LSF9 Balta Issuer S.à r.l.

2018 ANNUAL Report

Senior Secured Notes due 2022

Annual Report ended 31 December, 2018

balta

LSF9 Balta Issuer S.à r. l.

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

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Flat weaving in Balta Waregem

Balta is a leading producer of textile floor coverings in Europe.

With a consolidated revenue of €646m and 3,899 employees, its products are exported to 139 countries worldwide.

Since June 2017, Balta Group has been a public company listed on Euronext Brussels.

THE GROUP at a glance

balta

REPORTING SEGMENTS

RUGS — balta home

RESIDENTIAL — balta carpets; balta carpet tiles; itc carpets

COMMERCIAL — modulyss; arc edition; BENTLEY

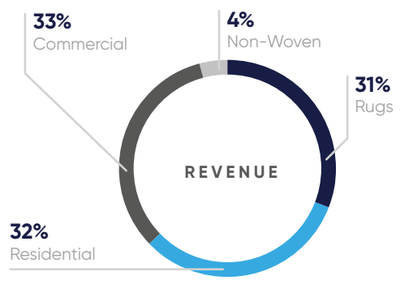
NON-WOVEN — CAPTIQS

Balta has four reporting segments:

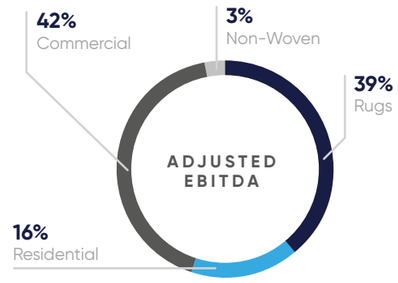
- **Rugs**: woven and tufted area rugs, under the Balta home brand.
- **Residential:** wall-to-wall carpet and carpet tiles for private use, through the brands Balta carpets, ITC and Balta carpet tiles.
- **Commercial:** wall-to-wall carpet and carpet tiles for commercial use under the brands arc edition, Bentley and modulyss.
- **Non-Woven:** needle felt, carpet backing and technical non-wovens under the Captiqs brand.

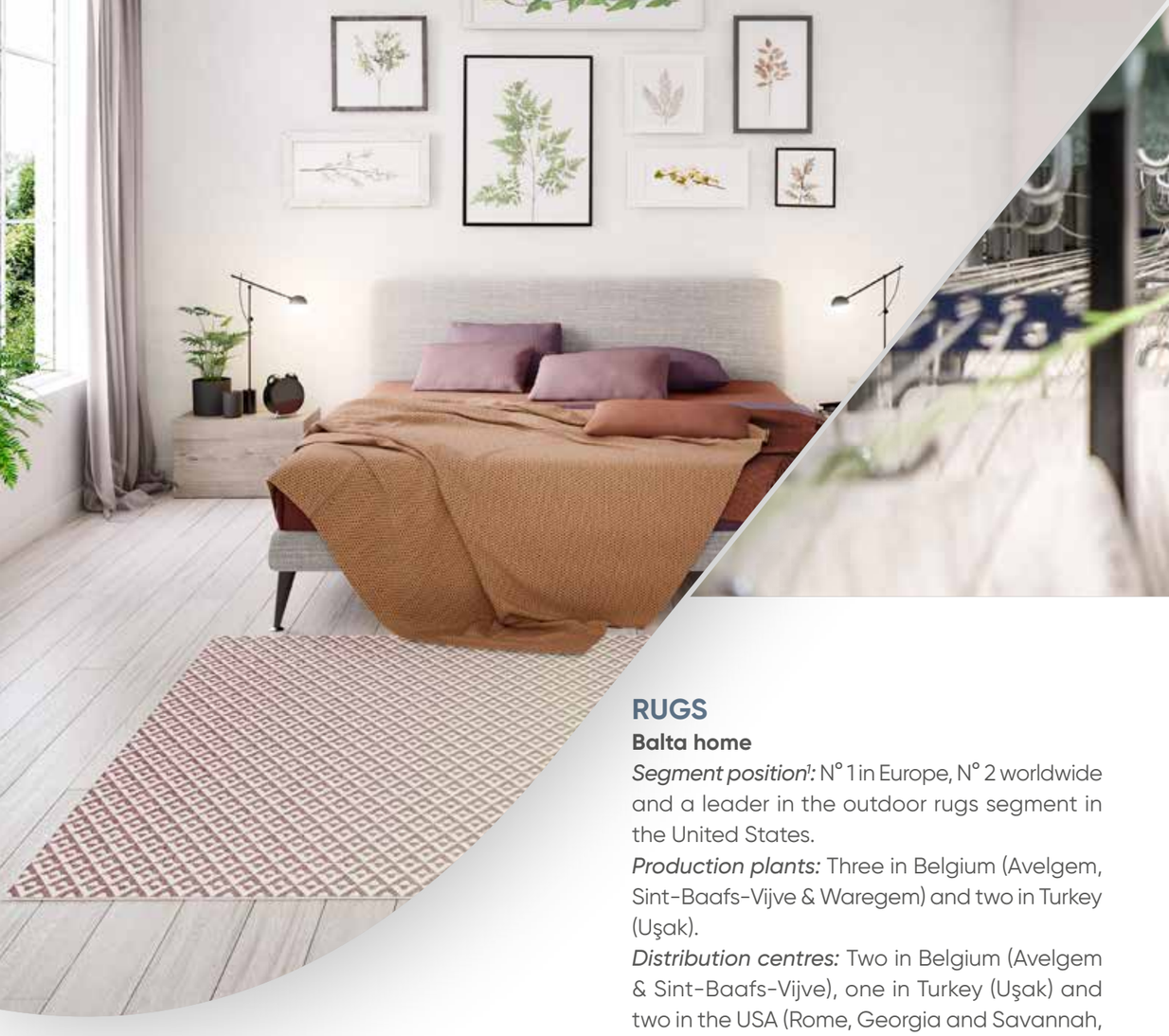
Our traditional core markets include the United States, the United Kingdom, Germany, France, and we have a significant presence in Central and Eastern Europe.

Revenue 2018 per reporting segment



Adjusted EBITDA 2018 per reporting segment





RUGS

Balta home

Segment position[1]*:* N° 1 in Europe, N° 2 worldwide and a leader in the outdoor rugs segment in the United States.
Production plants: Three in Belgium (Avelgem, Sint-Baafs-Vijve & Waregem) and two in Turkey (Uşak).
Distribution centres: Two in Belgium (Avelgem & Sint-Baafs-Vijve), one in Turkey (Uşak) and two in the USA (Rome, Georgia and Savannah, Georgia).
Distribution channels: major international retailers (such as home improvement, furniture, specialists, discount and DIY stores), e-commerce players and wholesalers, with whom we have long-lasting relationships.
Brands: Line A®, Berclon®, Papilio®
www.balta-home.com, www.papiliorugs.com

Balta home is a global player in machine-woven and tufted rugs for in- & outdoor use.

An experienced development team is continuously working on new market-oriented collections, designs and colours to meet the requirements of all customers.

Balta home, with its state-of-the-art production facilities in Belgium and Turkey and distribution centres in the USA, is well-known throughout the world for its creativity, know-how, innovation, quality, service and broad product range.

In 2018 Balta home expanded its product portfolio acquiring the handmade and natural rugs collection of the Papilio brand. With Papilio, internationally known for its innovative, stylish design rugs and repeatedly awarded renowned design prizes, we are building a new brand within the Balta home division.

Papilio handcrafted rugs form a complementary range. They are designed in Belgium in close consultation with our customers, and hand-crafted in different countries around the world such as India and China.

RESIDENTIAL

Balta carpets & ITC

Segment position[1]*:* Leader in Europe with top positions in the UK (Balta carpets), Germany and Central Eastern Europe (ITC).
Production plants: Sint-Baafs-Vijve and Tielt in Belgium.
Distribution centres: Sint-Baafs-Vijve and Tielt in Belgium.
Distribution channels: major retailers and wholesalers, such as specialised carpet, home improvement and furniture chains, DIY stores, independent retailers and carpet fitters.
Brands Balta carpets: Stainsafe®, Leonis®, X-Tron®, Made in Heaven®, Woolmaster®
Brands ITC: Satino®, Imprel®, Odyssey®, Wild Luxury®, Amaize®
www.balta-carpets.com and www.itccarpets.com

Balta carpets is the European leader in the production of tufted and woven polypropylene broadloom carpet. The European market is predominantly renovation-driven and to a lesser extent driven by new-build. The key market is the United Kingdom, one of the largest residential carpet markets globally, with a strong traditional preference for carpets as a flooring solution; here we believe we are leader by volume.

ITC is the European leader in the production of tufted broadloom polyamide carpet and produces high-quality products for premium residential applications in which creativity, design, appearance, durability and resistance to wear are important. All quality and safety aspects are certified by independent bodies such as PRODIS, GUT and TUV.

1 Management estimate

Balta carpet tiles
Production plant & distribution centre: Zele in Belgium
Distribution channels: major retailers and wholesalers, such as specialised carpet, home improvement and furniture chains, DIY stores, independent retailers and carpet fitters.
Brand: LCT® First (Luxury Carpet Tiles)

With Balta carpet tiles, we offer a wide range of multi-functional Luxury Carpet Tiles (LCT® First) for use in homes. The use of modular flooring in the home is clearly on the rise due to advantages of being easy to handle, fit and replace. Unique laying patterns and exciting combinations are also made possible through these carpet tiles.

COMMERCIAL

modulyss
Segment position[1]: N° 3 in Europe.
Production plant & distribution centre: Zele in Belgium.
Distribution channels: architects, designers, contractors and distributors (offices, education, health care and hospitality).
Brands: modulyss®, LCT Pro®
www.modulyss.com

Modulyss designs and manufactures modular carpet tiles for international contracts and targets architects and designers looking for high-quality, trend-focused floor coverings. Thanks to the sophisticated manufacturing process, modulyss carpet tiles offer exceptional performance and design. Available in a variety of colours, structures and patterns that enhance creative possibility, modulyss carpet tiles are the ideal solution to give a floor style and exclusivity. The demand is mainly refurbishment-driven and to a lesser extent, new-build.

Bentley
Segment position[1]: a leader in the premium US commercial segment.
Production plant & distribution centre: Los Angeles in the USA.
Distribution channels: architects, designers and contractors (offices, education, health care and hospitality).
Brand: Bentley®
www.bentleymills.com

2018 has proven to be a year of evolution for Bentley®. As the brand cements its identity and heritage through unparalleled products, programs, and platforms; the past year has also unveiled a broader grasp of expansion and inclusion.

Identity - Style. Service. Quality. Partnership. For more than 30 years, these tenets have been the driving forces behind Bentley, California's largest carpet design and manufacturing company. Backed by an industry-leading design team recognised for consistent innovation, Bentley is a leading producer of award winning, premium carpet tile and broadloom for commercial interiors.

Bentley is an iconic brand, chosen by specifiers, architects, designers and end users. Its success is driven by long-term support of the design community, a focus on sustainability and a broad product offer for its end user clients. Bentley's impressive growth path is fuelled by significant investments in its highly efficient LEED (Leadership in Energy and Environmental Design) Gold production facilities.

Bentley continues to broaden its horizons with the launch of a loose-lay LVT product for the commercial segment. This addition to the LVT offering puts Bentley in a position to be a competitive force in the hard surface arena.

As Bentley begins to partner and pair with the modulyss product line, it recognises and includes modulyss within marketing signatures and collateral. This marks the global collaboration in development between these two elite brands.

arc edition
Segment position[1]: one of the leaders in Europe, with a top position in Central Eastern Europe.
Production plant & distribution centre: Tielt in Belgium.
Distribution channels: commercial customers (including offices, education, health care and hospitality), specialised retail groups and wholesale.
Brand: arc edition®
www.arcedition.com

Arc edition provides innovative high-quality wall-to-wall carpet for commercial environments, enabling flooring professionals, architects, designers and specifiers to explore the creative potential of performance flooring. Through the service collection, the brand provides a wide choice of in-stock carpets suitable for use in demanding commercial environments, as well as the freedom of bespoke chromojet-printed carpet.

NON-WOVEN

Captiqs
Segment position[1]: European mid-level player.
Production plant & distribution centre: Oudenaarde in Belgium.
Distribution channels: specialised B2B converters, event organisers and traditional distributors.
Brand: Captiqs®
www.captiqs.com

Captiqs is a key European producer of technical and residential needle punched non-wovens, made from virgin and recycled polypropylene and polyester staple fibres. Captiqs offers durable, non-woven solutions for a wide variety of applications such as automotive, buildings, events, insulation, lining, carpet backing and advertising banners. Through innovation and a dynamic approach, it produces needle-punched, breathable, bonded and calendared non-wovens to meet its customers' needs.

Our polypropylene-related business is vertically integrated to offer control at every stage of the production process, from raw material to finished non-wovens. All of our operations are compliant with both the ISO9001 and ISO14001 management systems.

3,899
Total number of employees (31/12/18)

50
Number of nationalities

139
Countries we sell into

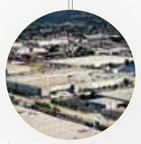
752,000 m²
Total manufacturing footprint = 150 football pitches

€646m
Revenue 2018

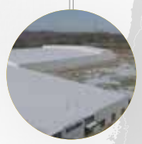
Fully automated handling of rugs with robot

Green electricity produced on our factory roofs

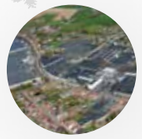
USA
SAVANNAH, GA



USA
LOS ANGELES, CA



USA
ROME, GA

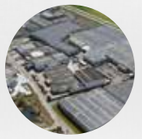


BELGIUM
SINT-BAAFS-VIJVE
(head office)

AVELGEM

OUDENAARDE

TIELT



WAREGEM

ZELE

TURKEY
UŞAK

61,150
Solar panels on 5 factory roofs in Belgium

33.7 ha
Factory roof

67
Football pitches

12.8 million kWh per year
The electricity consumption of 4,600 Belgian families

-4.75 million kg
CO_2 per year

SECTION I:
Management Report

We are pleased to report to you on the consolidated operations of LSF9 Balta Issuer S.à r.l. ("The company" or "Balta Issuer") and its subsidiaries ("the Group") with respect to the period ended on 31 December 2018.

I.1. HISTORY OF THE COMPANY

LSF9 Balta Issuer S.à r.l. ("The Company") is a private limited liability company (société à responsabilité limitée) incorporated on June 22 2015 under the laws of Luxembourg as a public limited liability company (société anonyme). The Company has its Registered Office in 15, Boulevard Friedrich Wilhelm Raiffeisen, L-1882 Luxembourg and is registered in the R.C.S. Luxembourg with number B 198084. The Company was established for the principal purpose of holding and financing the Balta Group.

On June 14 2015, LSF9 Balta Investments S.à r.l., a subsidiary of the Company, entered into a sale and purchase agreement to purchase from Balta Luxembourg S.à r.l. (the "Seller") all of the issued and outstanding share capital of Balta Finance S.à r.l. ("Balta Finance"), the former parent entity of the Balta Group and its subsidiaries, and certain intercompany loans between Balta Finance (as borrower) and the Seller (as lender). The closing of the acquisition of Balta Finance was reached on August 11 2015 ("completion Date").

On June 14 2017, The Company's corporate form changed from S.A. (société anonyme) to S.à r.l. (société à responsabilité limitée).

The Balta Group was founded in 1964 in Belgium. In more than 50 years since its foundation, it has grown into one of the largest European soft-flooring companies, producing rugs, residential broadloom, commercial broadloom and carpet tiles and non-woven fabrics for the European and international markets.

On March 22 2017, the Group acquired 98.39% of the Bentley Group of companies, a leader in premium commercial tiles and broadloom carpets for commercial interiors in the US market. On May 31 2017, the Group acquired the remaining shares of Bentley and gained a 100% control over Bentley as of that moment.

LSF9 Balta Issuer S.à r.l. was a wholly-owned subsidiary of LSF9 Balta Midco S.à r.l., which was in turn controlled indirectly by Lone Star Fund IX.

On May 30 2017, LSF9 Balta Midco S.à r.l. through intermediate holdings, contributed the Group in a newly Belgian created company Balta Group nv which became the sole shareholder of the Company. The new Parent company, Balta Group nv, is publicly listed on Euronext as from June 14 2017.

I. 2. HIGHLIGHTS AND KEY FIGURES

In 2018 Balta delivered group Consolidated Revenue of €646.2m, down by 2.3% and Adjusted EBITDA of €72.1m down by 14.5%, both versus last year. EBITDA margin of 11.2% was down 160 bps, reflecting the impact to earnings of lower volumes, adverse currency movements and industry wide cost inflation, which was not sufficiently offset in the financial year by the compensating actions we have taken.

(€ million)	2018	2017	Variation	Growth Organic
Revenue	646,2	661,3	(2,3)%	5,0%
Adjusted EBITDA [1]	72,1	84,4	(14,5)%	
Adjusted EBITDA margin	11,2%	12,8%	(160) bps	
Adjusted Operating profit [1]	39,7	51,9	(23,5)%	
Operating profit / (loss) [2]	32,0	30,8	3,9%	
Profit / (loss) for the period [2]	7,2	(2,9)	347,3%	

1) Adjusted EBITDA and Adjusted Operating Profit (2017): Reported figures before impact of purchase price allocation.

2) (Operation) profit / (loss)(2017): Reported figures after impact of purchase price allocation and integration and restructuring expenses.

The net result for the period in 2018 includes a net €3.2m impact from non-recurring items, comprised of integration and restructuring expenses of €7.7m, partially offset by the tax effect (€1.9m) and the non-recurring tax effect of the utilization of priorly unrecognized fiscal losses (€2.6m). In the absence of such events, the normalized profit for the period would have been €10.4m. Similarly, the profit for the period in 2017 includes a net non-recurring benefit of €19.7m resulting in a normalized net profit of €16.8m.

Net debt at the end of December 2018 is equal to €261.8m, €8.1m higher versus the end of 2017.

Leverage has increased from 2.9x Adjusted EBITDA at the end of 2017 to 3.6x Adjusted EBITDA at the end of 2018, mainly as the result of the lower Adjusted EBITDA. The increase in Net debt was the result of a reduction in cash of €10.5m, while at the same time gross debt decreased by €2.1m. As a reminder, 2018 saw one-off cash out of approximately €10m to the Residential operational reorganization. Following these transactions, gross debt at the end of 2018 is equal to €288.6m (excluding capitalized financing fees), of which €240.3m Senior Secured Notes, €35.0m Senior Term Loan Facility and €13.3m of finance leases.

