LSF9 Balta Issuer S.à r.l.

2019 QUARTERLY Report

Senior Secured Notes
due 2022

Q1 2019 -
Period Ended March 31, 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)	Q1 2019	LFL Q1 2018	Impact IFRS 16 transition	Reported Q1 2018
Results [1]				
Revenue	**183 532**	**162 274**	**-**	**162 274**
Adjusted EBITDA	**17 374**	**16 798**	**1 543**	**15 255**
Adjusted EBITDA Margin	**9,5%**	**10,4%**	**1,0%**	**9,4%**
Integration and restructuring expenses	(841)	(804)	-	(804)
EBITDA	16 533	15 994	1 543	14 451
Depreciation / amortisation	(9 647)	(9 488)	(1 395)	(8 093)
Operating profit / (loss) for the period	6 886	6 506	148	6 358
Net finance expenses	(5 972)	(6 885)	(415)	(6 470)
Income tax benefit / (expense)	555	1 420	-	1 420
Profit/(loss) for the period	**1 469**	**1 041**	**(267)**	**1 308**
Cash flow				
Cash at beginning of period	26 853	37 182	-	37 182
Net cash flow from operating activities	11 222	2 934	1 543	1 391
Net cash flow from investing activities	(5 476)	(6 843)	-	(6 843)
Net cash flow from financing activities	(11 782)	(12 007)	(1 543)	(10 464)
Cash at end of period	20 816	21 266	-	21 266

Note 1: LFL Q1 2018 figures contain the like-for-like IFRS 16 impact in order to make the figures comparable

The net cash flow is not 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 consequences for the Group's financing.

(€ thousands)	Q1 2019	Q4 2018
Net debt [1]	**263 683**	**261 816**
Leverage	**3,6**	**3,6**

Note 1: IFRS 16 effect is excluded from the leverage comparison

2. Management discussion and analysis of the results

2.1. Group Financial Highlights

- Q1 consolidated: Revenue €183.5m +13.1%, Adjusted EBITDA €17.5m +3.4% on a like-for-like basis[1], Adjusted EBITDA margin 9.5%
  - Organic revenue growth +11.5% and FX +1.6%
  - Revenue growth by division: Rugs +23.1%, Commercial +15.4%, Residential +2.3%
- Adjusted EBITDA on a like-for-like basis[1] grew at a lower rate than Revenue due to the €0.7m of NEXT investments and the expected negative impact from cost inflation. At the same time, the first benefits from price increases and FX had a positive impact on the quarter. First benefits from NEXT are anticipated later this year, with a more significant impact as from 2020.
- Q1 Adjusted EBITDA includes €2.5m of costs associated with property taxes for the full year (similar to last year)
- Net Debt stable vs. Q4 2018 on a like-for-like basis[2] (reported Net Debt Q1 2019 of €305.8m includes €42.1m IFRS16 impact applicable for the first time this quarter, with reported Net Debt Q4 2018 of €261.8m)
  Leverage stable at 3.6x vs. Q4 2018 on a like-for-like basis[2]

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 well on track. NEXT highlights for the quarter across the three key pillars include:
  - <u>Delivering sustainable growth:</u> Rugs US e-commerce shipments from our new dedicated warehouse in Savannah started in Q1 and are ramping up as planned. Commercial US realized successful double-digit revenue growth both in office and new targeted segments. Residential saw positive impact from the launch of additional new collections.
  - <u>Improving Commercial Excellence:</u> successfully implemented price increases showing first benefits in Q1. Implementation of the roadmap is ongoing, including a capability building program designed to increase our sales force effectiveness through refining our market and customer insights, revisiting our customer segmentation and aligning our value proposition.
  - <u>Increasing cost competitiveness:</u> implementation of Lean began at our Tielt plant, targeting run-rate cost savings of c.€4m with limited upfront investment. Over the next several weeks, similar Lean projects are being started across other plants. Our procurement savings are ahead of target with first results expected in the P&L as from Q3 2019. Group-wide complexity reduction is ongoing with an initial focus on decreasing the long tail of our product offering and benefiting our inventory management.
- Rugs growth driven by the year-on-year share of wallet increase for the US outdoor programs and the timing of new program roll-outs in Europe. The strong volume increase we realized in Q1 however came with an overall unfavourable mix effect, negatively impacting margins. Conditions in our European markets generally remain challenging.
- Strong overall growth in Commercial, driven by continued double-digit growth of our US business which continues to win share. In Europe, we saw a decline as the market environment remains more challenging.
- After several quarters of declining top-line in 2018, Residential revenue was stable year on year, benefiting from the initial roll-outs of an increased number of new collections and pre-Brexit stocking by some of our UK customers. Trading in our key Continental European markets remained subdued in the first quarter.
- Non-woven margin was impacted by negative mix and overcapacity in the market resulting in more competitive pricing, mainly in the Event segment

