LSF9 Balta Issuer S.à r.l.

2018 QUARTERLY Report

Senior Secured Notes due 2022

Q3 2018 - Period Ended September 30, 2018

LSF9 Balta Issuer S.à r. l.

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1. Key Figures

(€ thousands)	Q3 2018	Q3 2017	YtD 2018	YtD 2017
Results				
Revenue	**151,026**	**157,939**	**472,922**	**491,870**
Adjusted EBITDA	**16,943**	**18,931**	**51,044**	**65,467**
Adjusted EBITDA Margin	**11.2%**	**12.0%**	**10.8%**	**13.3%**
Integration and restructuring expenses	(1,316)	(455)	(3,726)	(9,745)
EBITDA	15,627	18,476	47,318	55,722
Depreciation / amortisation	(8,004)	(8,288)	(24,203)	(23,804)
Operating profit / (loss) for the period	7,622	10,188	23,114	31,918
Net finance expenses	(6,787)	(9,883)	(19,504)	(31,438)
Income tax benefit / (expense)	610	72	505	(2,525)
Profit/(loss) for the period	**1,445**	**377**	**4,115**	**(2,045)**
Cash flow				
Cash at beginning of period	17,317	29,216	37,182	45,988
Net cash flow from operating activities	7,217	9,763	14,008	28,879
Net cash flow from investing activities	(6,609)	(10,539)	(21,521)	(101,292)
Net cash flow from financing activities	(10,292)	(15,214)	(22,035)	39,651
Cash at end of period	7,632	13,226	7,632	13,226
Financial position				
Net debt	**276,894**	**273,537**		
LTM Adjusted EBITDA	69,934	93,554		
Net debt / Adjusted EBITDA	**4.0**	**2.9**		

2. Management discussion and analysis of the results

2.1. Group Financial Highlights

- Q3 Consolidated: Revenue of €151.0m -4.4%, Adjusted EBITDA of €16.9m -10.5%
- Q3 Organic Revenue -4.1%: -13.4% for Rugs, +16.2% for Commercial and -13.5% for Residential
- Q3 EBITDA margin 11.2% vs. 12% for Q3 2017
- YTD Consolidated: Revenue of €472.9m -3.9%, Adjusted EBITDA of €51.2m -21.7%, EBITDA margin of 10.8%
- Leverage of 3.9x (net debt of €276.9m) compared to 3.8x as at Q2 2018, reflecting a normal seasonal working capital increase

2.2. Business Update

- In addition to the six key priorities, where execution is well on track, we have initiated a strategic and operational review of all our activities and will provide an update on the outcome of that exercise in early 2019.
- In Rugs, the difficult trading environment that developed in Europe in the second quarter persisted throughout Q3. Our US rugs business returned to growth in Q3, supported by new customer wins and growth in indoor rugs and e-commerce. In outdoor rugs, we regained part of the 'share of wallet' lost in 2017, and expect to begin delivering benefits from Q4 2018.
- In Commercial, Europe saw growth in tiles being offset by a decline in broadloom, while our US business, Bentley, continues its double-digit growth, increasing market share after the investments made in sales resources.
- The Residential operational footprint reorganization was completed, with mitigating benefits partially offsetting the negative impact of the volume decline as a result of the challenging trading environment across our key markets, in particular the UK.