	31 December 2018			31 December 2017		
(€ thousands)	Non-current	Current	Total	Non-current	Current	Total
Senior Secured Notes	230,1	3,4	233,5	228,1	3,4	231,5
Senior Term Loan Facility	34,9	(0,1)	34,8	34,8	(0,1)	34,7
Bank and other borrowings	12,2	1,3	13,5	13,3	2,4	15,7
Less: Cash and cash equivalents	-	(26,9)	(26,9)	-	(37,2)	(37,2)
Adjusted for capitalized financing fees	4,9	2,1	7,0	7,0	1,9	8,9
Net debt	**282,1**	**(20,2)**	**261,8**	**283,2**	**(29,6)**	**253,5**
Adjusted EBITDA				72,1		84,4
Leverage				**3,6**		**2,9**

I. 3. BUSINESS REVIEW

(€ million, unless otherwise stated) (unaudited)	2018	2017	% change	o/w organic growth	o/w FX	o/w M&A
Rugs	198,3	228,3	-13,2%	-10,4%	-2,7%	0,0%
Commercial	214,8	171,7	25,1%	10,8%	-0,9%	15,3%
Residential	206,3	234,8	-12,1%	-11,9%	-0,2%	0,0%
Non-Woven	26,7	26,5	1,0%	1,0%	0,0%	0,0%
Consolidated Revenue	**646,2**	**661,3**	**-2,3%**	**-5,0%**	**-1,3%**	**4,0%**
Pro Forma Adjustment Bentley	0,0	27,7				
Pro Forma Revenue	**646,2**	**689,0**	**-6,2%**	**-4,4%**	**-1,8%**	
Rugs	27,9	37,5	-25,6%			
Commercial	30,6	23,9	27,8%			
Residential	11,2	20,3	-44,6%			
Non-woven	2,4	2,6	-9,4%			
Consolidated Adjusted EBITDA [1]	**72,1**	**84,4**	**-14,5%**	**-17,9%**	**-0,3%**	**3,7%**
Pro Forma Adjustment Bentley	0,0	2,9				
Pro Forma Adjusted EBITDA [2]	**72,1**	**87,3**	**-17,3%**	**-16,5%**	**-0,8%**	

(€ million, unless otherwise stated) (unaudited)	2018	2017	% change	o/w organic growth	o/w FX	o/w M&A
Rugs	14,1%	16,4%				
Commercial	14,2%	13,9%				
Residential	5,4%	8,6%				
Non-Woven	8,9%	9,9%				
Consolidated Adjusted EBITDA Margin [1]	**11,2%**	**12,8%**				
Pro Forma Adjustment Bentley	10,5%					
Pro Forma Adjusted EBITDA Margin [2]	**11,2%**	**12,7%**				

1) We refer to Note 1.25 of which we provide a glossary of the non-GAAP measures

2) We refer to the Consolidated Financial Statement of 2017 for further details on pro forma methodology.

Rugs

In Rugs, we realized full year Revenue of €198.3m, or 13.2% below last year, of which a c.10% decline at constant currency and a 2.7% negative currency impact. From a regional perspective, Europe and North America declined slightly more than the average for the division, while Rest of World declined slightly less.

In North America, we lost share of wallet with two home improvement customers for the 2018 outdoor season program after years of strong growth in the region. Although we have regained part of that share for next season's outdoor program, and the first shipments started in the fourth quarter of 2018, this was not sufficient to fully offset the negative impact in 2018. At the same time, our US business benefited from new customer wins, growth of our indoor products and sales into the e-commerce channel.

Across Europe, a challenging trading environment developed in the second quarter and continued throughout the remainder of the year.

Full year Adjusted EBITDA declined 25.6% to €27.9m with an Adjusted EBITDA margin of 14.1%, down from 16.4%. The year on year margin reduction reflects the lower volumes and impact of industry wide cost inflation.

In the fourth quarter, Rugs was back to growth with Revenue up 6.8%, with a constant currency growth of approximately 7% driven by the first shipments of next season's US outdoor program and growth in the Rest of World, and a decline of 0.2% due to FX. In Europe, while Revenue was still below last year, we saw an improvement versus the first nine months. Fourth quarter Adjusted EBITDA margin of 17.6% up from 14.7% in Q4 2017.

Commercial

The Commercial division achieved full year Revenue growth of approximately 11% (at constant currency), posting full year Revenue of €214.8m. The positive impact of the acquisition of Bentley Mills, which was only consolidated as of the second quarter of 2017, amounted to 15.3%, whereas currencies had a negative impact of 0.9%, resulting in reported growth of 25.1%.

In the US, on a pro forma basis and in underlying US Dollar terms, our business realized low 20s. Revenue growth in 2018, as we have continued to take share, spurred by our investment in sales resources and increased focus on national accounts. In Europe on the other hand, full year Revenue was nearly flat in a challenging market with slight growth in tiles offset by low single-digit decline in commercial broadloom.

Full year Adjusted EBITDA increased by 27.8% to €30.6m. Commercial Adjusted EBITDA margin slightly increased year on year to 14.2% (versus 13.9% in 2017). In the fourth quarter, Commercial Revenue grew with approximately 9% (at constant currency) and a positive currency impact of 2.0%. While we realized another quarter of strong growth in the US and our European broadloom business achieved low single-digit growth, we saw a decline in our European tiles business. Fourth quarter Adjusted EBITDA margin was 14.6% vs. 12.5% in Q4 2017.

Residential

Residential full year Revenue declined by 12.1% to €206.3m, a decline of c.12% at constant currency. The performance reflected the challenging trading environment across our key markets in Continental Europe but in particular the UK.

Full year Adjusted EBITDA of €11.2m, down from €20.3m or 44.6% versus the prior year. The Residential Adjusted EBITDA margin of 5.4% was impacted by the lower volumes and adverse impact of currency movements and cost inflation. These were not sufficiently offset by the benefits from the optimization of the Residential operational footprint that was completed in the first half of 2018.

While our overall top-line declined, the sales of higher margin broadloom products have grown high single digit in 2018. As a result, these products now represent 33% of Residential sales versus 20% a year ago and 7% three years ago.

Fourth quarter Revenue saw a decline of 8.7%, a slower decline versus the first nine months of the year, of which a c.9% decline at constant currency. Fourth quarter Adjusted EBITDA margin of 5.0% reflects the lower volumes across our key markets and the continued competitive pricing environment in the UK.

Since January 2019, price increases have been in effect across all our key markets, except for the UK where price competition currently is more intense, to further offset the industry wide cost inflation. The ongoing uncertainty around Brexit continues to weigh on our performance in the UK and our Residential division in particular.

I. 4. FINANCIAL REVIEW

(€ thousands)	2018 Reported	2017 Reported	2017 Non-recurring	2017 PPA	Reported figures before impact of PPA and non-recurring
Revenue	646,197	661,320	-	-	661,320
Raw material expenses	(306,640)	(310,391)	-	-	(310,391)
Changes in inventories	5,826	(3,359)	-	(3,008)	(351)
Employee benefit expenses	(159,099)	(151,334)	-	10	(151,343)
Other income	3,350	7,132	-	-	7,132
Other expenses	(117,501)	(121,914)	-	96	(122,010)
Adjusted EBITDA [1]	**72,134**	**81,454**	**-**	**(2,902)**	**84,356**
Depreciation/amortisation	(32,430)	(32,499)	-	(30)	(32,469)
Adjusted Operating Profit [1]	**39,704**	**48,954**	**-**	**(2,933)**	**51,887**
Integration and restructuring expenses	(7,699)	(18,175)	(18,175)	-	-
Operating profit / (loss)	**32,004**	**30,779**	**(18,175)**	**(2,933)**	**51,887**
Finance income	51	41	-	-	41
Finance expenses	(25,881)	(37,327)	(9,307)	-	(28,019)
Net finance expenses	**(25,830)**	**(37,285)**	**(9,307)**	**-**	**(27,978)**
Profit / (loss) before income taxes	**6,174**	**(6,506)**	**(27,482)**	**(2,933)**	**23,909**
Income tax benefit / (expense)	996	3,622	9,577	1,149	(7,104)
Profit / (loss) for the period from continuing operations	**7,171**	**(2,884)**	**(17,905)**	**(1,784)**	**16,805**

1) Adjusted Operating Profit and Adjusted EBITDA are non-GAAP measures as defined in Note 1.25.

Integration and restructuring expenses

Several one off events had a material impact on our 2018 results.

The non-recurring events of 2018 mainly relate to:

- Integration and restructuring expenses of €4.2m, related to the optimisation of the operational footprint within the Residential division. The restructuring project was initiated in 2017 and concluded mid-2018. Total one-off cost for the Residential optimisation amounted to €12.4m (of which €8.2m in 2017),

in line with our expectations;

- One-off Integration and restructuring expenses of €1.1m in relation to changes in executive leadership;
- Integration and restructuring expenses of €2.7m related to strategic and operational evaluation of the business.

2017 was characterized by a net expense of €19.7m, mainly as a result of the one off's related to integration and restructuring (€18.2m) and finance expenses related to the debt financed acquisition of Bentley and the partial early redemption of Senior Secured Notes (€9.3m), offset by net tax benefits (€9.6m).

Net Financing Costs

The net finance expense amounted to €25.9m, primarily the interest expense related to external borrowings. Compared to prior year, the net financing cost decreased as a result of the full year run rate benefit from repayment of €55.1m Senior Secured Notes in 2017 and 2017 one-off finance expenses related to the IPO, partial repayment of the Senior Secured Notes and acquisition of Bentley in 2017.

Taxation

The Group reported an income tax income for the year of €1.0m based on profit before taxes of the year of €6.2m. The tax income is mainly driven by the utilization of previously unrecognized deferred tax assets.

Financial risk management

The Group is exposed to a variety of financial risks, including market risk (mainly foreign exchange rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial and commodity markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group's financial risk management is described in Note 28 of the Consolidated Financial Statements.

I. 5. OTHER REVIEW

Company's likely future development

OUR STRATEGY

Our vision is to bring beautiful design at affordable prices to the mid-segment mass markets by leveraging innovation capabilities and commercial and operational excellence, and to target large segments with attractive margin opportunities. We see ourselves being the preferred partner to our customers, providing leading innovation and great customer service. In the Rugs division, our goal is to be the global innovation and design leader in machine-made rugs. In Commercial, Balta is the growing challenger in the North American and European commercial carpet and tiles segment. Finally, in Residential, we intend to hold a market leading position in Europe.

The execution of these goals is based on a three pillar strategy:

- strengthen our leading position across core segments;
- focus on Commercial and Operational Excellence;
- selectively seek complementary acquisition opportunities.

We are clear how we will execute these strategies and in the last year we have made good progress.

2019 PRIORITIES

As a result of the strategic and operational review begun in November 2018, we launched a holistic program, NEXT, designed to deliver a significant improvement in earnings over a three year period. The 3 key initiatives focus on:

1. Delivering sustainable growth

Despite the challenging environment, we continue to be confident about the long term growth potential of our Rugs and Commercial businesses.

In Rugs, one of the fastest growing channels for the coming years is e-commerce, both in the US and Europe. In order to be the best partner for our existing and future e-commerce customers, whether brick-and-click, pure-play or marketplaces, we have invested in people, logistics and processes to service these partners. We established an expert US e-commerce team in mid-2018 and have leased a dedicated warehouse in Savannah, Georgia since the end of 2018. We also invested in the digital assets required to be successful in e-commerce, such as high quality picture and video content to drive website traffic and consumer sales. With the learnings from the US, we will take similar steps in Europe.

As well as targeting new channels, we are constantly refreshing and developing our product offering. We invested in Papilio Rugs mid last year to address the growing niche of natural hand-woven rugs in which Balta home had no presence before. While still very small today, we believe the underlying drivers are present for Papilio's niche to grow over the next few years. In addition, we continue to work on making our products more sustainable, in line with what our customers are asking for longer term.

In Commercial, we see further potential for our US business to broaden its addressable market by expanding the multi-family and education segments, in addition to continue to increase share in the office segment in which we are active today. We have and will continue to hire new sales representatives to address the opportunities at hand.

In Europe, we are aiming to grow in the higher end Commercial specification business. We believe in the mid-term growth opportunity here which will require us to target the Architects & Designers (A&D) community. Therefore, we are building a dedicated salesforce and adding showrooms later this year in addition to the existing showroom in London, to target the UK, Benelux, France and Germany. At the same time, we will continue to defend and expand our existing position as a challenger in the mid-segment indirect channel.

2. Improving commercial excellence

The industry-wide cost inflation trend for raw materials, energy and transport costs, has impacted our earnings over the last two years, as we have not always been able to increase prices in time and in full. In order to offset these headwinds and improve margins, we have been and will continue to work both on pricing and costs.

We have launched a group-wide project to increase our sales force effectiveness and have setup a dedicated commercial action room which identifies and targets the potential across our businesses and customers. Through an increased focus on key account management, we will continue to improve our understanding of customer needs and improve planning.

At the start of 2019 we increased prices across all our divisions and regions to account for industry-wide cost inflation and for our services provided to customers, with the exception of UK Residential where price competition has been intense. Cost and value based pricing as well as a shift to higher margin product remain a key focus.

3. Increasing cost competitiveness

Our efforts in operational excellence will be accelerated in 2019, as we keep on identifying ways to make our processes more efficient. We have performed an in-depth review of our cost competitiveness and have setup several Lean projects across our plants which will be implemented during this year with a meaningful impact from 2020.

The Lean initiatives we are implementing will not only benefit our conversion cost, but further reduce the complexity of some of our processes and allow us to improve working capital. Furthermore, we have launched a sales & operations planning (S&OP) improvement project which will benefit inventory management. Additionally, we have taken several measures targeting cost

savings in procurement and SG&A.

2019 OUTLOOK

We anticipate 2019 to be another challenging and transformational year for our business with Adjusted EBITDA broadly flat versus 2018. Our outlook is based on a moderate macro-economic view with the trends we have seen in 2018 set to continue. In general, the European retail trading environment, amplified by Brexit uncertainty, is expected to remain a challenging backdrop for our Residential and Rugs businesses in Europe. At the same time, the outlook for our US Rugs and Commercial businesses remains more positive. 2019 will be marked by continued industry-wide raw material and other cost inflation as well as our growth investments in salesforce and related infrastructure. We expect the impact on our full year earnings to be offset by the price actions we have taken together with the first benefits from our growth and cost saving initiatives, which will have a more significant impact as from 2020.

Environmental and personnel matters

In 2018, the Group employed an average of 3,696 employees (expressed in full-time equivalents) compared to 3,714 employees per 2017. All efforts are undertaken to ensure that all health and safety measures are in compliance with legal requirement, that appropriate training and career development opportunities are identified and that consultation with employees or their representatives continues at all levels when decisions are taken that are likely to affect employee's interest.

Research and development

One of the competitive advantages of our business is our long history of creativity and innovation. We aim to leverage our research and development to continually optimize our production capacity and provide designs that appeal to our customers. We closely monitor trends in product design and innovation through continuous testing and analysis, with a focus on anticipating our customers' preferences and market developments. The Group incurred €7.2m of research and development expenses during the 12 months ended in December 31 2018 compared to the €7.0m of research and development expenses during the 12 months ended in December 31 2017 which are included in the income statement as other expenses.

Prospects and information regarding circumstances that could material affect the development of the Group

Our potential for future business success and operating profitability must be considered in light of the risks, uncertainties, expenses and difficulties typically encountered by recently organized or combined companies. If we fail to address these risks, uncertainties and difficulties or to manage these expenses adequately, our business, financial condition and operating results may be materially adversely affected and may differ materially from your expectations based on the historical and pro forma financial information provided in this Annual Report.

Events after reporting date

We are not aware of any significant events since December 31 2018 which could be considered as having a material influence on the financial position, financial performance and cash flows of the Company.

Discharge

The Board of Managers requests the Partners of the Group to approve the Consolidated Financial Statements as attached hereto and to grant discharge to the Board of Managers and to the statutory auditors for the exercise of their mandate during the last financial year.

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). These Group Consolidated Financial Statements were approved by the Board of Managers on April 25 2019 and authorized for issue by the Board of Managers on April 26 2019. 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 this Financial Statements.

Board of Managers

The Board of Managers of LSF9 Balta Issuer S.à r.l. is as follows:

Cyrille Ragoucy
Manager
Start of mandate: August 26 2018

Tom Gysens BVBA,
represented by Tom Gysens
Manager
Start of mandate: June 16 2017

Jean-Philippe Kuhn
Manager
Start of mandate: June 16 2017

Sara Speed
Manager
Start of mandate: October 31 2017

Statutory auditors

The statutory auditors are PricewaterhouseCoopers Société Coopérative, 2, Rue Gerhard Mercator, B.P. 1443, L-1014 Luxembourg.

SECTION II: Consolidated Financial Statements

II.1. Consolidated statement of comprehensive income for the period ended 31 December

(€ thousands)	Note	For the year ended 31 December 2018	2017
I. CONSOLIDATED INCOME STATEMENT			
Revenue	Note 4	646,197	661,320
Raw material expenses		(306,640)	(310,391)
Changes in inventories	Note 16	5,826	(3,359)
Employee benefit expenses	Note 7	(159,099)	(151,334)
Other income	Note 8	3,350	7,132
Other expenses	Note 8	(117,501)	(121,914)
Depreciation / amortisation	Note 9	(32,430)	(32,499)
Adjusted Operating Profit 1		**39,704**	**48,954**
Gains on asset disposals		-	-
Integration and restructuring expenses	Note 10	(7,699)	(18,175)
Operating profit / (loss) 1		**32,004**	**30,779**
Finance income		51	41
Finance expenses	Note 11	(25,881)	(37,327)
Net finance expenses		**(25,830)**	**(37,285)**
Profit / (loss) before income taxes		**6,174**	**(6,506)**
Income tax benefit / (expense)	Note 12	996	3,622
Profit / (loss) for the period from continuing operations		**7,171**	**(2,884)**
Profit / (loss) for the period from discontinued operations		-	-
Profit / (loss) for the period		**7,171**	**(2,884)**
Attributable to:			
Equity holders		7,171	(2,919)
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		(13,833)	(13,522)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting		87	123
Items in other comprehensive income that will not be reclassified to P&L			
Changes in deferred taxes		(107)	(457)
Changes in employee defined benefit obligations		379	1,005
Other comprehensive income for the period, net of tax		(13,474)	(12,850)
Total comprehensive income for the period		**(6,303)**	**(15,735)**
Basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the company	Note 35	**0,05**	**(0,02)**

(1) Adjusted Operating Profit / Operating profit / (loss) are non-GAAP measures as defined in Note 1.25.

The accompanying Notes form an integral part of these Consolidated Financial Statements.