---

[1] Like-for-like IFRS16 adjustment on Q1 2018 EBITDA
[2] Excluding impact of IFRS16

3. Operating review per segment

3.1. Revenue and Adjusted EBITDA per segment

3.1.1. Q1 2019

(€ million, unless otherwise stated)	*Q1 2018*	*Lfl IFRS16 Impact*	Lfl Q1 2018	Q1 2019	% change Lfl	o/w organic growth	o/w FX
Rugs	*53.2*	-	53.2	65.5	23.1%		
Commercial	*48.3*	-	48.3	55.7	15.4%		
Residential	*53.6*	-	53.6	54.9	2.3%		
Non-Woven	*7.1*	-	7.1	7.4	4.1%		
Consolidated Revenue	***162.3***	**-**	**162.3**	**183.5**	**13.1%**	**11.5%**	**1.6%**
Rugs	*5.9*	*0.2*	6.1	6.2	1.5%		
Commercial	*5.9*	*1.2*	7.2	7.7	8.1%		
Residential	*2.8*	*0.1*	2.9	3.3	14.5%		
Non-Woven	*0.8*	-	0.8	0.3	(66.2)%		
Consolidated Adjusted EBITDA	***15.3***	***1.5***	**16.9**	**17.5**	**3.5%**	**1.4%**	**2.1%**
Rugs	*11.1%*		11.5%	9.5%			
Commercial	*12.2%*		14.8%	13.9%			
Residential	*5.2%*		5.3%	6.0%			
Non-Woven	*10.6%*		10.6%	3.4%			
Consolidated Adjusted EBITDA Margin	***9.5%***		**10.4%**	**9.5%**			

Note 1: 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 and then charged to LSF9 Balta Issuer and subsidiaries.

3.2. Rugs

Our Rugs division realized Revenue of €65.5m, up 23.1% versus the first quarter of 2018. In the US, we benefited from the initial shipments of this year's outdoor programs where we regained share of wallet with two home improvement customers. Our new, dedicated state-of-the-art warehouse in Savannah, Georgia, has started servicing the fast-growing e-commerce channel. In Europe, generally the market environment remains challenging. However, during the first quarter we benefited from the timing of the roll-outs of some of our programs with key customers.

Adjusted EBITDA in Q1 was €6.2m, up from €6.1m 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 11.5% to 9.5% as the strong volume increase in Q1 was biased towards lower margin business. In addition, expected cost inflation and investments in the various growth and cost saving initiatives from NEXT were only partly offset by the first mitigating benefits from our previously announced price increases.

[1] Like-for-like IFRS16 adjustment on Q1 2018 EBITDA

3.3. Commercial

Commercial realized Revenue of €55.7m, up 15.4% versus the first quarter of 2018. Our US business continued its double-digit organic growth spurred by share gains in the Office segment and growth in new targeted segments where we hired additional sales resources, which we accelerated under NEXT. In Europe, Revenue declined year on year as the market environment remains more challenging.

Adjusted EBITDA in Q1 was €7.7m, up from €7.2m on a like-for-like basis[1] in the same period last year with Adjusted EBITDA margin decreasing from 14.8% to 13.9% on a like-for-like basis[1]. Volume growth and the impact from price increases had a positive effect on margins, which was offset by cost inflation and our investments in NEXT, in particular expanding our sales teams.