3. Operating review per segment

3.1. Revenue and Adjusted EBITDA per segment

3.1.1. Q3 2018

(€ million, unless otherwise stated)	Q3 2018	Q3 2017	% change	o/w organic growth	o/w FX	o/w M&A
Rugs	43.4	51.2	(15.4)%	(13.4)%	(2.0)%	0.0%
Commercial	54.5	46.5	17.1%	16.2%	0.9%	0.0%
Residential	47.1	54.2	(13.2)%	(13.5)%	0.3%	0.0%
Non-Woven	6.1	6.0	1.9%	1.9%	0.0%	0.0%
Consolidated Revenue	**151.0**	**157.9**	**(4.4)%**	**(4.1)%**	**(0.3)%**	**0.0%**
Pro Forma Adjustment Bentley	-	-				
Pro Forma Revenue	**151.0**	**157.9**	**(4.4)%**	**(4.1)%**	**(0.3)%**	
Rugs	5.9	6.9	(13.8)%	(37.4)%	23.6%	0.0%
Commercial	7.9	7.0	13.4%	13.3%	0.0%	0.0%
Residential	2.5	4.5	(44.6)%	(30.2)%	(14.4)%	0.0%
Non-Woven	0.7	0.5	28.6%	28.6%	0.0%	0.0%
Consolidated Adjusted EBITDA	**17.1**	**18.9**	**(9.9)%**	**(15.1)%**	**5.2%**	**0.0%**
Pro Forma Adjustment Bentley	-	-				
Pro Forma Adjusted EBITDA	**17.1**	**18.9**	**(9.9)%**	**(15.1)%**	**5.2%**	
Rugs	13.7%	13.5%				
Commercial	14.6%	15.1%				
Residential	5.3%	8.3%				
Non-Woven	10.9%	8.7%				
Consolidated Adjusted EBITDA Margin	**11.3%**	**12.0%**				
Pro Forma Adjustment Bentley						
Pro Forma Adjusted EBITDA Margin	**11.3%**	**12.0%**				

3.1.2. YtD 2018

(€ million, unless otherwise stated)	YtD 2018	YtD 2017	% change	o/w organic growth	o/w FX	o/w M&A
Rugs	144.1	177.6	(18.9)%	(15.4)%	(3.4)%	0.0%
Commercial	156.4	119.0	31.5%	11.6%	(2.2)%	22.0%
Residential	152.2	175.5	(13.3)%	(13.0)%	(0.3)%	0.0%
Non-Woven	20.2	19.7	2.4%	2.4%	0.0%	0.0%
Consolidated Revenue	**472.9**	**491.9**	**(3.9)%**	**(7.3)%**	**(1.9)%**	**5.3%**
Pro Forma Adjustment Bentley	-	27.7				
Pro Forma Revenue	**472.9**	**519.6**	**(9.0)%**	**(6.4)%**	**(2.5)%**	
Rugs	18.4	30.1	(38.9)%	(39.5)%	0.6%	0.0%
Commercial	22.0	17.4	26.9%	11.1%	(2.8)%	18.6%
Residential	8.7	15.9	(45.1)%	(38.0)%	(7.1)%	0.0%
Non-Woven	2.1	2.0	0.7%	0.7%	0.0%	0.0%
Consolidated Adjusted EBITDA	**51.2**	**65.5**	**(21.7)%**	**(24.4)%**	**(2.2)%**	**4.9%**
Pro Forma Adjustment Bentley	-	2.9				
Pro Forma Adjusted EBITDA	**51.2**	**68.4**	**(25.1)%**	**(22.2)%**	**(2.8)%**	
Rugs	12.8%	17.0%				
Commercial	14.1%	14.6%				
Residential	5.7%	9.1%				
Non-Woven	10.1%	10.3%				
Consolidated Adjusted EBITDA Margin	**10.8%**	**13.3%**				
Pro Forma Adjustment Bentley		10.6%				
Pro Forma Adjusted EBITDA Margin	**10.8%**	**13.2%**				

Note 1: the segment table has been copied from the press release issued by Balta Group NV, where EBITDA is €0.2m higher than at LSF9 Balta Issuer level due to a markup on management services provided at level of Balta Group and then charged to LSF9 Balta Issuer and subsidiaries.

Note 2: Bentley was included from the start of Q2 2017, therefore from Q2 2018 Bentley is reported under the Commercial division with organic growth and FX shown separately. For Q1 2018 Bentley is shown under M&A (including the FX impact of US Dollar to Euro translation) and the prior year comparative is shown in the pro-forma figure.

3.2. Rugs

Q3 Consolidated Revenue of €43.4m, an organic decline of 13.4% (YTD -15.4%) and FX impact of -2.0%.

The organic decline in Q3, seasonally the lowest sales quarter, was impacted by the previously announced challenging trading environment in Europe which persisted throughout the third quarter, with customers reporting less footfall in their stores, and further reflects the strong prior year comparative. However, we expect to see an improvement in Europe in Q4. In North America, we returned to growth in Q3, underpinned by new customer wins and growth in indoor rugs and e-commerce, demonstrating the further successful diversification of our US rugs business. In outdoor rugs, for next season's programme, we regained part of the 'share of wallet' lost in 2017 which we expect to begin delivering benefits from Q4 2018.