II.2. Consolidated statement of financial position as at 31 December

(€ thousands)	Note	For the year ended 31 December 2018	2017
Property, plant and equipment			
Land and buildings	Note 14	153,752	162,103
Plant and machinery	Note 14	132,632	130,977
Other fixtures and fittings, tools and equipment	Note 14	14,875	18,080
Goodwill	Note 6	194,643	198,814
Intangible assets	Note 13	11,399	12,218
Deferred income tax asset	Note 15	4,927	4,160
Trade and other receivables	Note 17	996	1,165
Total non-current assets		**513,222**	**527,517**
Inventories	Note 16	153,894	147,868
Derivative financial instruments	Note 27	119	-
Trade and other receivables	Note 17	60,745	62,760
Current income tax assets		278	3,914
Cash and cash equivalents	Note 18	26,853	37,182
Total current assets		**241,889**	**251,723**
			-
Total assets		**755,111**	**779,240**
Share capital	Note 19	137,848	137,848
Share premium	Note 19	155,486	155,486
Preferred Equity Certificates		-	-
Other comprehensive income	Note 20	(33,386)	(19,913)
Retained earnings	Note 21	6,286	433
Other reserves		(14,283)	(14,283)
Total equity		**251,951**	**259,571**
Senior Secured Notes	Note 22	230,065	228,130
Senior Term Loan Facility	Note 23	34,908	34,782
Bank and other Borrowings	Note 24	12,225	13,310
Deferred income tax liabilities	Note 15	47,837	54,471
Provisions for other liabilities and charges	Note 31	2,458	2,335
Employee benefit obligations	Note 29	3,106	4,127
Total non-current liabilities		**330,598**	**337,156**
Senior Secured Notes	Note 22	3,425	3,425
Senior Term Loan Facility	Note 23	(118)	(108)
Bank and other Borrowings	Note 24	1,261	2,361
Provisions for other liabilities and charges	Note 31	1,165	7,316
Derivative financial instruments	Note 27	55	2
Other payroll and social related payables	Note 30	36,655	33,359
Trade and other payables	Note 32	125,940	132,414
Income tax liabilities		4,178	3,745
Dividends Payable		-	-
Total current liabilities		**172,562**	**182,514**
			-
Total liabilities		**503,160**	**519,668**
Total equity and liabilities		**755,111**	**779,240**

The accompanying Notes form an integral part of these Consolidated Financial Statements.

II.3. Consolidated statement of cash flows for the period ended 31 December

(€ thousands)	Note	For the year ended 31 December 2018	2017
I. CASH FLOW FROM OPERATING ACTIVITIES			
Net profit / (loss) for the period		**7,171**	**(2,884)**
Adjustments for:			
Reclass of capital increase expenses to cashflow from financing activities (gross)		-	7,119
Income tax expense/(income)	Note 12	(996)	(3,622)
Finance income		(51)	(41)
Finance expenses	Note 11	25,881	37,327
Depreciation / amortisation	Note 9	32,430	32,500
Movement in provisions		(6,215)	7,252
(Gain) / loss on disposal of non-current assets		29	(58)
Fair value of derivatives		21	8
Expense recognised in respect of equity-settled share-based payments		7	-
Non-cash impact of purchase price allocation		-	2,902
Cash generated before changes in working capital		**58,276**	**80,503**
Changes in working capital:			
Inventories	Note 16	(4,447)	(4,280)
Trade receivables	Note 17	(4,497)	1,747
Trade payables	Note 32	3,056	(13,556)
Other working capital		(3,940)	1,545
Cash generated after changes in working capital		**48,448**	**65,960**
Net income tax (paid)		(4,782)	(5,344)
Net cash generated / (used) by operating activities		**43,667**	**60,617**
II. CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition & disposal of property, plant and equipment	Note 14	(30,765)	(38,261)
Acquisition of intangibles	Note 13	(930)	(1,673)
Proceeds from non-current assets		867	912
Acquisition of subsidiary		-	(68,752)
Net cash used by investing activities		**(30,828)**	**(107,776)**
III. CASH FLOW FROM FINANCING ACTIVITIES			
Interest and other finance charges paid, net		(21,031)	(32,388)
Proceeds from borrowings with third parties		-	110,000
Proceeds from capital increase		-	137,677
Capital increase expenses (net)		-	(6,292)
Repayments of borrowings with third parties	Note 24	(2,137)	(171,987)
Proceeds from contribution in kind		-	1,343
Net cash generated / (used) by financing activities		**(23,168)**	**38,354**
NET INCREASE/ (DECREASE) IN CASH AND BANK OVERDRAFTS		**(10,329)**	**(8,806)**
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	Note 18	26,853	37,182

The accompanying Notes form an integral part of these Consolidated Financial Statements.

II.4. Consolidated statement of changes in equity for the year ended 31 December

(€ thousands)	Share capital	Share premium	Preferred Equity Certificates	Other comprehensive income	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance at 1 January 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	0	-	-	-	-	137,677	-	137,677
Total transactions with the owners	**137,677**	**154,226**	**(138,600)**	**-**	**-**	**(14,283)**	**139,020**	**(34)**	**138,986**
Balance at 31 December 2017	**137,848**	**155,486**	**-**	**(19,913)**	**433**	**(14,283)**	**259,571**	**-**	**259,571**

The accompanying Notes form an integral part of these Consolidated Financial Statements.

(€ thousands)	Share capital	Share premium	Other comprehensive income	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance at 31 December 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 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)**	**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**

The accompanying Notes form an integral part of these Consolidated Financial Statements.

II.5. Notes to the Consolidated Financial Statements

Note 1. Accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to the year presented, unless otherwise stated.

Note 1.1. Basis of preparation

Basis of preparation

These Consolidated Financial Statements of LSF9 Balta Issuer S.à r.l. ("the Company" or "Balta Issuer"), registered at 15, Boulevard Friedrich Wilhelm Raiffeisen, L-2411 Luxembourg (R.C.S. Luxembourg: B 198084) and its subsidiaries ("the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. These include all IFRS standards and IFRIC interpretations issued and effective at 31 December 2018.

The Financial Statements of the Company for the period 1 January 2018 to 31 December 2018 comprise the Group.

These Consolidated Financial Statements are presented in Euro, which is the Group's reporting currency and the functional currency of the Company. All amounts in these Consolidated Financial Statements 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 Financial Statements.

These Financial Statements are prepared on a going concern basis, i.e. assuming that operations will continue in the foreseeable future.

Any events and/or transactions significant to an understanding of the changes since 31 December 2017 have been included in these Notes to the Consolidated Financial Statements.

The equity of the Group was reorganised in view of the IPO of the parent company (Balta Group nv) which occurred in the course of 2017. In preparation of the IPO, Balta Group nv (parent company), which was established by the same partners as those of LSF9 Balta Issuer S.à r.l., was incorporated on 1 March 2017 for the purpose of acquiring LSF9 Balta Issuer S.à r.l. and its subsidiaries. The acquisition of LSF9 Balta Issuer S.à r.l. by Balta Group nv occurred on 30 May 2017 through a contribution in kind in the Share Capital of Balta Group nv.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 2.

New standards and amendments to standards

The following interpretations and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2018 and have been endorsed by the European Union.

- IFRS 15, "Revenue from contracts with customers" (effective 1 January 2018). The IASB and FASB have jointly published a standard regarding revenue from contracts with customers. The standard will result in better financial reporting and will improve the comparability of the top line in Financial Statements globally. Companies using IFRS will be required to apply the revenue standard for annual periods beginning on or after 1 January 2018. The Group has adopted the standard on the required effective date. The standard did not have a significant impact on revenues.

- Amendments to IFRS 15, "Revenue from contracts with customers" – Clarifications (effective 1 January 2018). These amendments compromise clarification guidance on identifying performance obligations, accounting for licences of intellectual property and the principle versus agent assessment. The amendment also includes more illustrative examples.

- IFRIC 22, "Foreign currency transactions and advance consideration" (effective 1 January 2018): IFRIC addresses foreign currency transactions or parts of transactions where there is an advance consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

- Amendments to IFRS 2, "Share-based payments" (effective 1 January 2018): The amendment clarifies the measurement basis for cash-settled payments and the accounting for modifications that change an award from cash settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obligated to withhold an amount for the employee's tax obligation associated with a share-based payment and pay the amount to the tax authorities.

- IFRS 9, "Financial instruments" (effective 1 January 2018). This standard, which covers financial instruments on both the asset as well as the liability side, describes the criteria for recognition, classification and derecognition of such instruments, in addition to the allowed measurements methods. The impact of the adoption of IFRS 9 is disclosed in Note 1.10.

The following new standards and amendments to standards have been issued, but are not mandatory for the financial year beginning 1 January 2018 and have been endorsed by the European Union:

- IFRS 16 "Leases" (effective 1 January 2019). This standard replaces the current guidance in IAS 17 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 recognise 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 a consideration.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS16. The standard will affect primarily the accounting for the Group's operating leases. At the reporting date, the Group has non-cancellable operating lease commitments of €50.9m. We refer to Note 25. For these commitments the Group expects to recognise right-of-use assets and lease liabilities of approximately €45m on 1 January 2019. Impact on deferred taxes will be immaterial. The Group expects that net profit after tax will not decrease materially for 2019 as a result of adopting the new rules. Adjusted EBITDA is expected to increase between approximately €6m and €8m, as the operating lease payments were included in Adjusted EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group will apply the simplified transition approach and will not restate comparative amounts for the year prior to the first adoption. All right-of-use assets will be measured at the moment of the lease liability on adoption.

- Amendments to IFRS 9, "Prepayment features with negative compensation" (effective 1 January 2019 within the EU). An amendment to allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fear value through other comprehensive income if a specified condition is met – instead of at fair value through profit or loss, because they would otherwise fail the Soley Payments of Principle Interest (SPPI)-test. In addition, this amendment clarifies an aspect of the accounting for financial liabilities following a modification. We do not expect a significant impact on the financials.

- Amendments to IAS 19, "Plan Amendment, Curtailment or Settlement" (effective 1 January 2019). The amendments require an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. In addition, an entity will have to recognise in profit or loss as part of part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling. The amendments will affect any entity that changes the terms or the membership of a defined benefit plan such that there is past service cost or a gain or loss on settlement.

- IFRIC 23 "Uncertainty over income tax treatments" (effective 1 January 2019). This interpretation clarifies how to apply the recognition and measurement requirements in IAS12 where there is uncertainty over income tax treatments. The Group plans to apply the interpretation of IFRIC 23 on 1 January 2019, where the effect of applying IFRIC 23 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

  The Group has reviewed its tax positions taking into account the Financial Statements and the tax filings and how these are supported. In addition, the Group has assessed how the tax authorities might make their examinations and how issues that might arise from those examinations could be resolved. Based on the initial assessment, uncertain tax positions were identified for a range between €1.5m to €3.0m.

The following new standards, amendments and interpretation to standards have been issued, but are not mandatory for the financial year beginning 1 January 2018 and have not been endorsed by the European Union:

- Amendments to Refences to the Conceptual Framework in IFRS (effective 1 January 2020). The revised conceptual framework includes a new chapter on measurement: guidance on reporting financial performance, improvement definitions and guidance – in particular the definition of a liability and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

- Amendments to the guidance of IFRS 3 Business Combinations, that revises the definition of a business (effective 1 January 2020). The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce. The changes to the definition of a business will likely result in more acquisitions being accounted for as asset acquisition across all industries, particularly real estate, pharmaceutical, and oil and gas. Application of the changes would also affect the accounting for disposal transactions.

- Amendments to the definition of material in IAS 1 and IAS 8 (effective 1 January 2020). The amendments clarify the definition of material and make IFRSs more consistent. The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the Financial Statement as a whole. The amendment also clarifies the meaning of primary users of general purpose Financial Statements as a whole. The amendment also clarifies the meaning of primary users of general purpose Financial Statements to whom those Financial Statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must relay on general purpose Financial Statements for much of the financial information they need. The amendments are not expected to have a significant impact on the preparation of Financial Statements.

- Annual improvements to IFRS 2015-2017 cycle, applicable as of 1 January 2019 and containing the following amendments to IFRS:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements, the amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business;

- IAS 12 Income Taxes, the amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises;

- IAS 23 Borrowing costs, the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

Note 1.2. Consolidation

Subsidiaries

Subsidiaries are all entities for which the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The Group applies the acquisition method to account for business combinations. The consideration paid reflects the fair value of the assets transferred, the liabilities assumed and the equity instruments issued. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement (for example, variable consideration contingent on future events such as achievement of post-acquisition earnings targets or success of a significant project).

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition related costs are expensed in the income statement.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest and previously held interest in the entity acquired. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net recognised amount (generally at fair value) of the identifiable assets acquired and liabilities assumed is recognised as goodwill. Negative goodwill is recognised immediately in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred in which case the asset is impaired through the income statement. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

Segment reporting

Note 4 provides the Group's segment information, in line with IFRS 8. The Group operates its business through four segments, which are organised by product and sales channel. The Rugs segment designs, manufactures and distributes a broad range of machine-made rugs to major retailers (such as home improvement, furniture, specialist, discount and DIY stores), e-commerce players and wholesalers. The Residential segment designs, manufactures and distributes branded broadloom carpets (*Balta carpets* and *ITC* brands) and tiles to major retailers and wholesalers. The Commercial segment designs, manufactures and distributes modular carpet tiles and wall-to-wall carpets, in the US mainly through our Bentley brand, in Europe mainly through our modulyss and arc edition brands. Finally, the Non-Woven segment designs, manufactures and distributes soft flooring for events such as fairs and expositions and specialised fabrics for insulation, lining, cars, carpet backing and banners through its Captiqs brand.

Operating segments are reported in a manner consistent with the internal reporting provided to the Board and the Management Committee. Items that are provided on a monthly basis to the Management Committee are revenues, Adjusted EBITDA, net inventory, accounts receivable and capital expenditure. The segment information provided in Note 4 has been selected on this basis. It follows that other items such as total assets and liabilities per segment are not reviewed internally and hence not disclosed. Interest income, interest expense and taxes are managed centrally and accordingly such items are not presented by segment as they are excluded from the measure of segment profitability.

Note 1.3. Foreign currency translation

Functional and presentation currency

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Consolidated Financial Statements are presented in Euro, which is the Group's functional and the Group's presentational currency. All amounts are stated in thousands of Euro unless otherwise stated.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or date of valuation, in case of items that are re-measured at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to cash and cash equivalents and borrowings, including borrowings, payables and receivables between group companies that do not qualify as a net investment in a foreign operation are presented in income statement within "Finance income" and "Finance expenses". All other foreign exchange gains and losses are presented in the income statement within "Other income" or "Other expenses" which is part of the operating profit.

The principal exchange rates that have been used to prepare these Financial Statements are as follows:

	31 December 2018		31 December 2017	
	Closing	Average	Closing	Average
USD	1.1450	1.1810	1.1993	1.1297
TRY	6.0280	5.6789	4.5155	4.1159
GBP	0.8945	0.8847	0.8872	0.8767

Group companies

The results and financial position of all the Group's entities (none of which is in a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing or year-end rate;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which

case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in "Other comprehensive income".

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and from borrowings and other currency instruments designated as hedges of such investments (if any), are taken to "Other comprehensive income". When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Foreign exchange gains and losses that relate to borrowings and transactions between group companies in a different currency compared to the functional currency, are presented in the income statement within "Finance income" and "Finance expenses", if these borrowings do not qualify as a net investment in a foreign operation.

Foreign exchange gains and losses resulting from hedging instruments which are of a non-operational nature, are presented in the income statement within "Finance income" and "Finance expenses".

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Note 1.4. Property, plant and equipment

Property, plant and equipment are carried at acquisition cost less any accumulated depreciation and less any accumulated impairment loss. Cost of property, plant and equipment also includes the estimated cost of dismantling and removing the asset and restoring the site, to the extent that the provision is recognised under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method, to allocate the costs over the estimated remaining useful lives, as follows:

Industrial and administrative buildings	
- Structural work	40-50 years
- Other elements	10-25 years
- Machinery	10-33 years
- Vehicles, transport equipment	5 years
- Furniture, fittings and equipment	5-15 years

Cars are depreciated to a residual value of 20% of the initial cost.

Spare parts purchased for particular items of plant are capitalised and depreciated over the useful life not exceeding 4 years. Samples of products are capitalised and depreciated over 2-3 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Fair value adjustments as a result of Business Combinations are depreciated over the estimated remaining useful life of the applicable assets.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other income" or "Other expenses" in the income statement.

Note 1.5. Goodwill

Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is tested annually for impairment and carried at cost in the underlying currency less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of a cash-generating unit include the carrying amount of goodwill relating to the cash-generating unit sold.

Note 1.6. Other intangible assets

Trademarks

Trademarks acquired in a business combination are recognized at fair value at the acquisition date. The fair market value is determined on the basis of a net present value calculation corrected for the cost to be taken to further support the trademarks in the market. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the trademarks over the shortest of their estimated useful lives or the period of the legal right.

Internally generated software and other development cost

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which in general is equal to 4 years.

Note 1.7. Impairment of assets

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. These values are generally determined based on discounted cash flow calculations. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Note 1.8. Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The Group records all gains or losses resulting from changes in fair value of derivatives in the income statement within "Other income" or "Other expenses" to the extent that they re-

late to operating activities and within "Finance income" or "Finance expenses" to the extent that they relate to the financing activities of the Group.

Derivative financial instruments used to hedge the exposure to variability in future cash flows are designated as hedges under cash flow hedge accounting. The effective portion of changes in fair value as from the designation date of the cash flow hedge are recorded in the cash flow hedge reserve, part of "Other comprehensive income". Amounts recorded in the cash flow hedge reserve will be recognised in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement. In case of the hedge of a forecast sales transaction, this coincides with the date upon which the revenue and trade receivable is recognised.

When the underlying hedged transactions no longer meet the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that has been recognised in "Other comprehensive income" from the period when the hedge was effective, shall be reclassified from equity to profit or loss as a reclassification adjustment.

When the underlying hedged transaction is no longer expected to occur, the cumulative gains or loss on the hedging instrument that has been recognised in "Other comprehensive income" from the period when the hedge was effective shall be reclassified from equity to profit or loss as a reclassification adjustment.

Note 1.9. Inventories

Inventories are stated at the lower of cost and net realizable value. These net realizable value adjustments are reviewed on a regular basis and updated to reflect the estimated selling price less selling expenses, based on historical data and expectations. Cost is determined using the first-in, first-out ("FIFO") method. The cost of finished goods and work in progress comprises amongst other design costs, raw materials, direct labor, other direct costs and related production overhead (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Based on a quantified methodology, provisions against the carrying value of inventories are recorded taking qualitative aspects into account including the lower of cost versus net realizable value assessment. These provisions are reviewed by management.

Note 1.10. Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less bad debt allowance. Trade receivables are reviewed on continuing basis, if collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

The Group has applied IFRS 9 by applying the modified retrospective approach, by using the standard's simplified approach and calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix. Trade receivables have been categorised by common characteristics that are representative of the customer's abilities to pay (based on geographical region, 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 to the provision at 1 January 2018 of €1.9m (€1.3m net of tax). This adjustment is recognised in the opening balance sheet on 1 January 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.

In addition, to this general approach, the Group includes individually managed exposures on a case by case basis if not covered by the ECL model, also reflecting additional risk factors into the ECL model if not yet included.

Note 1.11. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

Note 1.12. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 1.13. Government grants

Government grants are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement within "Other income" over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected useful lives of the related assets.

Note 1.14. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Supplier finance arrangements are recognised as a financial liability unless the original trade payable is extinguished or its terms are significantly modified to the extent that it qualifies for de-recognition under IFRS 9 (we refer to de-recognition of financial assets and liabilities Note 1.17).

