	4 140	-	-	**4 140**	-	**4 140**
Other non- cash movements	-	-	-	-	587	(4 025)	-	-	**(3 438)**	-	**(3 438)**
Net debt as at 30 June 2019	**(234 900)**	**(5 360)**	**(35 000)**	**(18)**	**(49 591)**	**(6 706)**	**-**	**-**	**(331 575)**	**19 741**	**(311 834)**

When excluding the IFRS 16 impact (€ 43.2m), the net debt at the end of H1 2019 amounts to € 268.7m, slightly higher compared to Q4 2018. The net debt excluding IFRS 16 is the only relevant debt in light of Balta's financing agreements, as the effect of changes in accounting standards is to be neutralized.

6.5.6. Related Party Transactions

The related party transactions with shareholders and parties related to the shareholders have not substantially changed in nature and impact compared to the year ended December 31, 2018 and hence no updated information is included in this interim report.

The remuneration of key management is determined on an annual basis, for which reason no further details are included in this interim report.

6.5.7. Commitments

There is no significant evolution to report in terms of commitments. Please refer to Note 38 'Commitments' in the IFRS Financial Statements of the 2018 annual report.

6.5.8. Events After the Statement of Financial Position Date

No subsequent events occurred which could have a significant impact on the interim condensed financial statements of the Group per June 30, 2019.

7. Glossary: Alternative Performance Measures

The following alternative performance measures (non-IFRS) have been used as management believes that they are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. The alternative performance measures may not be comparable to similarly titled measures of other companies, have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results, our performance or our liquidity under IFRS.

Adjusted Operating Profit/Loss is defined as operating profit/(loss) adjusted for (i) the impact of the purchase price allocation mainly on changes in inventory, (ii) gains on assets disposals, (iii) integration and restructuring expenses and (iv) impairment and write-off.

Adjusted EBITDA margin is defined as the Adjusted EBITDA as a percentage of revenue.

Adjusted EBITDA is defined as operating profit / (loss) adjusted for (i) the impact of the purchase price allocation mainly on change in inventories, (ii) gains on asset disposals, (iii) integration and restructuring expenses, (iv) depreciation / amortization and (v) impairment and write-off

Adjusted Earnings per Share is defined as profit/(loss) for the period adjusted for (i) the impact of the purchase price allocation of changes in inventory, (ii) gains on assets disposals, (iii) integration and restructuring expenses, (iv) non-recurring finance expenses and (v) non-recurring tax effects divided by the number of shares of Balta Issuer S.à r.l.

Gross Debt is defined as (i) Senior Secured Notes adjusted for the financing fees included in the carrying amount, (ii) Senior Term Loan Facility adjusted for capitalized financing fees and (iii) Bank and other borrowings adjusted for capitalized financing fees

Net Debt is defined as (i) Senior Secured Notes adjusted for the financing fees included in the carrying amount, (ii) Senior Term Loan Facility adjusted for capitalized financing fees, (iii) Bank and other borrowings adjusted for capitalized financing fees and (iv) cash and cash equivalents

Net-investment or net-CAPEX is defined as of the sum of all investments in tangible and intangible fixed assets adjusted for proceeds from sales of fixed assets

Leverage is defined as the ratio of Net Debt to Adjusted EBITDA (excluding IFRS16 impacts as per financing documentation)