Q3 Consolidated Adjusted EBITDA of €5.9m declined by 13.8%, mainly reflecting lower volumes. The positive FX impact on EBITDA in the quarter from the US dollar has neutralized the negative FX impact incurred during the first half of the year.

Q3 Adjusted EBITDA margin of 13.7% (YTD 12.8%) is stable against Q3 2017 and an improvement versus the first half of the year.

3.3. Commercial

Q3 Consolidated Revenue of €54.5m, driven by organic growth of 16.2% (YTD 11.6%) and FX impact of +0.9%.

In the US, Bentley continues to gain market share after the investments made in sales resources, an increased attention to the national accounts business and the growth of luxury vinyl tiles, albeit from a small base. In Europe, our Commercial business saw growth in tiles being offset by a decline in broadloom.

Q3 Consolidated Adjusted EBITDA of €7.9 million, up 13.4%, driven by higher volumes.

Adjusted EBITDA margin of 14.6% (YTD 14.1%), benefiting from the price increases in both Europe and the US earlier in the year.

3.4. Residential

Q3 Consolidated Revenue of €47.1m, an organic decline of 13.5% (YTD -13.0%) and FX impact of +0.3%.

Residential organic performance in the third quarter has been a continuation of the first half's challenging market environment across our key markets, in particular the UK, with reduced footfall in our customer outlets.

Q3 Consolidated EBITDA of €2.5m, down 44.6% mainly due to lower volumes and FX, which was not fully offset by benefits from the operational footprint optimization completed in H1 2018.

Due to lower volumes, Q3 Adjusted EBITDA margin remained at 5.3% (YTD 5.7%), despite the benefits from the Residential operational footprint optimization.

4. Other financial items review

4.1. Non-recurring items

Non-recurring expenses over the first nine months of 2018 amounted to €3.7m, as compared to €9.7m in the same period last year. €2.7m in the current period is driven by the previously announced optimisation of the Residential operational footprint. The remaining portion is driven by one-off costs in relation to changes in executive leadership and 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.

4.2. Net financing expenses

Net finance expenses for the first nine months of 2018 are equal to €19.5m, as compared to €31.5m in the same period last year. This decrease is mainly driven by (i) a €6.2m lower interest expense due to lower gross debt after the IPO, (ii) a €1.6m reduction in financing costs due to refinancing part of the 7.75% Senior Secured Notes by a €35m Senior Term Loan facility at 1.4% margin in September 2017, and (iii) the absence of €4.0m fees incurred in 2017 in relation to the partial early redemption of the Senior Secured Notes.

4.3. Taxation

Income taxes represent a benefit of €0.5m for the nine months of 2018, as compared to an income tax expense of €2.5m in the same period last year. The normalized effective tax rate of the Group amounts to around 27%. The income tax benefit for the period is further driven by €1.2m utilization of tax credits not previously recognized as deferred tax assets and €0.3m impact of tax investment incentives.

4.4. Earnings per share

Net earnings per share for the first nine months of 2018 were €0.03, compared to -€0.01 earnings per share for the same period last year.

4.5. Cashflow and net debt

Net debt at the end of September 2018 is equal to €276.9m, versus €253.6m at the end of December 2017. The increase in net debt reflects a normal seasonal working capital increase and is also influenced by exceptional one-off costs in relation to the restructuring of the operating footprint in our Residential division.

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 2017 annual report.