Note 1.15. Classification liability or equity

Some instruments that have the legal form of a liability are, in substance, equity. A financial instrument is classified as a financial liability or an equity instrument depending on the substance of the arrangement rather than the legal form. Liabilities arise when the issuer is contractually obligated to deliver cash or another financial asset to the holder. An instrument is an equity instrument only if the issuer has no such obligation, i.e. it has an unconditional right to avoid settlement in cash or another financial asset. The ability to defer payment is not enough to achieve equity classification, unless payment can be deferred indefinitely. Generally an obligation for the entity to deliver its own shares is not a financial liability because an entity's own shares are not considered its financial assets. An exception to this is where an entity is obliged to deliver a variable number of its own equity instruments.

Until the capital reorganisation at the moment of the IPO, the Preferred Equity Certificates ("PEC's") were treated as equity insturments. As a result to the capital reorganisation the PEC's have been converted into share capital.

Note 1.16. Senior Secured Notes, Bank and other borrowings

Senior Secured Notes, Bank and other Borrowings are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Note 1.17. De-recognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where IFRS 9 de-recognition criteria are not met, the receivables continue to be recognised in the statement of financial position, while the proceeds received by the Group under any financing/factoring arrangements are recognised as a financial liability.

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or when the existing liability is transferred to a different lender and the Group obtains a legal release from the initial lender, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in the income statement.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least ten per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Note 1.18. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in "Other comprehensive income" or directly in "Equity". In this case the tax is also recognised in "Other comprehensive income" or directly in "Equity", respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries operate and generate taxable income. In line with paragraph 46 of IAS 12 "Income taxes", management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This evaluation is made for tax periods open for audit by the competent authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the "Statement of financial position" date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax is not discounted.

Note 1.19. Provisions

Provisions for restructuring expenses, legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Note 1.20. Employee benefits

Pension obligations

IAS 19 distinguishes two types of post-employment benefit plans:

- Defined contribution plans (DC plans) are post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund or group insurance contract) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current or prior periods;
- Defined benefit plans (DB plans) are post-employment benefit plans other than defined contribution plans.

Group companies operate one defined benefit plan for a group of managers and various pension schemes funded through payments to insurance companies. Because of the Belgian legislation applicable to 2nd pillar pension plans (so-called "Law Vandenbroucke"), all Belgian Defined Contribution plans have to be considered under IFRS as Defined Benefit plans. Law Vandenbroucke states that in the context of defined contribution plans, the employers must guarantee a minimum return of 3.75% on employee contributions and 3.25% on employer contributions. However, shortly before year-end 2015, a change in the Belgian Law was enacted resulting in a decrease of the guaranteed return from 3.25 % to a minimum interest rate defined based upon the Belgian 10-year interest rate but within the range 1.75% - 3.25%. The new rate (1.75% per 31 December 2018 and per 31 December 2017) applies for the years after 2015 on future contributions and also on the accumulated past contributions as from 31 December 2015 if the financing organisation does not guarantee a certain result on contributions until retirement age. If the organisation does guarantee such a result, the historical rates still apply.

Because of this minimum guaranteed return, the employer is exposed to a financial risk: further contributions could be required if the return on the assets is not sufficient to reach the minimum benefits to be paid. The Group has plans that are financed through insurance contracts. The projected unit credit method has been used as the actuarial technique to measure the defined benefit obligation. Note that for the bonus plans, a simplified approach is applied as it is not

possible to predict future bonuses (which define future contributions). The fair value of the plan assets is based on §113 of IAS 19 and is defined as the present value of the retirement capitals guaranteed by the insurance company (using the tariffs as set out by the insurance company). The discount rate used takes into account the investment risk of financial institutions by referring to financial single A bonds. Therefore an additional gap is added to the Defined Benefit Obligation ("DBO") discount rate which reflects the difference between double AA corporate bonds and single A financial bonds. At 31 December 2018 this gap was 92 basis points.

Other post-employment obligations
The Group does not have other post-employment obligations.

Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises a liability and expense for termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

In Belgium, the system of early retirement pensions ensures that elderly people who are dismissed by their employer or who are encouraged to terminate their employment and who fulfill certain conditions, are eligible to receive supplementary unemployment allowance and paid by their former employer on top of the unemployment allowances paid by social security. This benefit is generally paid until normal retirement age, which is 65 years.

Within the Group, several former employees benefit from the system of "early retirement fee or pension", based on several Belgian Collective Labor Agreements (CLAs) in place for the sector (*textielnijverheid en breiwerk/ industrie textile et de la bonneterie*) or specifically for the Group. These CLAs describe the different possibilities for employees in the sector to benefit from "early retirement fee or pension", the creation of a sector fund (*fonds voor bestaanszekerheid/ fonds de sécurité d'existence*), part-time work, education and training etc. Certain CLAs exist for blue collar workers and others for white collar workers.

For those early retirement fees or pensions which are directly paid out by the employer, a provision should be made under IAS 19. It has been determined as the present value of the best estimate of future cash flows. The discount rate used is based on the return on high quality corporate bonds (AA rated) of a maturity equivalent to the duration of the liabilities. The changes in pension liabilities are accounted for through other comprehensive income when the changes relate to a change in actuarial assumptions from one year to another.

Bonus plans
Bonuses received by company employees and management are based on pre-defined Group and individual target achievement. The estimated amount of the bonus is recognised as an expense in the period the bonus is earned.

Share Based payments
An equity-settled share-based payment transaction is a transaction in which the Group receives services as consideration for its own shares (or share options). The fair value of the services received in exchange for the grant of the shares (or share options) measured by reference to the grant date fair value of the shares (or share options), is recognised as an expense over the vesting period.

When share-based payment plans are cash-settled: the goods or services acquired and the liability are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at the end of each reporting period and at the date of settlement with any changes in fair value recognised in profit and loss for the period.

Note 1.21. Revenue recognition
Revenue from contracts
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 recognised 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 mode 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 recognise revenue as each performance obligation is satisfied.

The Group has assessed each of the revenue streams from an IFRS 15 revenue recognition perspective (as disclosed in Note 4) 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 recognised 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.

- **Recognising revenue as each performance obligation is satisfied**

According to IFRS 15, revenue is recognised 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 recognised 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 qualify 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.

- **Interest income**

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

- **Dividend income**

Dividend income is recognised when the right to receive payment is established.

• **Impairment losses on trade receivables or contract assets**
The Group applied IFRS 9 in relationship to the impairment losses on trade receivable, we refer to Note 1.10. The Group has no significant contract balances where either the Group has performed the PO for which no billing occurred yet, or alternatively has received advance payments for which the PO has not been satisfied.

Note 1.22. Leases
The Group leases certain property, plant and equipment.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, purchase option (when there is reasonable certainty that the lessee will obtain ownership by the end of the lease term), are included in "Borrowings". The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset or if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Note 1.23. Dividend distribution
Dividend distribution to the Company's shareholders is recognised as a liability in the Group's Financial Statements in the period in which the dividends are approved by the Company's shareholders.

Note 1.24. Cash flow statement
The cash flows of the Group are presented using the indirect method. This method reconciles the movement in cash for the reporting period by adjusting net profit for the year for any non-cash items and changes in working capital, and identifying investing and financing cash flows for the reporting period.

Note 1.25. Non-GAAP 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 inventories, (ii) gains on asset 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 / amortisation 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 mainly on changes in inventory, (ii) gains on asset 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 Group nv.

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 capitalised financing fees, (iii) Bank and other borrowings adjusted for capitalised 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 capitalised financing fees, (iii) Bank and other borrowings adjusted for capitalised 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 fixes assets adjusted for proceeds from sales of fixed assets.

Leverage is defined as the ratio of Net Debt to (Pro Forma) Adjusted EBITDA.

Note 2. Critical accounting estimates and judgements
The amounts presented in the Financial Statements involve the use of estimates and assumptions about the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions will seldom equal the related actual results. The estimates and assumptions that could have an impact on the Financial Statements are discussed below.

Goodwill
The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. Allocation of the purchase price affects the results of the Group as finite life intangible assets are amortised, whereas indefinite life intangible assets, including goodwill, are not amortised and could result in differing amortisation charges based on the allocation to indefinite life and finite life intangible assets.

Impairment testing
IFRS requires management to undertake an annual test for impairment of indefinite life assets and, for finite life assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are made in respect of highly uncertain matters including management's expectations of:
- growth in Adjusted EBITDA, calculated as adjusted operating profit before depreciation and amortisation;
- timing and quantum of future capital expenditure;
- long-term growth rates; and
- the selection of discount rates to reflect the risks involved.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results. The Group's review includes the key assumptions related to sensitivity in the cash flow projections. Further details are provided in Note 6.

Income taxes
The Group operates in various tax jurisdictions and therefore has to determine tax positions under respective local tax laws and tax authorities' views which can be complex and subject to different interpretations of tax payers and local tax author-

ities. The Group incurs costs centrally which are allocated to subsidiaries in different jurisdictions and which exposes the Group to inherent tax risks, as is the case for all companies operating in an international context. Based on these tax risks, management performed a detailed assessment for uncertain tax positions which resulted in provisions recorded for these uncertainties.

The Group has tax credits in respect of losses carried forward and Dividend Received Deduction (relief for dividend payments by qualifying EU subsidiaries to qualifying EU parent companies, to avoid double taxation of dividend income). These tax credits can be used to offset against future taxable profits. The valuation of this asset depends on a number of judgemental assumptions regarding the future taxable profits of different Group subsidiaries in different jurisdictions and on the outcome of tax planning strategies. These estimates are made prudently based on current knowledge and reasonable long-term projections. Where circumstances are changed and the final tax outcome would be different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Trade receivables

In applying IFRS 9, the Group makes significant judgements in determining the realisable value in respect to trade receivables. The group applies the IFRS 9 simplified approach to measure the expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the lifetime expected credit losses, the Group has established a provision matrix based on the categorisation by common characteristics. The Group included the following parameters: probability of default, exposure at default (including estimated coverage by credit insurance). In order to appromixate these parameters, the trade receivables have been categorised based on common characteristics (mainly geograpical area, type of customer and the days past due). 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.

In addition to this generalised approach, the Group included individually managed exposures on a case by case basis, if not covered by the ECL model.

Customer rebates

The Group also needs to make some judgements in determining accruals for customer rebates as presented in the "Other payables" section. When estimating the rebates payable, the Group uses all available information, including historical and forecast results and takes into consideration the type of customer, the type of transaction and the specifics of each arrangement. We also refer to revenue recognition, Note 1.21.

Brexit

The Group is exposed to uncertainty regarding the possible outcome of a Brexit. The UK represents 18.7% of our total revenues, mainly related to our Residential business. Management assessed all potential scenarios and has made all kind of preparations, especially with regard to the logistical flows under the worst case scenario of a no-deal-Brexit, through local stock keeping and an in depth assessment of the Brexit-readiness of our logistical partners.

In addition measures have been taken to protect the revenue stream for a potential devaluation of the Pound Sterling, through a combination of pricing mechanisms and hedging contracts.

As the political uncertainty over the final outcome of a potential Brexit, with- or without a deal, or even potentially revoking article 50 is still unclear, the Group continues to assess the impact of the potential outcomes into practical measures.

Note 3. Reconciliation of non GAAP measures

The table below shows the impact of the purchase price allocation and non-recurring items on profit/ (loss) of the period and provides a reconciliation between the reported information and the non-GAAP measures as presented in these Financial Statements.

	2018	2017			
(€ thousands)	Reported	Reported	Non-recurring	PPA	Reported figures before impact of PPA and non-recurring
Revenue	646,197	661,320	-	-	661,320
Raw material expenses	(306,640)	(310,391)	-	-	(310,391)
Changes in inventories	5,826	(3,359)	-	(3,008)	(351)
Employee benefit expenses	(159,099)	(151,334)	-	10	(151,343)
Other income	3,350	7,132	-	-	7,132
Other expenses	(117,501)	(121,914)	-	96	(122,010)
Adjusted EBITDA [1]	**72,134**	**81,454**	**-**	**(2,902)**	**84,356**
Depreciation/amortisation	(32,430)	(32,499)	-	(30)	(32,469)
Adjusted Operating Profit [1]	**39,704**	**48,954**	**-**	**(2,933)**	**51,887**
Integration and restructuring expenses	(7,699)	(18,175)	(18,175)	-	-
Operating profit / (loss)	**32,004**	**30,779**	**(18,175)**	**(2,933)**	**51,887**
Finance income	51	41	-	-	41
Finance expenses	(25,881)	(37,327)	(9,307)	-	(28,019)
Net finance expenses	**(25,830)**	**(37,285)**	**(9,307)**	**-**	**(27,978)**
Profit / (loss) before income taxes	**6,174**	**(6,506)**	**(27,482)**	**(2,933)**	**23,909**
Income tax benefit / (expense)	996	3,622	9,577	1,149	(7,104)
Profit / (loss) for the period from continuing operations	**7,171**	**(2,884)**	**(17,905)**	**(1,784)**	**16,805**

(1) Adjusted Operating Profit and Adjusted EBITDA are non-GAAP measures as defined in Note 1.25.

The non-recurring events of 2018 mainly relate to:

- Integration and restructuring expenses of €4.2m, related to the optimisation of the operational footprint within the Residential division. The restructuring project was initiated in 2017 and concluded mid-2018. Total one-off cost for the Residential optimisation amounted to €12.4m (of which €8.2m in 2017), in line with our expectations;
- One-off Integration and restructuring expenses of €1.1m in relation to changes in executive leadership;
- Integration and restructuring expenses of €2.7m related to strategic and operational evaluation of the business.

Note 4. Segment Reporting

Segment information is presented in respect of the Group's business segments as defined earlier. The performances of the segments is reviewed by the Group's chief operational decision making body, which is the Management Committee.

(€ thousands)	2018	2017
Revenue by segment	**646.197**	**661.320**
Rugs	198.301	228.331
Commercial	214.818	171.683
Residential	206.331	234.818
Non-Woven	26.746	26.488
Revenue by geography	**646.197**	**661.320**
Europe	401.638	431.899
North America	197.669	170.506
Rest of World	46.891	58.915

Adjusted EBITDA by segment [1]	**72.134**	**84.357**
Rugs	27.943	37.548
Commercial	30.585	23.924
Residential	11.225	20.258
Non-Woven	2.381	2.627
Net Capital expenditure by segment	**30.828**	**39.023**
Rugs	9.589	14.566
Commercial	10.500	10.455
Residential	9.949	13.050
Non-Woven	791	952
Net inventories by segment	**153.894**	**147.868**
Rugs	72.940	65.898
Commercial	33.170	31.162
Residential	43.622	46.818
Non-Woven	4.162	3.989
Trade receivables by segment	**51.607**	**49.649**
Rugs	11.895	11.946
Commercial	23.774	20.404
Residential	14.714	16.048
Non-Woven	1.223	1.251

(1) We refer to Note 1.25 of which we provide a glossary of the non-GAAP measures.

Given the international sales footprint of the Group, 98% of revenue is realised outside Belgium, with sales in Belgium being equal to around €14.0m in 2018 (2017: €13.0m).

All revenue mentioned in the table above reflect the revenue related to contracts with customers, recognised in accordance with IFRS 15. The Group has recognised these revenue at a point in time, in accordance with the accounting policies as disclosed in Note 1.21.

Note 5. Business combinations

Throughout 2017, the Group acquired Bentley Mills, Inc. In 2018, no transactions which would lead to a (significant) business combination has occurred. For the purpose of this disclosure regarding the business combination of the Bentley group, amounts in US Dollar have been converted to Euro at a rate of 1.0691 $/€ which is the closing rate per 31 March 2017. Where used herein "Bentley" refers to Bentley Mills, Inc. or where the context requires, the Bentley group of companies.

Details of the business combination

On 1 December 2016, Lone Star Fund IX agreed to acquire Bentley, a leader in premium commercial tiles and wall-to-wall carpets for commercial interiors in the US market, from Dominus Capital, LP The acquisition was completed on 1 February 2017. Lone Star Fund IX acquired 98.39% of the class A unit voting rights whilst Bentley management acquired the remaining 1.61% of the class A unit voting rights. On 22 March 2017 LSF9 Balta Issuer S.à r.l. acquired 98.39% from Lone Star Fund IX.

Balta nv, a member of the Balta Group subsequently acquired the remaining 1.61% of the Class A unit voting rights from Bentley management on 31 May 2017 which results in a 100% ownership as per 31 May 2017.

The consideration paid to the original share and option holders was equal to €88.3m ($94.3m). In order to finance (i) the consideration paid, (ii) the repayment in full of legacy debt at the level of Bentley and (iii) the payment of transaction fees and expenses, the following sources of financing were raised:

- an equity contribution of €68.8m ($74m) by LSF9 Renaissance Super Holdings LP;
- a management contribution of €1.1m ($1.2m) in equity;
- the issuance of a term loan of €30.9m ($33.0m) at the level of BPS Parent Inc;
- a drawdown of €10.4m ($11.1m) on a revolving credit facility of €16.8m ($18.0m) at the level of BPS Parent Inc.

On 22 March 2017, LSF9 Balta Issuer S.à r.l. acquired from LSF9 Renaissance Super Holdings, LP its interests in LSF9 Renaissance Holdings LLC and LSF9 Renaissance Acquisitions LLC. This acquisition was originally financed by the issuance of a Senior Term Loan Facility for an amount of €75.0m at the level of LSF9 Balta Issuer S.à r.l. Subsequently, on 23 March 2017, Balta NV replaced LSF9 Balta Issuer S.à r.l. and acquired the interest in LSF9 Renaissance Holdings LLC. As a result of these transactions, Balta NV currently controls Bentley.

On 31 May 2017, Balta NV acquired the remaining class A unit voting shares of the Bentley group of companies from LSF9 Balta Holdco S.à r.l. which indirectly acquired the minority stake from Bentley's management. The related party debt which resulted from this transaction was subsequently contributed in the capital of LSF9 Balta Issuer S.à r.l. As a result of this transaction, Balta NV gained a 100% control over Bentley.

Balta will continue to support the Bentley brand, and will make use of Bentley's sale force and market access to accelerate the growth of its European carpet tiles in the USA.

Transaction overview and allocation of purchase price paid

The acquisition made by LSF9 Balta Issuer S.à r.l. is a transaction under a common control, and the accounting policy election was made to account for such a transaction in accordance with IFRS 3, Business Combinations. We refer to Note 39 in which we provide an overview of the related party transactions of the Group during the year. As a result, previous goodwill was reversed in order to calculate the net assets, and the final goodwill was recognised as the difference between the consideration paid and such net assets.

The purchase price allocation required under IFRS 3 Business Combinations has been reflected in the consolidated financial statements per 31 December 2017. As a result, the purchase price has been allocated to the identifiable assets and liabilities acquired, based on the estimated fair values at the date of acquisition.

The total purchase price paid in cash was equal to €68.8m, as compared to a net asset value of Bentley Mills of (€12.5m) at completion date before purchase price allocation. There is no contingent consideration outstanding in relation to the acquisition as of 31 December 2017. Consequently, the preliminary goodwill – before purchase price allocation - was equal to €81.3m. As a result of the purchase price allocation, €7.0m of the preliminary goodwill was allocated to identifiable assets and liabilities resulting in a final goodwill of €74.3m.