3.4. Residential

Our Residential division had Revenue of €54.9m, up 2.3% versus the first quarter of 2018. In the UK, the environment generally remains challenging and volatile. Our performance in the first quarter benefited from introducing an increased number of new collections and from pre-Brexit stocking by some of our customers. In Continental Europe, whilst we succeeded in increasing the prices of our products, trading continued to be subdued. We continue to focus on growing our share of higher margin products, representing 31% of Q1 2019 Residential Revenue.

Adjusted EBITDA in Q1 was €3.3m, up from €2.9m 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 slightly recovered to 6.0% from 5.3%, benefiting from a growing share of higher margin products and price increases we realized outside of the UK.

[1] Like-for-like IFRS16 adjustment on Q1 2018 EBITDA

4. Other financial items review

4.1. Non-recurring items

Non-recurring expenses over the first three months of 2019 amounted to €0.8m, similar to the €0.8m 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 three months of 2019 are equal to €6.0m, as compared to €6.5m in the same period last year. This decrease is mainly driven by the change in result from foreign exchange rate differences on intercompany transactions.

4.3. Taxation

Income taxes represent a benefit of €0.6m for the three months of 2019, as compared to an income tax benefit of €1.4m in the same period last year. The income tax benefit for the period is 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 three months of 2019 were €0.01, in line with the same period last year.

4.5. Cashflow and net debt

Net debt at the end of March 2019 is equal to €263.7m (excluding IFRS 16 effect), versus €261.8m at the end of December 2018.

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)	Q1 2019	Q1 2018
I. CONSOLIDATED INCOME STATEMENT		
Revenue	183 532	162 274
Raw material expenses	(87 517)	(74 863)
Changes in inventories	438	883
Employee benefit expenses	(44 125)	(40 530)
Other income	1 107	897
Other expenses	(36 062)	(33 405)
Depreciation/ amortization	(9 647)	(8 093)
Adjusted Operating Profit [1]	**7 726**	**7 162**
Gains on asset disposals	-	-
Integration and restructuring expenses	(841)	(804)
Operating profit / (loss) [1]	**6 886**	**6 358**
Finance income	2	7
Finance expenses	(5 974)	(6 478)
Net finance expenses	**(5 972)**	**(6 470)**
Profit / (loss) before income taxes	**914**	**(112)**
Income tax benefit / (expense)	555	1 420
Profit / (loss) for the period from continuing operations	**1 469**	**1 308**
Profit/ (loss) for the period from discontinued operations	-	
Profit/(loss) for the period	**1 469**	**1 308**
Attributable to:		
Equity holders	1 469	1 308
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	(3 251)	(13 626)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	(769)	(42)
Changes in deferred taxes	-	-
Items in other comprehensive income that will not be reclassified to P&L		
Changes in deferred taxes	508	57
Changes in employee defined benefit obligations	(1 212)	(182)
Other comprehensive income for the period, net of tax	**(4 723)**	**(13 793)**
Total comprehensive income for the period	**(3 254)**	**(12 485)**
Basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the company	**0,01**	**0,01**

__Note 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)	31 March 2019	31 Dec 2018
Property, plant and equipment	340 775	301 259
(Of which IFRS 16 related right-of-use assets)	*41 983*	-
Land and buildings	193 295	153 752
Plant and machinery	134 815	132 632
Other fixtures and fittings, tools and equipment	12 665	14 875
Goodwill	191 813	194 643
Intangible assets	11 176	11 399
Deferred income tax assets	4 765	4 927
Trade and other receivables	1 124	996
Total non-current assets	**549 654**	**513 222**
Inventories	154 693	153 894
Derivative financial instruments	44	119
Trade and other receivables	70 475	60 745
Current income tax assets	2 287	2 657
Cash and cash equivalents	20 816	26 853
Total current assets	**248 315**	**244 269**
Total assets	**797 969**	**757 491**
Share capital	137 848	137 848
Share premium	155 486	155 486
Other comprehensive income	(38 110)	(33 386)
Retained earnings	6 225	6 286
Other reserves	(14 283)	(14 283)
Total equity	**247 166**	**251 951**
Senior Secured Notes	230 549	230 065
Senior Term Loan Facility	34 938	34 908
Bank and Other Borrowings	49 050	12 225
Of which IFRS 16 related lease liabilities	*36 609*	-
Deferred income tax liabilities	46 605	47 837
Provisions for other liabilities and charges	2 505	2 458
Employee benefit obligations	4 214	3 106
Total non-current liabilities	**367 862**	**330 598**
Senior Secured Notes	(1 126)	3 425
Senior Term Loan Facility	(116)	(118)
Bank and Other Borrowings	6 976	1 261
Of which IFRS 16 related lease liabilities	*5 517*	-
Provisions for other liabilities and charges	545	1 165
Derivative financial instruments	840	55
Other payroll and social related payables	34 988	36 655
Trade and other payables	134 879	125 940
Income tax liabilities	5 953	6 558
Total current liabilities	**182 941**	**174 942**
Total liabilities	**550 803**	**505 540**
Total equity and liabilities	**797 969**	**757 491**