6. Consolidated Interim Financial Statements

6.1. Consolidated Statement of Comprehensive Income

(€ thousands)	Q3 2018	Q3 2017	YtD 2018	YtD 2017
I. CONSOLIDATED INCOME STATEMENT				
Revenue	151,026	157,939	472,922	491,870
Raw material expenses	(67,947)	(67,230)	(222,237)	(229,305)
Changes in inventories	(4,713)	(13,645)	489	(995)
Employee benefit expenses	(35,944)	(33,402)	(116,290)	(111,125)
Other income	831	2,155	2,655	6,205
Other expenses	(26,312)	(26,886)	(86,496)	(91,183)
Depreciation/ amortization	(8,004)	(8,288)	(24,203)	(23,804)
Adjusted Operating Profit [1]	**8,939**	**10,643**	**26,841**	**41,663**
Gains on asset disposals	-	-	-	-
Integration and restructuring expenses	(1,316)	(455)	(3,726)	(9,745)
Operating profit / (loss) [1]	**7,622**	**10,188**	**23,114**	**31,918**
Finance income	-	13	50	30
Finance expenses	(6,787)	(9,896)	(19,554)	(31,468)
Net finance expenses	**(6,787)**	**(9,883)**	**(19,504)**	**(31,438)**
Profit / (loss) before income taxes	**835**	**305**	**3,610**	**480**
Income tax benefit / (expense)	610	72	505	(2,525)
Profit / (loss) for the period from continuing operations	**1,445**	**377**	**4,115**	**(2,045)**
Profit/ (loss) for the period from discontinued operations				
Profit/(loss) for the period	**1,445**	**377**	**4,115**	**(2,045)**
Attributable to:				
Equity holders	1,445	377	4,115	(2,079)
Non-controlling interest		-	-	34
II. CONSOLIDATED OTHER COMPREHENSIVE INCOME				
Items in other comprehensive income that may be subsequently reclassified to P&L				
Exchange differences on translating foreign operations	(8,840)	(3,039)	(19,980)	(8,092)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	(148)	(783)	12	387
Changes in deferred taxes	-	-	-	-
Items in other comprehensive income that will not be reclassified to P&L				
Changes in deferred taxes	(156)	58	(115)	(114)
Changes in employee defined benefit obligations	591	(178)	428	347
Other comprehensive income for the period, net of tax	**(8,505)**	**(3,941)**	**(19,655)**	**(7,471)**
Total comprehensive income for the period	**(7,059)**	**(3,564)**	**(15,540)**	**(9,516)**
Basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the company	**0.01**	**0.00**	**0.03**	**(0.01)**

(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 Sept 2018	31 Dec 2017
Property, plant and equipment		
Land and buildings	153,885	162,103
Plant and machinery	126,502	130,977
Other fixtures and fittings, tools and equipment	17,005	18,080
Goodwill	193,880	198,814
Intangible assets	11,691	12,218
Deferred income tax assets	4,185	4,160
Trade and other receivables	985	1,165
Total non-current assets	**508,132**	**527,518**
Inventories	157,003	147,868
Derivative financial instruments	74	-
Trade and other receivables	61,822	62,760
Current income tax assets	1,723	3,914
Cash and cash equivalents	7,632	37,182
Total current assets	**228,255**	**251,723**
Total assets	**736,387**	**779,240**
Share capital	137,848	137,848
Share premium	155,486	155,486
Other comprehensive income	(39,570)	(19,913)
Retained earnings	3,242	433
Other reserves	(14,283)	(14,283)
Total equity	**242,723**	**259,571**
Senior Secured Notes	229,581	228,130
Senior Term Loan Facility	34,873	34,782
Bank and Other Borrowings	12,488	13,310
Deferred income tax liabilities	49,238	54,471
Provisions for other liabilities and charges	2,420	2,335
Employee benefit obligations	3,351	4,127
Total non-current liabilities	**331,951**	**337,156**
Senior Secured Notes	(1,126)	3,425
Senior Term Loan Facility	(119)	(108)
Bank and Other Borrowings	1,392	2,361
Provisions for other liabilities and charges	2,452	7,316
Derivative financial instruments	98	2
Other payroll and social related payables	30,220	33,359
Trade and other payables	124,532	132,414
Income tax liabilities	4,265	3,745
Total current liabilities	**161,713**	**182,514**
Total liabilities	**493,664**	**519,668**
Total equity and liabilities	**736,387**	**779,240**