The final purchase price paid of €68.8m and corresponding goodwill before purchase price allocation of €81.3m is determined as follows:

The initial purchase price paid in cash was equal to €68.3m, as compared to a net asset value of Bentley of €12.5m at 22 March 2017 (the "Acquisition Date"), of which €13.3m attributable to LSF9 Balta Issuer S.à r.l. and €1.0m attributable to the non-controlling interest held by Bentley management. Consequently, the provisional goodwill – before purchase price allocation - was equal to €82.0m on March 22 2017.

The non-controlling interest held by Bentley management was acquired on 31 May 2017 for an amount of €1.3m having a corresponding net asset value at that time of €1.2m. Consequently the provisional goodwill paid for the Bentley Group of companies – before purchase price allocation – increased by €0.2m as from 31 May 2017 and was equal to €82.2m at that time.

On 20 July 2017, a final agreement on the purchase price was agreed with Dominus Capital, LP resulting in a decrease of the original purchase price paid of €0.9m ($1.1m) through the final release of the escrow account resulting in a decrease in goodwill of €0.9m to finally become €81.3m before purchase price allocation.

The table below provides an overview of the net assets recognised as a result of the acquisition before and after the allocation of goodwill.

(€ thousands)	Net assets at Completion Date before allocation goodwill	Fair value adjustments	Net assets at Completion Date after allocation goodwill
Assets acquired	**50,726**	**12,412**	**63,138**
Property, plant and equipment	14,267	1,807	16,074
Intangible assets	2,726	8,453	11,179
Trade and other receivables	744	164	908
Total non-current assets	17,737	10,425	28,162
Inventories	15,935	2,281	18,216
Trade and other receivables	13,874	(294)	13,580
Current income tax asset	3,180	-	3,180
Total current assets	32,989	1,987	34,976
Liabilities assumed	**(63,270)**	**(5,396)**	**(68,666)**
Bank and other borrowings	(38,471)	-	(38,471)
Deferred income tax liabilities	(1,842)	(4,460)	(6,302)
Provisions for other liabilities and charges	(2,045)	(935)	(2,980)
Employee benefit obligations	(347)	-	(347)
Total non-current liabilities	(42,705)	(5,396)	(48,100)
Bank and Other Borrowings	(1,325)	-	(1,325)
Employee benefit obligations	(1,695)	(0)	(1,695)
Trade and other payables	(17,545)	0	(17,545)
Total current liabilities	(20,565)	(0)	(20,565)
Purchase Price Paid in Cash	**68,752**	**-**	**68,752**
Identifiable assets and liabilities	(12,544)	7,016	(5,528)
Goodwill	81,296	(7,016)	74,280

Purchase price allocation

The original goodwill of €81.3m has been allocated over the assets acquired and liabilities assumed leading to a fair value adjustment of the identifiable assets and liabilities of €7.0m. The remaining goodwill arising from the acquisition will mainly consist of the synergies and the economies of scale expected from combining the operations of Bentley and the Balta Group.

None of the remaining goodwill recognised is expected to be deductible for income tax purposes.

The main fair value adjustments can be summarised as follows:

The fair value adjustment of property, plant and equipment of €1.8m is mainly driven by a revaluation of the existing machinery, installations and equipment. This fair value adjustment was determined on the basis of valuation reports and market appraisals on the valuation of the machines. As a result of this exercise, remaining useful lives of the property, plant and equipment were updated and depreciation rules were aligned with the Group policies. The fair value step up is amortised over the remaining useful life of the machines.

The fair value adjustment of the intangible assets mainly relates to an adjustment of the value of the trade name of Bentley (€8.4m). The Bentley trade name is well known in the US market and provides additional support in selling the products to the market. The "relief from royalty" method has been used to determine the fair value of the trade name using level 3 valuation techniques. As a result, the fair value of the trade name was determined based on the estimated present value of the future net returns increased by a tax amortisation benefit. The trade names are further amortised over a period of 10 years.

The carrying amount of the "Non-current trade and other receivables" has been increased by €0.2m and reflects the fair value of the existing operating lease contracts which mainly relate to the leasing of some land and buildings.

The fair value correction on inventory was based on computations which considered many factors, including the estimated average selling price of the inventory and the sales effort required to bring the products to the market. In addition the fair value of the work in progress (WIP) has been determined by allocating the margin taking into account the percentage of completion of the related product. The total net fair value correction of inventory amounted to €2.3m and has been fully reversed over a period of 3 months in the income statement which corresponds with the expected rotation rate of the inventory.

The carrying amount of the current trade receivables was reduced by €0.3m in order to reflect the probability that certain trade receivables may not be fully collected in later periods.

Bentley has recognised an additional provision for other liabilities and charges for €0.9m which mainly relates to an estimation of the asset retirement obligation which exists for the buildings which are currently leased. The asset retirement obligation reflects the net present value of the expected costs to be made to bring the leased property in its original condition when the lease agreements are ended in the future.

The net fair value step up of the assets and liabilities will result in an adjustment of the pre-tax income in future periods. As a result, the related deferred tax effect of the fair value adjustments needs to be reflected in the opening balance and results in an increase of deferred tax liabilities of €4.5m.

The excess of the purchase price over the amounts allocated to identifiable assets and liabilities is equal to €74.3m and has been included in goodwill. Goodwill will be tested for impairment on an annual basis, as described in Note 6.

Details of acquired receivables

The non-current and current trade and other receivables acquired from Bentley in March 2017 amounted to €14.5m and relate to trade receivables (€13.2m), other receivables (€0.9m), accruals (€0.2m) and deferrals (€0.3m). The trade receivables included a bad debt provision of €0.6m to cover for receivables that are assumed to be difficult to collect.

Details of non-controlling interests

The amount of non-controlling interest recognised amounted to €1.0m at the acquisition date and represented the 1.61% stake management owned in the net assets of Bentley.

The non-controlling interest disappeared as a result of the acquisition of the remaining share portion on 31 May 2017 by the Group. The profit / (loss) for the period which was attributed to the non-controlling interest for the period 23 March 2017 until 31 May 2017 amounted to €34k.

Impact of acquisition on amounts reported in the statement of comprehensive income

The acquisition of Bentley by Balta nv was completed on March 22 2017. Because the closing date was near the end of the first quarter, management believes that the amount of revenue and profit or loss since the acquisition date to be included in the consolidated statement of comprehensive income for the period to the end of March 2017 is not material. As a result, the comprehensive income of Bentley was taken into account as of 1 April 2017 and only included for nine months in the twelve months ended 31 December 2017 figures.

If Bentley had been consolidated from 1 January 2017, Bentley would have contributed €113.6m of revenue from 1 January 2017 to 31 December 2017. The profit of the year from continuing operations would have been equal to €6.2m on a pro forma basis, i.e. taking into account the effects of the new capitalisation structure of the Group, after elimination of transaction expenses incurred by Bentley and after elimination of the purchase price adjustment effect on inventories.

Note 6. Goodwill

The goodwill represents, amongst other things, the value of the longstanding customer relationships, the Group's market position, brand and reputation, as well as the value of the Group's workforce.

The goodwill impairment test is performed at the level of a cash-generating unit (CGU) or a group of cash-generating units (CGUs), which is the lowest level at which goodwill is monitored for internal management purposes. Our CGUs are generally in line with our segments, with our Commercial segment is broken down into our European and our US activity.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit most from the business combination. Consequently, the goodwill arising from the acquisition of Balta Finance (€124.7m) has been solely allocated to Rugs (€94.3m) and Commercial Europe (€30.4m), whilst the goodwill arising from the acquisition of Bentley has been allocated to Commercial US (€70.1m). Whilst no goodwill has been allocated to Residential, the assets of this CGU have been tested for impairment using the same approach as the impairment testing for goodwill.

The impairment testing has been performed on 30 September 2018. The assets and liabilities comprising the CGU have not changed significantly since the most recent calculation.

Based on the comparison of the "value in use" (derived using discounted cash flow analysis) and the carrying amount (book value of capital employed) per CGU at 30 September 2018, the Group has been able to demonstrate that the recoverable amount exceeds the carrying amount and hence the goodwill is not impaired. The "value in use" calculations use cash flow projections (which include EBITDA, working capital movements, capital expenditure and taxes) and are based on financial projections covering a three-year period. Estimates beyond this three-year period are calculated with a growth rate that reflects the long-term growth rate applicable to the CGU, moderated to reflect management's view of long-term earnings across the cycle.

Key assumptions on which management has based its determinations of the "value in use" include terminal value growth rates of 2% for Rugs (2017: 2%), 1% for Commercial Europe and Commercial US (2017: 1%) and an after-tax discount rate of 8.3% (2017: 7.9%).

The "value in use" is mainly driven by the terminal value which is particularly sensitive to changes in the assumptions on the terminal value growth rate and discount rate. Discount rates are based on the weighted average cost of capital. This average cost of capital is benchmarked with comparable competitors. Terminal value growth rates take into consideration external macroeconomic sources of data and industry specific trends. The table below includes the CGUs to which goodwill has been allocated and presents the extent in which these two assumptions would need to change in absolute terms in order to reduce the "value in use" to the carrying amount.

	Minimal growth rate	Maximum discount rate
Rugs	0.1%	10.0%
Commercial Europe	(1.6%)	10.5%
Commercial US	(11.0%)	17.2%

Note 7. Employee benefit expenses

The following table sets forth employee benefit expenses for the years ended 31 December 2018 and 2017:

(€ thousands)	2018	2017
Total employee benefit expenses	**159,099**	**151,334**
Wages and salaries	111,954	105,682
Social security costs	31,423	32,180
Pension costs	3,460	4,026
Other employee benefit expenses	12,263	9,445

Employee benefit expenses increased as a result of the full year effect of Bentley. The total amounts to €159.1m, compared to €151.3m as per 31 December 2017.

The average number of employees in 2018 and 2017 was 3,696 (in full time equivalents) and 3,714 (in full time equivalents). Part-time employees are included on a proportionate basis.

	2018	2017
Average number of total employees	**3,696**	**3,714**
Average number of employees - blue collar	2,977	3,045
Average number of employees - white collar	719	669

Note 8. Other income and expenses

(€ thousands)	2018	2017
Other income	**3,350**	**7,132**
Foreign exchange gains	714	1,087
Foreign exchange forward contracts	-	1,295
Rental income from solar rooftop installations	1,356	1,383
Sales of energy certificates	261	961
Grants	411	454
Recharge of costs	30	328
Other	578	1,624
Other expenses	**117,501**	**121,914**
Services and other goods	74,184	79,039
Selling expenses	39,581	39,587
Foreign exchange losses	803	712
Foreign exchange forward contracts	0	-
Real estate tax	2,904	2,524
Loss on sale of fixed assets	29	-
Other	-	52

Other income comprises a gain in relation to foreign exchange movements, rental payments received from third parties who lease the space to install solar panels, grants and the sales of green energy certificates to which we are eligible thanks to the combined generation of heat and power.

Some costs can be recharged to external parties for which the income was presented under "Other income".

Other expenses decreased by €4.4m to €117.5m for the year ended 31 December 2018 from €121.9m for the year ended 31 December 2017. The main component of other expenses is services and other goods which mainly includes electricity and gas, maintenance and repair and interim blue collars. Selling expenses mainly include freight and commissions.

The costs of research and development are also included within "Other expenses".

The Group incurred €7.2m of research and development expenses during the 12 months ended in 31 December 2018 (2017: €7.0m). One of the competitive advantages of our business is our long history of creativity and innovation. The Group aims to leverage research and development to continually optimise the production capacity and provide designs that appeal to our customers. Trends in product design and innovation are closely monitored through continuous testing and analysis, with a focus on anticipating customers' preferences and market developments.

Note 9. Depreciation/amortisation

The components of depreciations and amortisations can be summarised as follows:

(€ thousands)	2018	2017
Depreciation/amortisation	**32,430**	**32,499**
Amortisation of intangible assets	2,176	1,923
Depreciation property, plant and equipment	31,648	31,972
Release deferred revenue sale & lease back	(1,395)	(1,395)

Depreciation / amortisation amounts to €32.4m as for 2018.

The release of deferred revenue sale and lease back relates to the gradual recognition of the capital gain realised on the sale and lease back of one of the Group's manufacturing facilities in 2014. This deferred revenue is recognised on a straight line basis over a twelve year period as partial offset to depreciation charges over the period of the lease. The annual amount recognised in the income statement is €1.4m, with the balance of deferred income equal to €10.4m as at 31 December 2018 (€11.8m at the end of 2017).

Note 10. Integration and restructuring expenses

The total integration and restructuring expenses incurred in 2018 amount to €7.7m (2017: €18.2m). This comprises of various items which are considered by management as non-recurring or unusual by nature.

(€ thousands)	2018	2017
Integration and restructuring expenses	**7,699**	**18,175**
Corporate restructuring	1,197	-
Business restructuring	4,207	8,248
Acquisition related expenses	-	1,334
Idle IT costs	-	776
Strategic advisory services	2,612	7,582
Other	(317)	234

The main component of the integration and restructuring expenses is the €4.2m in relation to the optimisation of the Residential operational footprint. This optimisation was initiated in 2017 and concluded throughout 2018. The total one-off cost for the Residential optimisation amounted to €12.4m (of which €8.2m in 2017), in line with our expectations. Remaining integration and restructuring expenses related to a one-off expense of €2.6m related to the ongoing strategic and operational evaluation of the business and a one-off expense of €1.2m related to the changes in executive leadership.

In 2017, acquisition-related expenses of €1.3m have been incurred in relation to the acquisition of Bentley in March 2017. Incremental (idle) IT costs in relation to a legacy IT system amounted to €0.8m. The replacement of the legacy system was completed in the course of 2017 and therefore these costs will no longer be incurred. The strategic advisory services amount to €7.6m and are driven by the cost which have been incurred in connection with the capital reorganisation. The other expenses mainly relate to accrued expenses in connection with the phantom share bonus scheme. The bonus is only payable if the managers still provide services to the Group on the second anniversary of the completion of the IPO. If services cease to be provided for any reason prior to the second anniversary, the bonus arrangement for that manager is forfeited.

Note 11. Finance expenses

(€ thousands)	2018	2017
Total finance expenses	**25,881**	**37,327**
Interest expense on Senior Secured Notes	20,140	26,783
Interest expense on Senior Term Loan Facility (€35m)	635	204
Interest expense on Senior Term Loan Facility (€75m)	-	3,289
Interest expense on Senior Term Loan Facility Bentley ($44m)	-	2,025
Interest expense on bank borrowings (including leasing)	354	425
Foreign exchange result on interco transactions	2,050	2,080
Other finance costs	2,702	2,521

The net finance expense amount to €25.9m in 2018, and primarily contains the interest related to the external borrowings (Senior Secured Notes, Senior Term Loan Facility, finance leasing obligations). We refer to Notes 22, 23 and 25 for a description of these facilities.

Compared to prior year, the net financing cost decreased by €11.4m as a result of one-off finance expenses related to the IPO and acquisition of Bentley, and the full year run rate benefit of the repayment of €55.1m Senior Secured Notes in 2017.

Other finance costs mainly relate to factoring, commitment fees and other bank related charges. The effective interest expense of the Senior Secured Notes comprises a cash interest of €18.2m (2017: €20.7m) and the amortisation of capitalised financing fees of €1.9m (2017: €4.4m).

Note 12. Income tax benefit / expense

(€ thousands)	2018	2017
Income tax benefit / (expense)	**996**	**3,622**
Current tax	(5,260)	(2,615)
Deferred tax	6,256	6,236

(€ thousands)	2018	2017
Income tax benefit / (expense)	**996**	**3,622**
Income tax calculated at Luxembourg tax rate (26,01%)[1]	(1,672)	1,762
Rate differential due to transactions with foreign entities	(153)	1,151
Disallowed expenses	(1,034)	(1,943)
Tax-exempted revenues	426	738
Tax losses for which no deferred tax asset is recognised	273	(1,940)
Deferred tax asset derecognised	-	(10,671)
Impact tax reforms	-	10,439
Utilisation of previously not recognised tax assets	2,593	-
Impact intercompany financing	-	3,234
Other	563	851

1 Belgian tax rate in 2017 was 33.99% where in 2018 it was 29.58%

Income taxes represent a 'benefit' in both 2018 and 2017, driven by the net positive deferred tax income.

In assessing whether deferred tax assets should be recognised, management considers the extent to which it is probable that the deferred tax assets will be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax losses carried forward become deductible.

Management considers the expected reversal of deferred tax liabilities and projected future taxable income in making the assessment.

The reported income tax expense of the year is a credit of €1.0m, including several one-off effects such as the utilisation of previously not recognised tax assets and the tax exempted revenue related to DBI and investment deductions.

Note 13. Other intangible assets

(€ thousands)	Trademarks	Software and licences	Internally generated intangible assets	Total
Opening net book value	**-**	**1,121**	**1,255**	**2,376**
Business combinations	10,913	266	-	11,179
Additions	-	799	875	1,673
Disposals	-	-	-	-
Transfers	-	-	-	-
Amortization charge	(730)	(619)	(598)	(1,923)
Exchange differences	(1,184)	97	-	(1,087)
Closing net book value	**8,999**	**1,663**	**1,532**	**12,218**
At 31 December 2017				
Cost or valuation	9,728	9,292	8,955	29,922
Accumulated amortisation, impairment and other adjustments	(730)	(7,604)	(7,423)	(17,704)
Closing net book value	**8,999**	**1,688**	**1,532**	**12,218**
Opening net book value	**8,999**	**1,688**	**1,532**	**12,218**
Additions	-	-	468	468
Disposals	-	-	-	-
Transfers	-	-	-	-
Amortisation charge	(1,019)	(490)	(667)	(2,176)
Impairment charge	-	-	(7)	(7)
Exchange differences	427	469	-	896
Closing net book value	**8,407**	**1,666**	**1,326**	**11,399**
At 31 December 2018				
Cost or valuation	10,190	6,631	9,067	25,888
Accumulated amortisation, impairment and other adjustments	(1,783)	(4,965)	(7,741)	(14,489)
Closing net book value	**8,407**	**1,666**	**1,326**	**11,399**

The trademark of €8.4m relates to the acquisition of Bentley.

The internal and external software development costs are capitalised under internally generated intangible assets. These projects are mainly related to SAP implementation, SAP upgrades and the automation of production processes.

The total amortisation expense of €2.2m (2017: €1.9m) is included in the line "Depreciation, amortisation and impairment" in the income statement.