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

6.3. Consolidated Statement of Cash Flows

(€ thousands)	Q1 2019	Q1 2018
I. CASH FLOW FROM OPERATING ACTIVITIES		
Net profit / (loss) for the period	**1 469**	**1 308**
Adjustments for:		
Income tax expense/(income)	(555)	(1 420)
Finance income	(2)	(7)
Financial expense	5 974	6 478
Depreciation, amortisation (incl. depreciation of IFRS 16 right-of-use assets)	9 647	8 093
(Gain)/loss on disposal of non-current assets	(62)	(8)
Movement in provisions and deferred revenue	(619)	(1 023)
Fair value of derivatives	92	46
Cash generated before changes in working capital	**15 944**	**13 467**
Changes in w orking capital:		
Inventories	(840)	(10 167)
Trade receivables	(7 080)	(1 723)
Trade payables	9 740	6 563
Other w orking capital	(5 084)	(4 957)
Cash generated after changes in working capital	**12 680**	**3 183**
Net income tax (paid)	(1 458)	(1 791)
Net cash generated / (used) by operating activities	**11 222**	**1 391**
II. CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(7 247)	(6 716)
Acquisition of intangibles	(179)	(201)
Proceeds from non-current assets	1 950	74
Acquisition of subsidiary	-	-
Net cash used by investing activities	**(5 476)**	**(6 843)**
IIII. CASH FLOW FROM FINANCING ACTIVITIES		
Interest and other finance charges paid, net	(9 744)	(9 797)
Proceeds from capital increase	-	-
Capital increase expenses (net)	-	-
Proceeds from borrow ings w ith third parties	-	-
Proceeds from capital contribution	-	-
Repayments of Senior Secured Notes	-	-
Repayments of borrow ings w ith third parties (incl. IFRS 16 lease liabilities)	(2 038)	(667)
Net cash generated / (used) by financing activities	**(11 782)**	**(10 464)**
NET INCREASE/ (DECREASE) IN CASH AND BANK OVERDRAFTS	**(6 036)**	**(15 916)**
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	20 816	21 265

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 December 31 2017	**137 848**	**155 486**	**(19 913)**	**433**	**(14 283)**	**259 571**	**-**	**259 571**
Adoption of accounting policies	-	-	-	(1 308)	-	(1 308)	-	(1 308)
Balance January 1 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)**	**7 178**	**-**	**(6 296)**	**-**	**(6 296)**
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 January 1 2019	**137 848**	**155 486**	**(33 386)**	**4 756**	**(14 283)**	**250 421**	**-**	**250 421**
Profit / (loss) for the period	-	-	-	1 469	-	1 469	-	1 469
Equity-settled share-based payment plans	-	-	-	-		-	-	-
Other comprehensive income								
Exchange differences on translating foreign operations	-	-	(3 251)	-	-	(3 251)	-	(3 251)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	-	-	(769)	-	-	(769)	-	(769)
Cumulative changes in deferred taxes	-	-	508	-	-	508	-	508
Cumulative changes in employee defined benefit obligations	-	-	(1 212)	-	-	(1 212)	-	(1 212)
Total comprehensive income for the period	**-**	**-**	**(4 723)**	**1 469**	**-**	**(3 254)**	**-**	**(3 254)**
Balance at 31 March 2019	**137 848**	**155 486**	**(38 110)**	**6 225**	**(14 283)**	**247 166**	**-**	**247 166**

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 three months ended March 31, 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 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.