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

6.3. Consolidated Statement of Cash Flows

(€ thousands)	YtD 2018	YtD 2017
I. CASH FLOW FROM OPERATING ACTIVITIES		
Net profit / (loss) for the period	**4,115**	**(2,045)**
Adjustments for:		
Reclass of capital increase expenses to cash flow from financing activities (gross)	-	7,091
Income tax expense/(income)	(505)	2,525
Finance income	(50)	(30)
Financial expense	19,554	31,468
Depreciation, amortisation	24,203	23,804
(Gain)/loss on disposal of non-current assets	15	(79)
Movement in provisions and deferred revenue	(4,800)	-
Fair value of derivatives	34	(414)
Cash generated before changes in working capital	**42,566**	**62,321**
Changes in working capital:		
Inventories	(14,958)	(5,674)
Trade receivables	(5,684)	(300)
Trade payables	4,670	(18,377)
Other working capital	(8,192)	(4,408)
Cash generated after changes in working capital	**18,402**	**33,562**
Net income tax (paid)	(4,394)	(4,683)
Net cash generated / (used) by operating activities	**14,008**	**28,879**
II. CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(21,830)	(31,002)
Acquisition of intangibles	(730)	(1,431)
Proceeds from non-current assets	1,039	794
Acquisition of subsidiary	-	(69,653)
Net cash used by investing activities	**(21,521)**	**(101,292)**
IIII. CASH FLOW FROM FINANCING ACTIVITIES		
Interest and other finance charges paid, net	(20,303)	(31,641)
Proceeds from capital increase	-	137,677
Capital increase expenses (net)	-	(6,287)
Proceeds from borrowings with third parties	-	110,000
Proceeds from capital contribution	-	1,343
Repayments of Senior Secured Notes	-	(55,100)
Repayments of borrowings with third parties	(1,732)	(116,341)
Net cash generated / (used) by financing activities	**(22,035)**	**39,651**
NET INCREASE/ (DECREASE) IN CASH AND BANK OVERDRAFTS	**(29,550)**	**(32,762)**
Cash, cash equivalents and bank overdrafts at the beginning of the period	37,182	45,988
Cash, cash equivalents and bank overdrafts at the end of the period	7,632	13,226

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	Preferred Equity Certificates	Other comprehensive income	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance at January 1, 2017	**171**	**1,260**	**138,600**	**(7,063)**	**3,351**	**-**	**136,319**	**-**	**136,319**
Profit / (loss) for the period	-	-	-	-	(2,919)	-	(2,919)	34	(2,884)
Other comprehensive income									
Exchange differences on translating foreign operations	-	-	-	(13,522)	-	-	(13,522)	-	(13,522)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	-	-	-	123	-	-	123	-	123
Cumulative changes in deferred taxes	-	-	-	(457)	-	-	(457)	-	(457)
Cumulative changes in employee defined benefit obligations	-	-	-	1,005	-	-	1,005	-	1,005
Total comprehensive income for the period	**-**	**-**	**-**	**(12,850)**	**(2,919)**	**-**	**(15,769)**	**34**	**(15,735)**
Contribution of PEC's into equity	-	152,883	(138,600)	-	-	(14,283)	-	-	-
Capital contribution Bentley Management buy-out	-	1,343	-	-	-	-	1,343	(34)	1,309
Capital contribution in cash	137,677	-	-	-	-	-	137,677	-	137,677
Total transactions with the owners	**137,677**	**154,226**	**(138,600)**	**-**	**-**	**(14,283)**	**139,020**	**(34)**	**138,986**
Balance at December 31, 2017	**137,848**	**155,486**	**-**	**(19,913)**	**433**	**(14,283)**	**259,571**	**-**	**259,571**
Adjustment on initial application of IFRS 9 (net of tax)	-	-	-	-	(1,308)	-	(1,308)	-	(1,308)
Adjusted balance January 1, 2018	**137,848**	**155,486**	**-**	**(19,913)**	**(875)**	**(14,283)**	**258,263**	**-**	**258,263**
Profit / (loss) for the period	-	-	-	-	4,115	-	4,115	-	4,115
Other comprehensive income									
Exchange differences on translating foreign operations	-	-	-	(19,980)	-	-	(19,980)		(19,980)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	-	-	-	12	-	-	12		12
Cumulative changes in deferred taxes	-	-	-	(115)	-	-	(115)		(115)
Cumulative changes in employee defined benefit obligations	-	-	-	428	-	-	428		428
Total comprehensive income for the period	**-**	**-**	**-**	**(19,655)**	**4,115**	**-**	**(15,540)**	**-**	**(15,540)**
Balance at September 30, 2018	**137,848**	**155,486**	**-**	**(39,570)**	**3,242**	**(14,283)**	**242,723**	**-**	**242,723**

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 nine months ended September 30, 2018 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, 2017 and any public announcements made by LSF9 Balta Issuer 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.