Note 14. Property, plant and equipment

(€ thousands)	Land and buildings	Plant and machinery	Other Equipment	Total
Opening net book value	**169,203**	**115,016**	**15,019**	**299,237**
Business combinations	700	10,740	4,634	16,074
Additions	665	23,138	14,458	38,261
Disposals	-	(463)	(391)	(854)
Transfers	284	2,375	(2,659)	0
Depreciation charge	(5,977)	(13,736)	(12,258)	(31,972)
Exchange differences	(2,771)	(6,093)	(724)	(9,587)
Closing net book value	**162,103**	**130,977**	**18,080**	**311,160**

(€ thousands)	Land and buildings	Plant and machinery	Other Equipment	Total
At 31 December 2017				
Cost or valuation	231,256	516,930	47,446	795,633
Accumulated depreciation, impairment and other adjustments	(69,153)	(385,953)	(29,367)	(484,474)
Closing net book value	**162,103**	**130,977**	**18,080**	**311,160**
Opening net book value	**162,103**	**130,977**	**18,080**	**311,160**
Additions	365	17,822	13,573	31,760
Disposals	-	(931)	(387)	(1,318)
Transfers	43	4,455	(4,498)	0
Depreciation charge	(5,934)	(13,819)	(11,895)	(31,648)
Impairment charge	189	(1,013)	(136)	(960)
Exchange differences	(3,014)	(4,858)	138	(7,734)
Closing net book value	**153,752**	**132,632**	**14,875**	**301,259**
At 31 December 2018				
Cost or valuation	228,189	518,370	53,585	800,144
Accumulated depreciation, impairment and other adjustments	(74,437)	(385,738)	(38,710)	(498,885)
Closing net book value	**153,752**	**132,632**	**14,875**	**301,259**

In 2018, a total of €31.8m (2017: €38.3m) has been invested, in particular in plant, machinery and other equipment.

The total depreciation expense of €31.6m (2017: €32.0m) has been charged in the line "Depreciation and amortisation" in the income statement.

The Group's assets which are pledged as security for the borrowings are described in Note 24 and note 22.

The impairment charge of €1.0m relates to the reorganisation of the Residential footprint.

Exchange differences (2018: €7.7m and 2017: €9.6m) relate to fluctuations in the closing exchange rate of our Turkish entities and US entities which have a significant amount of property, plant and equipment recorded on the statement of financial position.

Note 15. Deferred income tax assets and liabilities

IFRS requires the deferred taxes for each jurisdiction to be presented as a net asset or liability. Offsetting of deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction is not allowed. The table below presents the net deferred tax position in accordance with these presentation principles.

(€ thousands)	2018	2017
Deferred tax assets:	**4,927**	**4,160**
Deferred tax assets to be reversed after more than 12 months	3,603	3,628
Deferred tax assets to be reversed within 12 months	1,324	532
Deferred tax liabilities:	**(47,837)**	**(54,471)**
Deferred tax liabilities to be reversed after more than 12 months	(45,057)	(51,048)
Deferred tax liabilities to be reversed within 12 months	(2,780)	(3,423)
Net deferred tax liabilities	**(42,910)**	**(50,311)**

The movement in the net deferred tax positions can be summarised as follows:

(€ thousands)	2018	2017
Beginning of period	**(50,311)**	**(50,825)**
Exchange differences	1,278	1,037
Business combination	-	(6,302)
Other comprehensive income	(134)	(457)
Income statement charge	6,256	6,236
31 December 2018	**(42,910)**	**(50,311)**

In contrast to the table above, the table below shows the movement in deferred taxes on a gross basis, i.e. without netting deferred tax liabilities and deferred tax assets within the same jurisdiction.

Deferred tax assets

(€ thousands)	Tax losses carried forward and other tax credits	Deferred income sale and leaseback	Intangible assets	Borrowings	Employee benefits	Inventory	Provisions	Other	Total
1 January 2017	**18,879**	**4,385**	**1,911**	**1,903**	**1,875**	**1,007**	-	**57**	**30,018**
Business combinations	193	-	-	-	248	-	-	1,098	1,539
(Charged)/credited to the income statement	(9,814)	(1,381)	(1,080)	(515)	(232)	52	-	(433)	(13,404)
Exchange differences	(166)	-	-	-	-	-	-	-	(166)
Other comprehensive income	-	-	-	-	(457)	-	-	-	(457)
31 December 2017	**9,091**	**3,004**	**832**	**1,388**	**1,434**	**1,059**	-	**722**	**17,530**
1 January 2018	**9,091**	**3,004**	**832**	**1,388**	**1,434**	**1,059**	**22**	**700**	**17,530**
(Charged)/credited to the income statement	7,063	(412)	(747)	(28)	(376)	118	853	184	6,655
Exchange differences	3	-	-	-		313	344	14	673
Other comprehensive income	-	-	-	-	(107)	-	-	-	(107)
31 December 2018	**16,157**	**2,592**	**85**	**1,360**	**951**	**1,490**	**1,219**	**898**	**24,752**

In assessing the realisability of deferred tax assets, management considers the extent to which it is probable that the deferred tax asset will be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax loss carryforwards become deductible. Management considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is probable the Group will realise the benefits of these deductible differences. As of December 31 2018, the Group has certain tax losses subject to significant limitations. For those losses, deferred tax assets are not recognised, as it is not probable that gains will be generated to offset those losses. Uncertain tax positions, as described in Note 2, are taken into account when recognising deferred tax assets and liabilities.
As of 31 December 2018 total tax credits amounted to €522.3m, resulting in a potential deferred tax asset of €153.6m of which the Group only recognised €16.7m at the end of 2018. As of 31 December 2017 total tax credits amounted to €497.1m, resulting in a potential deferred tax asset of €123.7m of which the Group only recognised €9.7m.
The majority of the tax credits in 2017 and 2018 are incurred at the level of the Belgian legal entities where with the exception of the tax credits in relation to the Notional Interest Deduction - there is no expiry date regarding the tax credits.

Deferred tax liabilities

(€ thousands)	Property, plant and equipment	Intangible assets	Inventory	Other	Total
At 1 January 2017	**(77,610)**	**(451)**	**(2,782)**	**1**	**(80,843)**
Business combinations	(4,664)	(2,628)	(549)	-	(7,841)
Charged/(credited) to the income statement	17,652	1,123	870	(3)	19,642
Exchange differences	1,201	-	-	-	1,201
At 31 December 2017	**(63,420)**	**(1,956)**	**(2,461)**	**(2)**	**(67,841)**
At 1 January 2018	**(63,420)**	**(1,956)**	**(2,461)**	**(2)**	**(67,841)**
Charged/(credited) to the income statement	73	165	225	(801)	(338)
Exchange differences	500	(53)	13	14	474
At 31 December 2018	**(62,847)**	**(1,844)**	**(2,223)**	**(789)**	**(67,705)**

Deferred income tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Aggregate unremitted earnings are equal to €146.3m as of 31 December 2018 (as compared to €158.8m as of 31 December 2017). The deferred tax liabilities resulting from property, plant and equipment mainly decreased as a result of a decrease in tax rates driven by the tax reforms enacted in Belgium before 31 December 2017.

When we add up the gross amounts of deferred tax assets (€25.3m) and gross amount of deferred tax liabilities (€67.7m) we arrive at a net deferred tax position per 31 December 2018 of €49.7m.

Note 16. Inventories

The table below provides a breakdown of total inventories as per 31 December:

(€ thousands)	31 December 2018	31 December 2017
Total inventories	**153,894**	**147,868**
Raw materials and consumables	65,147	64,948
Work in progress	21,660	22,892
Finished goods	67,087	60,029

Inventories increased by €6.0m as compared to 31 December 2017, mainly driven by an increase in the finished goods (€7.1m). The raw materials and the work in progress remained relatively stable at respectively €65.1m and €21.7m.

The movement in 'work in progress' and 'finished goods' is detailed as follows:

(€ thousands)	31 December 2018	31 December 2017
Beginning of period	**82,921**	**74,757**
Business combinations	-	11,523
Income statement	5,826	(3,359)
Of which: impact purchase price allocation	-	(3,008)
Of which: actual movements in inventory	5,826	(351)
31 December	**88,747**	**82,921**

The Group decreased the provision for obsolete inventory in 2018 with €0.2m compared to a decrease of €1.4m in 2017 which is included in "Raw materials used" and "Changes in inventories of finished goods and work in progress" respectively related to raw materials and finished goods (including work in progress).

The sum of the raw material expenses and the changes in inventories recognised as expenses in 2018 amounts to €300.8m as compared to €313.8m in 2017. Thoughout 2018, the Group acquired Papilio, the assets which were acquired were mainly related to some inventory. The size of this deal is very limited, and considered to be immaterial in light of the materialilty of the financials.

The Group's assets which are pledged as security for the Senior Secured Notes and borrowings are described in Notes 22 to 24.

Note 17. Trade and other receivables

(€ thousands)	31 December 2018	31 December 2017
Total trade and other receivables	**61,740**	**63,925**
Trade and other receivables (non-current)	**996**	**1,165**
Other amounts receivable	996	1,165
Trade and other receivables (current)	**60,745**	**62,760**
Net trade receivables	51,607	49,649
Trade receivables	54,482	50,614
Less: Bad debt allowance	(2,875)	(965)
Prepayments and accrued income	1,551	1,026
Other amounts receivable	7,587	12,085

The fair value of the trade and other receivables approximates their carrying amount as the impact of discounting is not significant.

As part of its normal course of business, the Group has entered into non-recourse factoring agreements with financial parties. The Group has derecognised the accounts receivable for which substantially all risk and rewards of ownership have been transferred.

Current trade and other receivables amount to €60.7m as of 31 December 2018 a slight decrease compared to last year.

As of 31 December 2018, the net trade receivables that were past due amounted to €3.6m (2017: €2.9m).

In 2018, the Group has no external customer, representing more than 10% of the Group's revenue.

The Group uses credit insurance as a means to transfer the credit risk related to trade receivables. Furthermore, our trade receivables portfolio is very diversified, in terms of both segmentation and client base, which mitigates the credit risk. The credit quality of the trade receivables that are neither past due nor impaired is good.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

(€ thousands)	31 December 2018	31 December 2017
Total trade and other receivables	**61,740**	**63,925**
EUR	20,181	29,686
USD	24,753	19,306
GBP	8,523	5,697
TRY	8,283	9,236

The Group is monitoring the recoverability of the trade and other receivables on a case by case assessement. In addition the Group, has applied IFRS 9, by using the standard's simplified approach and calculated ECLs based on lifetime expected credit losses. This has resulted in an increase to the provision at 1 January 2018 of €1.9m. The main part of the movements have been booked against equity. We refer to Note 1.10 for more detail on the initial application of IFRS 9.

	Not due or less than 15 days past due	More than 15 days past due	Total
1 January 2018			
Expected loss rate	1.0%	81.0%	
Gross carrying amount - trade receivables	47,727	2,887	50,614
Loss allowance	**0,485**	**2,337**	**2,822**
31 December 2018			
Expected loss rate	1,4%	59,3%	
Gross carrying amount - trade receivables	50,843	3,639	54,482
Loss allowance	**0,718**	**2,157**	**2,875**

Movements in the Group's bad debt allowance with respect to trade receivables are as follows:

(€ thousands)	2018	2017
As at 31 December - calculated under IAS 39	**(965)**	**(1,333)**
Amounts restated through opening retained earnings	(1,857)	-
Opening loss allowance as at 1 January 2018 - calculated under IFRS 9	**(2,822)**	
Business combination	-	(547)
Increase in loan loss allowance recognised in profit or loss during the year	(137)	(42)
Receivables written off during the year as uncollectible	80	383
Unused amounts reversed	28	516
Assets held for sales	-	-
FX difference	(23)	58
As at 31 December	**(2,875)**	**(965)**

The creation and release of allowances for impaired receivables has been included in "Other income/expenses" in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. As per 31 December 2018 the Group holds collateral (letters of credit and corporate or bank guarantees) for an amount of €0.5m (2017: €0.5m).

Note 18. Cash and cash equivalents

(€ thousands)	31 December 2018	31 December 2017
Total cash and cash equivalents	**26,853**	**37,182**
Cash at bank and on hands	14,201	26,876
Short-term bank deposits	-	3,127
Cash from local financing	12,652	7,179

The cash from local financing relates to cash and cash equivalent balances held by subsidiaries that operate in countries where legal restrictions apply and as such the cash and cash equivalents are not directly available for general use by the parent or other subsidiaries.

The credit quality of the banks and financial institutions is disclosed in Note 28. The Group's assets which are pledged as security for the Senior Secured Notes and borrowings are described in Notes 22 to 24.

Note 19. Share capital and share premium

Share capital and share premium have not changed compared to 2017. Througout 2017, the following events have caused changes to share capital and share premium:

- Capital increase in cash by Balta Group nv: The partners of the Company have issued 137,677,446 new shares at a price of €1 per share for a total amount of €137.7m and have allocated €0.9 (ninety cents) per the share premium account of the Company. This has been allocated to capital through the issuance of new shares.

- Capital increase by means of a contribution in kind: Contribution of the PECs, owned by LSF9 Balta Holdco S.à r.l., into share premium for an amount of €152.9m without the issuance of new shares. This contribution took place on the face value of the PECs, i.e. €138.6m initial principal amount plus €14.3m accrued interest.

- Bentley management buy-out: Prior to the equity contribution, Bentley management owned a minority equity stake (of less than 2% of the total interest) in the Bentley group of companies. This minority equity stake has been acquired by LSF9 Balta Midco S.à r.l., who in turn has rolled-down the stake into Balta nv, such that the full ownership in Bentley is centralised in Balta nv. This integration of the Bentley management equity stake has resulted in an equity increase at the level of the Group of €1.3m.

Note 20. Other comprehensive income

Components of "Other comprehensive income" ("OCI") are items of income and expenses (including reclassification adjustments) that are not recognised in the profit or loss as required or permitted by other IFRS. The Group has other comprehensive income which mainly relates to the re-measurements of post-employee defined benefit obligations, the gains and losses arising from translating the Financial Statements of foreign entities and the changes in the fair value of hedging instruments.

The movements in other comprehensive income are summarised in the table below:

(€ thousands)	2018	2017
Items in OCI that may be subsequently reclassified to P&L	**(34,553)**	**(20,807)**
Cumulative translation reserves as of 31 December	**(34,647)**	**(20,814)**
Cumulative translation reserves at beginning of the period	(20,814)	(7,293)
Exchange differences on translating foreign operations	(13,833)	(13,522)
Cumulative changes in fair value of hedging instruments as of 31 December	**94**	**7**
Cumulative changes in fair value of hedging instruments at beginning of the period	7	(116)
Changes in fair value of hedging instruments during the period	87	123
Items in OCI that will not be reclassified to P&L	**1,167**	**895**
Changes in deferred tax at 31 December	**(711)**	**(604)**
Changes in deferred taxes at beginning of the period	(604)	(147)
Changes in deferred taxes during the period	(107)	(457)
Changes in employee defined benefit obligations at 31 December	**1,877**	**1,498**
Changes in employee defined benefit obligations at beginning of the period	1,498	493
Changes in employee defined benefit obligations during the period	379	1,005
Total other comprehensive income at 31 December	**(33,386)**	**(19,913)**

Cash flow hedge accounting

The movement schedule below summarises the amounts recorded into the cash flow hedge reserve and the portion that was recognised in the income statement in relation to contracts that were settled in December 2018. The amounts recognised in the income statement have been presented as "Other income" – see Note8.

(€ thousands)	31 December 2018	31 December 2017
Cash flow hedge reserve, ending balance	**94**	**7**
Opening balance	7	(116)
Amounts recorded in the cash flow hedge reserve	71	1,418
Amounts recognised in the income statement	17	(1,295)

Employee defined benefit obligations

The Group operates defined benefit pension plans. The changes in pension liabilities are accounted for through other comprehensive income when the changes relate to a change in actuarial assumptions from one year to another.

In the recent past, several insurance companies have decided to reduce the technical interest rate on group insurance contracts to a level below the minimum return guaranteed by law for Belgian defined contribution pension plans. Because the employer has to guarantee the statutory minimum return on these plans, not all actuarial and investment risks relating to these plans are transferred to the insurance company or pension fund managing the plans. Therefore these plans do not meet the definition of defined contribution plans under IFRS and should by default be classified as defined benefit plans. Refer to Note 31 for further details.

The liability has been measured using a discount rate of 1.57% for 2018 and 1.35% for 2017.

Deferred Taxes

The changes in pension liabilities also affect deferred taxes. When the change in pension liabilities are recorded through other comprehensive income, the related deferred tax charge is also recorded in other comprehensive income.

Note 21. Retained earnings

(€ thousands)	2018	2017
Beginning of period	**433**	**3,351**
Adjustments on initial application of IFRS 9	(1,308)	-
Profit / (loss) for the year allocated to equity owners	7,171	(2,919)
At 31 December	**6,286**	**433**

The retained earnings may be distributed to shareholders upon the decision of a General Meeting of Shareholders, taking into account the restrictions as defined in the Senior Term Loan Facilities agreement and the Senior Term Loan Facilities and the restrictions which are imposed by law. We refer to Note 1.10 for more detail on the initial application of IFRS 9.
Five percent of the net profit of the year of the Company is allocated to an undistributable legal reserve. This deduction ceases to be compulsory when such reserves amount ten percent of the issued share capital of the Company.

Note 22. Senior Secured Notes

(€ thousands)	31 December 2018	31 December 2017
Total Senior Secured Notes	**233,490**	**231,555**
Non-current portion	**230,065**	**228,130**
Of which: gross debt	234,900	234,900
Of which: capitalised financing fees	(4,835)	(6,770)
Current portion	**3,425**	**3,425**
Of which: accrued interest	5,360	5,360
Of which: capitalised financing fees	(1,935)	(1,935)

On 3 August 2015, LSF9 Balta Issuer S.à r.l. issued €290.0m aggregate principal amount of Senior Secured Notes with an interest rate of 7.75% as part of the financing of the acquisition of Balta Finance S.à r.l. and its subsidiairies. The maturity date of the Senior Secured Notes is 15 September 2022. In June, July and August 2017, the Group performed a partial repayment of € 55.1m in total.

Interest on the Senior Secured Notes accrue at the rate of 7.75% per annum and are payable semi-annually in arrears on 15 March and 15 September of each year, commencing on 15 March 2016.

Costs related to the issuance of Senior Secured Notes have been included in the carrying amount and are amortised into profit or loss over the term of the debt in accordance with the effective interest method. It follows that the amount of capitalised financing fees expensed during 2018 is equal to €1.9m.

The current portion of the debt associated with the Senior Secured Notes relates to accrued interest payable at the next interest payment date and the portion of the capitalised financing fee that will be amortised into profit or loss over the next 12 months.

Security agreements have been entered into which collectively secure the Senior Secured Notes and accrued interest on the Senior Secured Notes. Under the Senior Secured Notes indenture, the Group is subject to quarterly reporting requirements and certain limitations on restricted payments and debt incurrence. The Senior Secured Notes are secured by first-ranking security interests over a number of assets and mainly relate to shares of the guarantors and certain intra-group loans and receivables of the guarantors.The Group retains full ownership and operating rights for the assets pledged. In the event of a default of repayment of the Senior Secured Notes and related interest payments, the noteholders may enforce against the pledged assets.

The collateral also secures the Super Senior Revolving Credit Facility (see Note 24) and Senior Term Loan Facility (see Note 23) and certain hedging obligations. Under the terms of the Intercreditor Agreement, in the event of enforcement of the security over the collateral, holders of the Senior Secured Notes will receive proceeds from the enforcement of the collateral only after indebtedness in respect of the Super Senior Revolving Credit Facility and certain hedging obligations have been repaid in full. Any such proceeds will, after all obligations under the Super Senior Revolving Credit Facility and such hedging obligations have been repaid from such recoveries, be applied pro rata in repayment of all obligations under the Indenture and any other obligations that are permitted to be secured over the collateral under the Indenture on an equal and ratable basis.