<u>New and amended standards adopted by the Group</u>

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.

- IFRIC 23 Uncertainty over Income Tax Treatments

This interpretation clarifies how to apply the recognition and measurement requirements in IAS12 where there is uncertainty over income tax treatments. The Group applied the interpretation of IFRIC 23 as an adjustment to the opening balance of retained earnings at January 1, 2019.

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)	Q1 2019	Q1 2018
Revenue by segment	**183 532**	**162 274**
Rugs	65 505	53 205
Commercial	55 722	48 281
Residential	54 868	53 644
Non-Woven	7 437	7 144
Revenue by geography	**183 532**	**162 274**
Europe	114 922	104 103
North America	57 814	45 646
Rest of World	10 796	12 525
Adjusted EBITDA by segment [1]	**17 374**	**16 890**
Rugs	6 177	6 126
Commercial	7 704	4 022
Residential	3 237	5 983
Non-Woven	256	759
Net capital expenditure by segment	**5 476**	**6 843**
Rugs	2 779	1 767
Commercial	1 164	2 198
Residential	1 426	2 684
Non-Woven	107	194
Net inventory by segment	**154 693**	**156 548**
Rugs	67 028	65 258
Commercial	35 111	33 561
Residential	48 196	53 172
Non-Woven	4 358	4 557
Trade receivables by segment	**58 555**	**50 696**
Rugs	14 434	11 386
Commercial	24 335	20 406
Residential	17 842	17 344
Non-Woven	1 944	1 560

Note 1: Like-for-like IFRS 16 adjustment on Q1 2018 EBITDA

6.5.3. Integration and Restructuring Expenses

The following table sets forth integration and restructuring expenses for the period ended March 31, 2019 and 2018. This comprises various items which are considered by management as non-recurring or unusual by nature.

(€ thousands)	Q1 2019	Q1 2018
Integration and restructuring expenses	**841**	**804**
Corporate restructuring	41	-
Business restructuring	930	799
Acquisition related expenses	-	-
Idle IT costs	-	-
Strategic advisory services	-	-
Other	(130)	5

Integration and restructuring expenses over the first three months of 2019 amounted to €0.8m, as compared to €0.8m in the same period last year. The integration and restructuring expense of 2018 is mainly driven by the one-off cost related to the NEXT program. NEXT is the holistic program designed to deliver significant improvement in earnings over a 3 year period as detailed in the 2018 annual report.

6.5.4. Goodwill

The goodwill decreased by €2.8m from €194.6m as of December 31, 2018 to €191.8m as of March 31, 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.

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**	**Finance lease liabilities due after 1 year**	**Finance lease liabilities due within 1 year**	**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	-	4 551	-	1	-		**4 552**	(6 037)	**(1 485)**
Proceeds of borrowings with third parties	-	-	-	-	-	-	**-**	-	**-**
Business combinations	-	-	-	-	-	-	**-**	-	**-**
Foreign exchange adjustments	-	-	-	-	-	-	**-**	-	**-**
Repayments of borrowings with third parties	-	-	-	-	-	2 038	**2 038**	-	**2 038**
Other non- cash movements	-	-	-	-	1 128	(2 038)	**(910)**	-	**(910)**
Net debt as at 31 March 2019	**(234 900)**	**(809)**	**(35 000)**	**(19)**	**(49 050)**	**(6 821)**	**(326 599)**	**20 816**	**(305 783)**

When excluding the IFRS 16 impact (of €42.1m), the net debt per end of Q1 2019, amounts to €263.7m, which is stable 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 March 31, 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.

Organic Growth is defined as growth excluding (i) FX impact, which comprises the translation of key foreign entities, (ii) M&A impact and (iii) the impact of IFRS16. Note that as from 1 January 2019 onwards, the calculation of the FX impact changed, whereby transactional FX impacts are no longer taken into account under FX impact. When retroactively applying the new method to calculate FX impact on full year 2018, the FX impact on Consolidated Revenue would have been -0.2% instead of -1.3%, and the FX impact on Consolidated Adjusted EBITDA would remain -0.3%.

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

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

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