(a) 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 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

- IFRS 9 Financial Instruments

IFRS 9 has replaced IAS 39 *Financial Instruments: Recognition and Measurement*, and has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward looking expected credit loss (ECL) approach.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Group expects to receive. For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix. Trade receivables have been categorized by common characteristics that are representative of the customer's abilities to pay (based on geographical region and type of customers such as retail, wholesale or construction & building, and delinquency status). The provision matrix is based on historical observed default rates, whereby historical credit loss experience is adjusted by scalar factors to reflect differences in the Group's view of current and expected economic conditions and historical conditions.

This has resulted in an increase of the provision at January 1, 2018 €1.9m (€1.3m net of tax). This adjustment is recognized in the opening balance sheet in January 1, 2018, resulting in a decrease of the Trade and Other receivables of €1.9m, an increase in deferred tax assets of €0.6m and a corresponding decrease in retained earnings of €1.3m.

- IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of revenue related interpretations. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard establishes a five-step model to account for revenue arising from contracts with customers. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The five steps are to identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation and recognize revenue as each performance obligation is satisfied.

Balta has assessed each of the revenue streams from an IFRS 15 revenue recognition perspective and has concluded that IFRS 15 does not have an impact on the amount and timing of revenue recognition. In adopting IFRS 15 the Group has considered the following:

Recognition of revenue from distinct performance obligations

The Group has analyzed its contracts with customers to determine all its performance obligations. Performance obligations arising from the Group's sales contracts are mainly order-driven customer deliveries

related to the sale of goods. Services mostly have an ancillary role in the Group's business operations, or they complement deliveries of goods. The Group did not identify any distinct performance obligations that should be accounted for in accordance with IFRS 15.

Variable considerations

Some contracts with customers provide volume rebates, financial discounts, price concessions or a right of return for quality claims. Revenue from these sales are recognized based on the price specified in the contract, net of returns and allowances, trade discounts and volume rebates. During a financial year, the presentation of the effect of a variable price component can be based on management's judgement of discount drivers, for example the sales quantity reached with a given customer during the year. IFRS 15 does not change the principles applied by the Group to the determination or allocation of the transaction price.

Recognizing revenue as each performance obligation is satisfied

According to IFRS 15, revenue is recognized in the period during which the customer assumes control of the delivered goods. The Group delivers goods under contractual terms based on internationally accepted delivery conditions (Incoterms) and has concluded that the transfer of risks and rewards generally coincides with the transfer of control at a point in time under Incoterms. Consequently, the timing of revenue recognized for the sales of its products does not change under IFRS 15.

Warranty obligations

The Group provides assurance-type warranties that the products sold comply with agreed-upon specifications. These warranties do not quality as a separate service (performance obligations) and hence will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with past practice.

(b) Impact of standards issued but not yet applied by the Group

IFRS 16 Leases will replace IAS 17 and will eliminate the distinction between operating and finance leases. This standard is applicable as of January 1, 2019 and will require the Group to record all leases with terms of over one year in the manner currently required for finance leases under IAS 17, and thus to record an asset (the right to use the leased item) and a financial liability reflecting future lease payments. The Group has commenced a project to assess the overall impact of the standard, including considering the systems and processes required for implementation. So far, all lease contracts have been identified and centralized in one database together with all main characteristics. The Group is now in the process of gathering the additional information necessary to ascertain the impact of the new standard on its financial statements. Metrics which will be affected include total assets, total liabilities, classification of costs (for example depreciation charges replacing operating lease rental costs) and key financial ratios such as Adjusted EBITDA and leverage. Existing borrowing covenants are not impacted by changes in accounting standards.