We confirm that we have complied with all covenants over the reporting period.

Note 23. Senior Term Loan Facility

(€ thousands)	31 December 2018	31 December 2017
Total Senior Term Loan Facility	**34,790**	**34,674**
Non-Current portion	**34,908**	**34,782**
Of which: gross debt	35,000	35,000
Of which: capitalised financing fees	(92)	(218)
Current portion	**(118)**	**(108)**
Of which: accrued interests	20	23
Of which: capitalised financing fees	(138)	(131)

Senior Term Loan facility of €35m

LSF9 Balta Issuer S.à r.l. entered into a €35.0m Senior Term Loan Facility (the "Senior Term Loan Agreement") maturing 15 September 2020, at Euribor + 1.40% margin per annum. The facility ranks pari passu with the Senior Secured Notes. The Senior Term Loan Facility Agreement is dated 29 August 2017 and the principal amount was released at completion date which was 5 September 2017.

Similar to for the Super Senior Revolving Credit Facility, The Group is subject to quarterly reporting requirements and an annual guarantor coverage test.

Interest on the Senior Term Loan Facility accrues at the rate of Euribor + 1.40% margin per annum and is payable quarterly in arrears on 15 March, 15 June, 15 September and 15 December of each year, commencing on 15 September 2017.

Costs related to the issuance of Senior Term Loan Facility have been included in the carrying amount and are amortised into profit or loss over the term of the debt in accordance with the effective interest method.

The current portion of the debt associated with the Senior Term Loan Facility relates to accrued interest payables at the next interest payment date and the portion of the capitalised financing fee that will be amortised into profit or loss over the next 12 months.

Note 24. Bank and other borrowings

The table below provides an overview of the bank and other borrowings that continue to exist on 31 December 2018 and 2017:

(€ thousands)	31 December 2018	31 December 2017
Total bank and other borrowings	**13,486**	**15,670**
Non-current portion	**12,225**	**13,310**
Finance lease liabilities	12,225	13,310
Current portion	**1,261**	**2,361**
Finance lease liabilities	1,166	2,225
Commitment fees	95	136

Bank borrowings

On 3 August 2015, LSF9 Balta Issuer S.à r.l. and LSF9 Balta Investments S.à r.l. entered into a six year Revolving Credit Facility Agreement providing for a €40.0m European Super Senior Revolving Credit Facility; which was increased to €45.0m in 2016 and to €68.0m in 2017. This credit facility was fully undrawn at the end of 2017 and 2018.

On 18 July 2017, Balta nv has also renegotiated and obtained more favorable commercial terms in respect of its European Super Senior Revolving Credit Facility, including a reduction of the margin from the original 3.75% p.a. in August 2015 to an average margin below2. 00% p.a. at current leverage.

The Super Senior Revolving Credit Facility is secured by first-ranking security interests over the collateral, which also secures the Senior Secured Notes and the guarantees. Under the Super Senior Revolving Credit Facility, a lender may make available an ancillary facility, such as overdrafts, guarantees, short-term loan facilities, derivatives or foreign exchange facilities subject to the satisfaction of certain conditions precedent, to a borrower or an affiliate of a borrower in place of all or part of its unutilised commitment under the Super Senior Revolving Credit Facility. Amounts drawn under the Super Senior Revolving Credit Facility may be used for working capital and other general corporate purposes of the Restricted Group, operational restructurings or permitted reorganisations of the Group.

The Revolving Credit Facility Agreement contains customary and certain deal specific affirmative loan style covenants and restrictive covenants such as a springing financial covenant (based on total net leverage ratio) and an annual guarantor coverage test. The Super Senior Revolving Credit Facility is also guaranteed by each Guarantor. Under the terms of the Intercreditor Agreement, in the event of enforcement of the security over the collateral, holders of the Senior Secured Notes and Senior Term Loan Facility will receive proceeds from the enforcement of the collateral only after indebtedness in respect of the Super Senior Revolving Credit Facility and certain hedging obligations have been repaid in full. We confirm that we have complied with all covenants over the reporting period.

Bentley financing arrangements

BPS Parent, Inc. and other subsidiaries entered into a $51.0m syndicated credit facility (the "Fifth Third Credit Agreement") with Fifth Third Bank and other financial institutions (the "Lenders") on 1 February 2017. The credit facilities under the Fifth Third Credit Agreement consist of: (i) a five year revolving credit facility of $18.0m which will be due and payable on 31 January 2022, and availability is governed by a borrowing base, and (ii) a five year Senior Term Loan Facility of $33.0m ("Bentley Term Loan"), with the latter repaid in 2017. Obligations under the Fifth Third Credit Agreement are secured by a security interest on substantially all assets of BPS Parent, Inc. and its subsidiaries in favor of the Lenders. The Fifth Third Credit Agreement contains affirmative and negative covenants with respect to BPS Parent Inc. and its subsidiaries and other payment restrictions. Certain of the covenants limit indebtedness and investments of BPS Parent Inc. and its subsidiaries and require the maintenance of certain financial ratios defined in the Fifth Third Credit Agreement.

Factoring

As part of its normal course of business, the Group has entered into non-recourse receivables factoring agreements, whereby it may sell trade receivables arising from the normal course of business at face value less certain reserves and fees. The insolvency risk related to the factored receivables has been transferred to the factoring company, who in turn has transferred this risk to a credit insurance company. Under the non-recourse agreements, the Group collects payments from its customers on behalf of the factoring company to which it has factored its receivables. Given that substantially all of the risks and rewards of ownership have been transferred, the trade receivables assigned to the factoring companies have been derecognised from the statement of financial position.

Whilst the factoring program described above relates to a portfolio of credit insured trade receivables, the Group had also entered into a forfaiting agreement where a financial institution agrees to purchase (forfait) on a revolving basis the receivables from individually identified debtors. The credit risk related to these receivables was fully transferred from the Group to the financial institution and as a result thereof, the financial institution bears the risk of non-payment by the debtor. The Group was mandated to collect the forfeited receivables for the account of and on behalf of the financial institution. The eligible portion of the trade receivables that was transferred and financed under this agreement was derecognised from the Group's statement of financial position. The forfeiting agreement was ended in the course of 2018.

The Group continues to recognise a portion of the receivables to the extent of its continuing involvement, in accordance with IFRS 9.

The Group is also party to an Accounts Receivables Purchase Agreement with a financial institution, in the framework of a supply chain financing program offered by a large customer. Under this agreement, the Group offers to sell some or all of its accounts receivable due from this customer to the financial institution. Given the non-recourse nature of the agreement, the accounts receivables are derecognised on the moment the cash is received.

Note 25. Leases

Finance lease liabilities

The table below shows the net book amount of the "land and buildings" and "plant and machinery" which are subject to a finance lease agreement:

(€ thousands)	31 December 2018	31 December 2017
Net book value - Land and buildings	**11,125**	**12,658**
Cost - Capitalised finance leases	18,412	18,412
Accumulated depreciation	(7,288)	(5,754)
Net book value - Plant and machinery	**881**	**5,227**
Cost - Capitalised finance leases	1,155	6,608
Accumulated depreciation	(274)	(1,381)
Net book value - Total leased property, plant and equipment	**12,005**	**17,886**
Cost - Capitalised finance leases	19,567	25,020
Accumulated depreciation	(7,562)	(7,134)

The finance lease liabilities have decreased from €15.5m as of 31 December 2017 to €13.3m as of 31 December 2018. The lease contracts relating to the weaving machine expired at the end of 2017 and no new financial lease contracts have been signed during the period.

The gross investment in leases and the present value of minimum future lease payments are due as follows:

(€ thousands)	31 December 2018	31 December 2017
Gross finance lease liabilities - minimum lease payments	**15,039**	**17,468**
No later than 1 year	1,398	2,430
Later than 1 year and no later than 5 years	5,199	5,336
Later than 5 years	8,442	9,703

(€ thousands)	31 December 2018	31 December 2017
Total value of finance lease liabilities	**13,310**	**15,447**
No later than 1 year	1,085	2,137
Later than 1 year and no later than 5 years	4,200	4,235
Later than 5 years	8,025	9,075

Operating leases

The Group leases various buildings, equipment, machinery and vehicles under operating lease agreements. The lease terms are between one and twelve years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

(€ thousands)	31 December 2018	31 December 2017
Total value of operating lease commitments	**50,954**	**46,855**
No later than 1 year	7,057	7,157
Later than 1 year and no later than 5 years	23,237	21,845
Later than 5 years	20,660	17,853

The operating lease commitments increased by €4.1m as at 31 December 2018, mainly due to the commitment of €13.0m of operating leases which mainly relate to the lease of buildings in the Rugs and Commercial segments.

Note 26. Net debt reconciliations

The following table sets out an analysis of net debt and the 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 1 January 2018	**(234,900)**	**(5,360)**	**(35,000)**	**(23)**	**(13,310)**	**(2,225)**	**(290,818)**	**37,338**	**(253,480)**
Cashflows	-	-	-	3	-	7	10	(10,483)	(10,473)
Proceeds of borrowings with third parties	-	-	-	-	-	-	-	-	-
Business combinations	-	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-	-	-	-	-
Repayments of borrowings with third parties	-	-	-	-	-	2,137	2,137	-	2,137
Other non-cash movements	-	-	-	-	1,085	(1,085)	-	-	-
Net debt as at 31 December 2018	**(234,900)**	**(5,360)**	**(35,000)**	**(20)**	**(12,225)**	**(1,166)**	**(288,671)**	**26,853**	**(261,816)**

The table above does not include the movements in capitalised financing fees, or the interest paid (which amounts to €21.0m – see I.3).

Note 27. Additional disclosures on financial instruments

The following table presents the carrying amounts and fair values of each category of financial assets and financial liabilities:

(€ thousands)	Fair value hierarchy	31 December 2018	31 December 2018	31 December 2017	31 December 2017
		Carrying amount	Fair value	Carrying amount	Fair value
Assets as per statement of financial positions		**88,712**	**88,712**	**101,107**	**101,107**
Loans and receivables		**88,593**	**88,593**	**101,107**	**101,107**
Trade and other receivables		61,740	61,740	63,925	63,925
Cash and cash equivalents	Level 1	26,853	26,853	37,182	37,182
Assets at fair value through OCI		**119**	**119**	**-**	**-**
Foreign exchange derivative financial instruments	Level 2	119	119	-	-
Liabilities as per statement of financial positions		**407,761**	**393,851**	**414,315**	**434,625**
Financial liabilities measured at amortised cost	**-**	**407,706**	**393,796**	**414,314**	**434,623**
Senior Secured Notes	Level 1	233,490	219,580	231,555	251,864
Senior Term Loan Facility	Level 1	34,790	34,790	34,674	34,674
Bank and other borrowings	Level 2	13,486	13,486	15,671	15,671
Trade and other payables		125,940	125,940	132,414	132,414
Financial liabilities measured at fair value through OCI		**55**	**55**	**2**	**2**
Foreign exchange derivative financial instruments	Level 2	55	55	2	2

The different levels of valuation method have been defined as follows:

- Level 1: are valuations derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: are valuations derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3: are valuations derived from inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of the Senior Secured Notes is based on a Level 1 estimate. The fair value of all other financial instruments, with the exception of cash- and cash equivalents, has been determined using Level 2 estimates. The fair value of the forward foreign exchange contracts has been determined using forward exchange rates that are quoted in an active market. The effects of discounting are generally insignificant for Level 2 derivatives. For trade and other receivables, as well as trade and other payables, the carrying amount is considered to be a good estimate of the fair value, given the short term nature of these items.

There were no changes in valuation techniques during the period.

Note 28. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The objective is to identify, quantify, manage and then monitor events or actions that could lead to financial losses. Derivative financial instruments are used to hedge certain risk exposures at Group level.

The Group applied hedge accounting on the derivative financial instruments relating to foreign exchange risk for the periods covered in these Financial Statements starting from 1 June 2016.

Qualitative and quantitative disclosures about market risk

Foreign exchange risk

We have significant exposure to the value of the British pound, the U.S. Dollar and the Turkish Lira. Consequently, our financial results have been, and in the future will likely continue to be, subject to currency transaction and translation effects resulting from fluctuations in exchange rates, primarily the EUR/USD, EUR/GBP and EUR/TRY exchange rates. The proportion of our revenue recognised in each currency does not exactly correspond with the revenue derived from each geography, as we sometimes invoice customers in currencies other than their local currency. For instance, many of our sales in the United Kingdom are invoiced in Euro.

Our Consolidated Financial Statements are prepared in Euro. We are therefore exposed to translation risk on the preparation of our Consolidated Financial Statements when we translate the Financial Statements of our subsidiaries which have a functional currency other than Euro. A portion of our assets, liabilities, revenue and costs are denominated in various currencies other than EUR, principally GBP, USD and TRY. As a result, our consolidated results of operations, which are reported in Euro, are affected by currency exchange rate fluctuations.

Transaction risk arises when our subsidiaries execute transactions in a currency other than their functional currency. We mitigate this risk through three primary methods. We have entered into commercial arrangements with some key customers to automatically adjust the impact of EUR/GBP and EUR/TRY fluctuations through our prices. Second, we use forward exchange contracts to hedge our residual exposure to British pound and to hedge our U.S. Dollar exposure on an ad hoc basis. Finally, even with respect to commercial arrangements that do not provide for exchange rate-based price-adjustment mechanisms, our established relationships with our customers allow that both positive and negative currency fluctuations are in general passed on through price revisions over the medium term. Fluctuations in the value of the USD and TRY relative to the Euro typically have an impact on our gross margin.

Changes in foreign exchange rates may have a long-term impact on our sales volumes. For example, if there is a long-term depreciation of the Euro, our sales volumes may increase as we become more competitive in non-Eurozone markets. In contrast, a long-term strengthening of the Euro may decrease our volumes and price competitiveness in non-European markets.

The following table presents the main statement of financial position items affected by foreign exchange risk:

(€ thousands)	EUR	GBP	USD	TRY	TOTAL
31 December 2018 Net exposure	**(66,300)**	**6,135**	**14,488**	**8,331**	**(37,347)**
Trade and other receivables	20,181	8,523	24,753	8,283	61,740
Cash and cash equivalents	7,458	2,944	16,251	200	26,853
Trade and other payables	(93,939)	(5,332)	(26,516)	(153)	(125,940)

(€ thousands)	EUR	GBP	USD	TRY	TOTAL
31 December 2017 Net exposure	**(53,131)**	**4,177**	**6,198**	**11,448**	**(31,307)**
Trade and other receivables	29,686	5,697	19,306	9,236	63,925
Cash and cash equivalents	20,496	4,406	10,043	2,236	37,182
Trade and other payables	(103,312)	(5,926)	(23,151)	(24)	(132,414)

The following table presents the sensitivity analysis of the year-end statement of financial position in GBP, USD and TRY in case the Euro would weaken by 10%::

(€ thousands)	2018	2017
GBP denominated	**(1,455)**	**(1,092)**
Changes in fair value derivative financial instruments	(2,136)	(1,556)
Changes in carrying amount of monetary assets and liabilities	682	464
USD denominated	**1,542**	**689**
Changes in fair value derivative financial instruments	(68)	-
Changes in carrying amount of monetary assets and liabilities	1,610	689
TRY denominated	**926**	**1,272**
Changes in fair value derivative financial instruments	-	-
Changes in carrying amount of monetary assets and liabilities	926	1,272

The following table presents the sensitivity analysis of the year-end statement of financial position in GBP, USD and TRY in case the Euro would strengthen by 10%:

(€ thousands)	2018	2017
GBP denominated	**1,190**	**893**
Changes in fair value derivative financial instruments	1,748	1,273
Changes in carrying amount of monetary assets and liabilities	(558)	(380)
USD denominated	**(1,261)**	**(563)**
Changes in fair value derivative financial instruments	56	-
Changes in carrying amount of monetary assets and liabilities	(1,317)	(563)
TRY denominated	**(757)**	**(1,041)**
Changes in fair value derivative financial instruments	-	-
Changes in carrying amount of monetary assets and liabilities	(757)	(1,041)

Commodity price risk

We are exposed to fluctuations in the price of major raw material used in the manufacturing process. Our key raw materials are polypropylene granulates, yarn, latex and polyamide granulates.

In 2018, raw materials expenses represented 47.5% of the Group's revenue compared to 46.9% per last year. As there is typically a time delay in the Group's ability to pass through raw materials price increases, changes in the cost of raw materials typically have an impact on the Group's gross margin. During 2018, raw material cost prices increased and put pressure on the Group's margins. Price increases and other compensating actions were not sufficient to fully offset the adverse effect from increased raw material prices.

If the commodity prices of polypropylene and polyamide had been 10% higher (lower), profit after tax would have been €15m lower (higher) in the absence of any mitigating actions taken by management. This impact has been determined by multiplying the volumes of both granulates and yarns purchased on an annual basis with a 10% variance on the average purchase price of polypropylene and polyamide for the year.

When we hedge, we might do so by entering into fixed price contracts with our suppliers. No such arrangements were entered into in 2018 or 2017.

Interest rate risk

Our interest rate risk principally relates to external indebtedness that bears interest at variable rates. Only the amounts that we borrow under the (Super Senior) Revolving Credit Facilities, our capital leases of buildings, our Senior Term Loan and use under our factoring and forfaiting arrangements are subject to variable interest rates, as the Senior Secured Notes carry interest at a fixed rate. We therefore did not use interest rate swaps in respect of our financing during the current reporting period. The following table presents the sensitivity analysis of the interest expenses and income when there is a 25bps shift in the Euro yield curve.

(€ thousands)	25 bps downward shift in EUR yield curve	25 bps upward shift in EUR yield curve
Total impact on interest expenses/ income	**123**	**(123)**
Non-derivative floating rate financial liabilities	123	(123)

The Company has initiated a three year program designed to have a significant impact on our earnings. The several growth and cost saving initiatives will improve the profitability and cash generation profile of the Group. The effects will have a beneficial impact on leverage and profitability, ahead of the refinancing of the Senior Secured Notes, maturing 2022.

Qualitative and quantitative disclosures about credit risk

Our credit risk is managed on a Group-wide basis. We assess the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual credit limits are set based on historical experience, in-depth knowledge of the customer and in close cooperation with the business unit manager. These credit limits are regularly reviewed by the business unit managers and by finance management. In addition, we have obtained credit insurance to cover a large portion of the credit default risk. Finally, credit risk is also mitigated through non-recourse factoring and forfaiting of the trade receivables where the insolvency risk has been transferred to the counterparty. Trade receivables are spread over a number of countries and counterparties. There is no large concentration of trade receivables. For derivative financial assets, credit quality has been assessed based on the Fitch rating of the counterparty. All our forward exchange contracts are over the counter with a financial institution as counterparty.

Historical default rates did not exceed 0.1% for 2017 and 2018.

Excess liquidities are invested for very short periods and are spread over a limited number of banks, all enjoying a satisfactory credit rating. For cash at bank and short-term bank deposits, the table below gives an overview of credit ratings for banks used by the Group.

(€ thousands)	31 December 2018	31 December 2017
Total cash and cash equivalents	**26,853**	**37,182**
A rating	25,079	32,704
BBB Rating	1	1,199
BB Rating	1,774	3,278

Qualitative and quantitative disclosures about liquidity risk

We monitor cash flow forecasts and liquidity requirements centrally, ensuring that we have sufficient cash to meet operational needs while maintaining sufficient headroom on our undrawn committed borrowing facilities at all times so that we do not breach borrowing limits or covenants on any of our borrowing facilities.

The operating activities of our subsidiaries and their cash inflows are our main source of liquidity. Our cash pooling system enables us to benefit from the surplus funds of certain subsidiaries to cover the financial requirements of other subsidiaries. We invest surplus cash in interest-bearing current accounts and short-term cash deposits, selecting instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

In order to meet our cash outflow obligations, we use cash flows generated from operating activities and credit facilities with financial institutions if necessary. In addition, we have entered into factoring agreements with financial institutions where cash is made available to us in consideration for certain trade receivables generated by us.

The principal financing arrangements that are in place at 31 December 2018 are the Senior Secured Notes, the Senior Term Loan Facility and capital lease agreements.

The following table reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognised financial liabilities. The amounts disclosed are undiscounted net cash outflows, based on the market conditions existing at 31 December 2018.

(€ thousands)	Less than 6 months	Between 6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Total as of 31 December 2018	**(140,745)**	**(10,030)**	**(54,918)**	**(274,769)**	**(7,512)**
Senior Secured Notes	(9,102)	(9,102)	(18,205)	(271,310)	-
Senior Term Loan Facility	(248)	(249)	(35,374)	-	-
Finance lease liabilities	(684)	(679)	(1,339)	(3,460)	(7,512)
Trade and other payables	(125,940)	-	-	-	-
Gross settled derivative financial instruments - outflows	(25,115)	-	-	-	-
Gross settled derivative financial instruments - inflows	20,345	-	-	-	-

Our external financing agreements include obligations, restrictions and covenants, which may have an adverse effect on our business, financial situation and results of operations if we are unable to meet these.

In particular, the Super Senior Revolving Credit Facility includes a springing Leverage covenant at 6.5x, however only to be tested at the end of a quarter, and provided more than 30% of the Super Senior Revolving Credit Facility is used at that time. To date, we have never used the Super Senior Revolving Credit Facility at the end of a quarter, hence have never been required to test the covenant. Moreover, Leverage at the end of the year was 3.6x at maximum during 2018. The $18m revolving credit facility at the level of BPS Parent Inc. includes a local leverage and fixed charge coverage covenant, providing ample headroom.

The following table reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognised financial liabilities. The amounts disclosed are undiscounted net cash outflows, based on the market conditions existing at 31 December 2017.

(€ thousands)	Less than 6 months	Between 6 months and 1 year	Between 1 year and 2 years	Between 2 and 5 years	Over 5 years
Total as of 31 December 2017	**(143,148)**	**(10,421)**	**(20,100)**	**(328,826)**	**(9,703)**
Senior Secured Notes	(9,102)	(9,102)	(18,205)	(289,514)	-
Senior Term Loan Facility	(248)	(249)	(497)	(35,374)	-
Finance lease liabilities	(1,360)	(1,069)	(1,398)	(3,938)	(9,703)
Trade and other payables	(132,414)	-	-	-	-
Gross settled derivative financial instruments - outflows	(14,004)	-	-	-	-
Gross settled derivative financial instruments - inflows	13,981	-	-	-	-

A key factor in maintaining a strong financial profile is our credit rating which is affected by, among other factors, our capital structure, profitability, ability to generate cash flows, geographic and customer diversification and our competitive position. Our current corporate credit ratings from Moody's Investor Service (Moody's) and Standard & Poor's Ratings Services (S&P) are noted as follows:

	31 December 2018	31 December 2018	31 December 2017	31 December 2017
	Moody's	S&P	Moody's	S&P
Long-term issue rating Senior Secured Notes	B2	BB-	B1	BB
Corporate rating	B2	B	B1	B+

On 10 August 2015, Moody's assigned a B2 rating to the €290m Senior Secured Notes issued by LSF9 Balta Issuer S.à r.l., the previous parent holding company of the Group, following a review of the final bond documentation. In June 2017, following the IPO, the ratings were upgraded to B1 to reflect the strengthening of the Group's financial profile, increased transparancy as a public company, making corporate governance arrangements stronger and enhancing access to equity capital markets. In November 2018, the rating was downgraded to B2 with a negative outlook on the back of the more recent financial performance.

On 14 September 2015, S&P assigned its 'B' long-term corporate credit rating to LSF9 Balta Investments S.à r.l.. At the same time, S&P assigned its 'B' long-term issue rating to LSF9 Balta Issuer S.à r.l.'s €290m Senior Secured Notes and its 'BB-' long-term issue rating to the €68m Super Senior Revolving Credit Facility. In July 2017, the corporate rating was increased to 'B+' to reflect the improvements in the Group's financial credit metrics following the use of net proceeds from the IPO to repay part of the Group's debt. In November 2018, on the back of the more recent financial performance, the corporate rating was reduced again to 'B' and the long-term issue rating on the Super Senior Revolving Credit Facility to 'BB-'.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. The Group is closely monitoring its financial performance to comply with financial covenants. Refer to Notes 22 to 24 for further details.

Note 29. Employee benefit obligations

The Group operates a pension plan and provides for pension liabilities. These benefits have been measured in compliance with IAS 19 revised and in accordance with the Group accounting policies described in Note 1.20. The liability was measured using a discount rate of 1.57% and 1.35% in 2018 and 2017, respectively. The annual pension cost, relating to the pension plan is disclosed in Note 7.

The Group has accrued termination benefits (including early retirement) for its working and retired personnel. The liability was measured using a discount rate of 0.92% in 2018 and 0.83% in 2017.

The employee benefit obligations recognised in the Financial Statements are detailed below:

(€ thousands)	31 December 2018	31 December 2017
Total employee benefit obligations	**3,713**	**4,127**
Pension plans	1,405	1,810
Provisions early retirement pension	1,001	1,710
Provision for pensions	1,307	608

(€ thousands)		31 December 2018
Total employee benefit obligations		**3.713**
Non current		3.106
Current	Note 31	607

Pension plans: overview

Pension plans have been put in place for senior management and is financed through employer contributions which increase depending on seniority (base contribution of 3.75% of pensionable salary, increasing by 0.5% for every 5 years of service rendered within the Group up to a maximum contribution rate of 5.75%). This plan also includes a "death in service" benefit amounting to twice the pensionable salary. Several pension plans are in place for white collar workers and are financed through fixed employer contributions. In addition, as part of the bonus policy for members of management, a portion of the bonus is awarded via employer contributions to a pension plan scheme.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

Beside the pension plans in Belgium, the Group has similar plans in place in Turkey.

Pension plans: valuation methodology

The pension and bonus plans as described above have been classified as defined benefit. The valuation of the pension and bonus plans have been performed in accordance with IAS 19.

We refer to Note 1.20 concerning the valuation methodology which has been used. The liability is based on the difference between the present value of the "defined benefit obligation", taking into account the minimum return and a discount factor, less the fair value of any plan assets at date of closing.

Pension plans: main valuation assumptions

The main assumptions used to perform the valuation are described below:

	31 December 2018	31 December 2017
Discount rate BE	1.57%	1.35%
Discount rate TR	4.23%	3.67%
Retirement age	65 years	65 years
Mortality	MR/FR-5	MR/FR-5

For the year ended 31 December 2018, the defined benefit obligation in Belgium, taking into account the tax effect, amounts to €13.6m (2017: €15.6m) and the offset by plan assets to €12.2m (2017: €13.8m).

Note 30. Other payroll and social related payables

(€ thousands)	31 December 2018	31 December 2017
Total other payroll and social related payables	**36,655**	**33,359**
Holiday pay	15,244	15,302
Social security taxes	6,923	7,499
Salaries and wages payable	9,108	5,421
Early retirement provision	607	636
Group insurance	68	586
Withholding taxes	1,556	868
Other	3,150	3,046

Other payroll and social related payables increased from €33.4m as of 31 December 2017 to €36.7m at 31 December 2018.

Note 31. Provisions for other liabilities and charges

(€ thousands)	Asset retirement obligation	Restructuring	Warranty	Other	Total
As at 1 January 2018	**834**	**7,252**	**1,502**	**64**	**9,652**
Additional provisions made and increases to existing provisions	-	0	12	-	**12**
Exchange differences	29	-	81	-	**110**
Amounts used	-	(6,087)	-	(64)	**(6,151)**
At 31 December 2018	**863**	**1,165**	**1,595**	**0**	**3,623**

Analysis of total provisions:	31 December 2018
Non-current	1,165
Current	2,458
	3,623

The provision for other liabilities and charges decreased by €6.0m to €3.6m for the year ended 31 December 2018.

During 2017, the Group iniated a restructuring of the operational infrastructure in Belgium within the Residential business, by consolidating the Oudenaarde facility into our two fully vertically integrated factories in the region. Throughout 2018, the Group concluded this restructuring project and costs were set-off on the existing provision. The remaining provision for restructuring relates to the further unwinding of the machinery, which is planned in 2019, and onerous contracts.

Note 32. Trade and other payables

(€ thousands)	31 December 2018	31 December 2017
Trade and other payables	**125,940**	**132,414**
Trade payables	93,009	91,445
Accrued charges and deferred income	29,521	31,776
Other payables	3,410	9,193

Trade payables as of 31 December 2018 of €93.0m include the amounts for outstanding invoices (€77.7m, as compared to €74.9m as of 31 December 2017) and invoices to be received in relation to goods and services received during the current period (€15.3m, as compared to €16.5m as of 31 December 2017). The outstanding trade and other payables are in line with last year.

Accrued charges and deferred income mainly relate to:

- deferred revenue relating to the sale and lease back of one of the facilities which is recognised in profit over the leasing period of the facilities (€10.1m, as compared to €11.5m as of 31 December 2017);
- deferred revenue relating to advance payments on rental agreements (€2.8m, as compared to €3.2m as of 31 December 2017);
- accrued charges for customer discounts (€12.4m as of 31 December 2018 and €14.0m as of 31 December 2017).

Note 33. Share based payments

On 16 June 2017, Balta Group, provided a share related bonus payment pursuant to a phantom share bonus scheme to certain members of the Management Committee.

The members of the Management Committee are entitled to a share related bonus payment pursuant to a phantom share bonus scheme with Balta nv, collectively representing the value of 86,361 shares at payout date. The bonus is only payable if the manager still provides services to the Group on the second anniversary of the IPO. If services cease to be provided for any reason prior to the second anniversary, the bonus arrangement for that manager is forfeited.

The actual cost of these share related bonus payment is recognised in the income statement over the vesting period of the schemes and has been recognised in integration and restructuring expenses, as the installation of the phantom share bonus schemes was directly connected to the IPO.

In the context of the IPO, certain managers received shares and a cash bonus from LSF9 Balta Midco S.à r.l pursuant to existing management incentive schemes with Lone Star entities. After the resignatin of Mr. Debusschere, the total number of shares awarded to the members of the Management Committee and the current manager of Bentley Mills Inc amounted to 633,592 shares, of which 161,232 shares were granted upon completion of the IPO, another 236,182 shares vested on the first anniversary of the IPO and the remainder (236,178 shares) will vest on its second anniversary. A manager who leaves the Balta Group voluntarily or is dismissed for cause prior to a vesting date will lose his/her entitlement to unvested shares.

Note 34. Government grants

The Group's government grants relate to incentives given by Belgian authorities based on the Group's investment, environmental policies.

The main incentives received comprise of:

- Environmental grants: the Group receives governmental allowances on a yearly basis in the framework of legislative measures put into place in order to ascertain the competitiveness of industries covered by the EU Emission Trading System (the allowances for "carbon leakage"). At 31 December 2018, €0.4m has been received in this framework.
- Investment grants: the Group has concluded a cooperation agreement with external parties for the development of hybrid structures based on technology containing waste streams of polypropylene and polyurethane. At 31 December 2018, €0.02m has been received in this framework (which is the same amount as last year).

Note 35. Earnings per share

Basic and diluted earnings per share

	31 December 2018	31 December 2017
Basic and diluted earnings per share		
Net result from continuing operations	**7,171**	**(2,884)**
Percentage of net result from continuing operations attributable to holders of ordinary shares	100%	100%
Net result from continuing operations attributable to holders of ordinary shares	7,171	(2,884)
Weighted average number of ordinary shares outstanding (in thousands)	137,847	137,848
Net result per share attributable to holders of ordinary shares (in Euro)	0.05	0.02

In accordance with IAS 33, the basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

All earnings per share for 2017 and 2018 are calculated based on the number of shares and the percentage of net results attributable to the holders of ordinary shares at the date of the capital reorganisation which resulted respectively in a total of 137.848 thousand of shares and 100% of net result attributable to the holders of the ordinary shares.

Adjusted earnings per share

The result of 2018 and 2017 included some non-recurring items which affected the earnings per share calculation. From a management perspective we calculated an adjusted earnings per share which excluded the impact of non-recurring items.

	31 December 2018	31 December 2017
Adjusted earnings per share[1]		
Net result from continuing operations	**7,171**	**(2,884)**
Normalisation adjustments:	3,230	19,689
Adjusted Net Result from continuing operations	**10,401**	**16,825**
Percentage of net result from continuing operations attributable to holders of ordinary shares	100%	100%
Net result from continuing operations attributable to holders of ordinary shares	10,401	16,805
Weighted average number of ordinary and diluted shares outstanding (in thousands)	137,848	137,848
Net result per share attributable to holders of ordinary and diluted shares (in Euro)	0.08	0.12

(1) We refer to the Note 1.25 in which we provide a glossary of the non-GAAP measures and Note 3.

The profit for the period in 2018 includes a €7.7m impact from non-recurring integration and restructuring expenses (Note 10), partially offset by the tax effect (€ 1.9m) and the non recurring tax effect of utilisation of priorly unrecognised fiscal losses (Note 19). In the absence of such events, the normalised profit for the period would have been €10.4m. Similarly, the profit for the period in 2017 includes a net non-recurring expense of €19.7m (as detailed in Note 3), resulting in a normalised net profit of €16.8m.

The Group or a direct subsidiary or a person, acting in its own name but on behalf of the Company, has not acquired shares of the Company.

Note 36. Dividends per share

The Board proposed not to pay out a dividend.

Note 37. Commitments

Energy

Our fixed price purchase commitments for electricity and gas, for deliveries in 2019, are equal to €16.9m as of 31 December 2018 compared to an amount of €8.6m as of 31 December 2017.

Capital expenditures

As of 31 December 2018 €0.5m capital commitments are outstanding compared to €1.7m as of 31 December 2017.

Note 38. List of consolidated companies

The subsidiaries and jointly controlled entities of LSF9 Balta Issuer S.à r.l., the Group's percentage of interest and the Group's percentage of control of the active companies are presented below.

	31 December 2018		31 December 2017	
	% of interest	% of control	% of interest	% of control
Belgium				
Balta nv	100%	100%	100%	100%
Balta Industries nv	100%	100%	100%	100%
Balta Trading comm.v	100%	100%	100%	100%
Modulyss nv	100%	100%	100%	100%
Balta Oudenaarde nv	95%	100%	95%	100%
Balta M bvba (liquidated on 13 December 2017)	-	-	100%	100%
Balfid bvba	100%	100%	100%	100%
Luxembourg				
LSF9 Balta Issuer S.à r.l.	100%	100%	100%	100%
LSF9 Balta Luxembourg S.à r.l.	100%	100%	100%	100%
LSF9 Balta Investment S.à r.l.	100%	100%	100%	100%
Turkey				
Balta Orient Tekstil Sanayi Ve Ticaret A.S.	100%	100%	100%	100%
Balta Floorcovering Yer Dös, emeleri San.ve Tic A.S.	100%	100%	100%	100%
USA				
Balta USA Inc	100%	100%	100%	100%
LSF9 Renaissance Holdings LLC	100%	100%	100%	100%
LSF9 Renaissance Acquisitions LLC	100%	100%	100%	100%
BPS Parent, Inc.	100%	100%	100%	100%
Bentley Prince Street Holdings, Inc.	100%	100%	100%	100%
Bentley Mills, Inc	100%	100%	100%	100%
Prince Street, Inc	100%	100%	100%	100%

Note 39. Related party transactions

The Company may enter into transactions with its shareholders and other entities owned by its shareholders in the ordinary course of business. Those transactions include, among others, financing agreements and professional, advisory, consulting and other corporate services.

The Company has entered into arrangements with a number of its subsidiaries and affiliated companies in the course of its business. These arrangements relate to manufacturing, sales transactions, service transactions and financing agreements and were conducted at market prices. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated in the consolidation and are accordingly not disclosed in this Note.

Key management compensation

Key management means the Board of Directors and the Group's Management Committee, which consists of people having authority and responsibility for planning, directing and controlling the activities of the Group. Key management compensation includes all fixed and variable remuneration and other benefits which are presented in other expenses and long-term employee benefits which are presented in integration and restructuring.

(€ thousands)	31 December 2018	31 December 2017
Total key management compensation	**3,012**	**2,937**
Short-term employee benefits	2,130	2,410
Long-term employee benefits	(182)	403
Board compensation	216	125
Termination benefits	840	-
Share-based payments	8	-

Other transactions with related parties

Year-end balances arising from daily operations:

(€ thousands)	31 December 2018	31 December 2017
Trade and Other receivables from related parties	-	1.027
Trade and other Payables to related parties	(3.222)	(7.750)
Other income with Related parties	-	18
Other expenses with related parties	(3.634)	(6.823)

The year-end balances mainly arise from current account positions as a result of payments which have been performed on behalf of Group entities. These current accounts are respectively reflected in "Trade and other receivables" and in "Trade and other payables".

Note 40. Fees paid to the Group's auditors

(€ thousands)	2018	2017
Audit services	**306**	**1,306**
Audit of the Group pursuant to legislation	306	300
Other audit-related services	-	1,007
Non-audit services	**187**	**394**
Tax services	147	184
Other services	40	210
Total fees paid to the Group's auditor	**493**	**1,700**

Note 41. Events after the reporting period

We are not aware of any significant events since 31 December 2018 which could be considered as having a material influence on the financial position, financial performance and cash flows of the Company.

Audit report

To the Partner of
LSF9 Balta Issuer S.à r.l.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of LSF9 Balta Issuer S.à r.l. (the "Company") and its subsidiaries (the "Group") as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

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

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

Other information

The Board of Managers is responsible for the other information. The other information comprises the information stated in the annual report including the Management report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Managers for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Managers is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers;

- conclude on the appropriateness of the Board of Managers' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on other legal and regulatory requirements

The Management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 25 April 2019

Anne Derouané

Indoor & Outdoor Rugs

Residential carpets & tiles

Commercial carpets & tiles

balta

LSF9 Balta Isuer S.à r.l.
15, Boulevard Friedrich
Wilhelm Raiffeisen,
L-2411 Luxembourg
info@baltagroup.com
www.baltagroup.com