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)	Q3 2018	Previous reporting period (1)	YtD 2018	Previous reporting period (1)
Revenue by segment	**151,026**	**157,939**	**472,922**	**491,870**
Rugs	43,352	51,224	144,116	177,603
Commercial	54,477	46,506	156,402	118,981
Residential	47,065	54,191	152,197	175,544
Non-Woven	6,133	6,019	20,207	19,742
Revenue by geography	**151,026**	**157,939**	**472,922**	**491,870**
Europe	88,508	101,249	287,262	322,631
North America	51,240	42,390	146,920	123,133
Rest of World	11,278	14,300	38,740	46,108
Adjusted EBITDA by segment	**16,942**	**18,931**	**51,044**	**65,467**
Rugs	5,906	6,898	18,337	30,144
Commercial	7,895	7,016	21,962	17,375
Residential	2,474	4,495	8,702	15,911
Non-Woven	667	522	2,043	2,037
Net capital expenditure by segment	**6,608**	**10,539**	**21,520**	**31,639**
Rugs	2,120	4,301	6,762	12,072
Commercial	2,121	2,982	7,308	8,828
Residential	2,204	3,153	6,892	10,186
Non-Woven	163	106	558	553
Net inventory by segment	**157,003**	**147,868**	**157,003**	**147,868**
Rugs	63,849	65,898	63,849	65,898
Commercial	37,415	31,162	37,415	31,162
Residential	51,232	46,818	51,232	46,818
Non-Woven	4,506	3,989	4,506	3,989
Trade receivables by segment	**53,250**	**49,649**	**53,250**	**49,649**
Rugs	11,942	11,946	11,942	11,946
Commercial	22,582	20,404	22,582	20,404
Residential	17,091	16,048	17,091	16,048
Non-Woven	1,635	1,251	1,635	1,251

(1) For Revenue, Adjusted EBITDA and Capital Expenditure, the previous reporting period refers to the period ended September 30, 2017. The previous reported period of Net Inventory and Trade Receivables refers to the period ended December 31, 2017.

6.5.3. Integration and Restructuring Expenses

The following table sets forth integration and restructuring expenses for the period ended September 30, 2018 and 2017. This comprises various items which are considered by management as non-recurring or unusual by nature.

(€ thousands)	Q3 2018	Q3 2017	YtD 2018	YtD 2017
Integration and restructuring expenses	**1,316**	**455**	**3,726**	**9,745**
Corporate restructuring	840	73	840	403
Business restructuring	835	-	2,681	-
Acquisition related expenses	-	(144)	-	1,232
Idle IT costs	-	-	-	-
Strategic advisory services	(46)	680	312	7,638
Other	(314)	(156)	(106)	472

Integration and restructuring expenses over the first nine months of 2018 amounted to €3.7m, as compared to €9.7m in the same period last year. €2.7m in the current period is driven by the previously announced optimisation of the Residential operational footprint. The remaining portion is driven by one-off costs in relation to changes in executive leadership and 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 €4.9m from €198.8m as of December 31, 2017 to €193.9m as of September 30, 2018. 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.

6.5.5. Net Debt Reconciliation

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

	Other assets	Liabilities from financing actities						Total
(€ thousands)	Cash and cash equivalents	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	Finance lease liabilities due after 1 year	Finance lease liabilities due within 1 year	
Net debt as at January 1, 2018	**37,182**	**(234,900)**	**(5,360)**	**(35,000)**	**(23)**	**(13,310)**	**(2,225)**	**(253,636)**
Cashflows	(29,550)	-	4,551	-	4	-	-	(24,995)
Proceeds of borrowings with third parties	-	-	-	-	-	-	-	-
Repayments of borrowings with third parties	-	-	-	-	-	-	1,732	1,732
Foreign exchange adjustments	-	-	-	-	-	-	-	-
Other non-cash movements	-	-	-	-	-	822	(817)	5
Net debt as at June 30, 2018	**7,632**	**(234,900)**	**(809)**	**(35,000)**	**(19)**	**(12,488)**	**(1,310)**	**(276,894)**

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, 2017 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 37 ‘Commitments’ in the IFRS Financial Statements of the 2017 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 September 30, 2018.