

LSF9 Balta Issuer S.à r.l.

2019

QUARTERLY

Report

Senior Secured Notes
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Q3 2019 -
Period ended September 30, 2019



LSF9 Balta Issuer S.à r. l.

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1. Key Figures

(€ thousands)	Q3 2019	LFL Q3 2018	Impact IFRS 16 transition	Reported Q3 2018
Results ¹				
Revenue	155,599	151,026	-	151,026
Adjusted EBITDA	17,187	18,483	1,540	16,943
Adjusted EBITDA Margin	11,0%	12,2%	1,0%	11,2%
Integration and restructuring expenses	(2,492)	(1,316)	-	(1,316)
EBITDA	14,695	17,167	1,540	15,627
Depreciation / amortisation	(9,583)	(9,385)	(1,381)	(8,004)
Operating profit / (loss) for the period	5,112	7,781	159	7,622
Net finance expenses	(5,172)	(7,170)	(383)	(6,787)
Income tax benefit / (expense)	(9)	610		610
Profit/(loss) for the period	(69)	1,221	(224)	1,445

(€ thousands)	YtD 2019	LFL YtD 2018	Impact IFRS 16 transition	Reported YtD 2018
Results ¹				
Revenue	507,012	472,922		472,922
Adjusted EBITDA	54,315	55,709	4,665	51,044
Adjusted EBITDA Margin	10,7%	11,8%	1,0%	10,8%
Integration and restructuring expenses	(5,585)	(3,726)		(3,726)
EBITDA	48,730	51,983	4,665	47,318
Depreciation / amortisation	(28,953)	(28,403)	(4,200)	(24,203)
Operating profit / (loss) for the period	19,777	23,579	465	23,114
Net finance expenses	(17,679)	(19,504)		(19,504)
Income tax benefit / (expense)	506	505		505
Profit/(loss) for the period	2,603	4,580	465	4,115

Cash flow				
Cash at beginning of period	26,853	37,182		37,182
Net cash generated / (used) by operating activities	25,690	18,673	4,665	14,008
Net cash used by investing activities	(18,081)	(21,521)		(21,521)
Net cash generated / (used) by financing activities	(27,865)	(26,700)	(4,665)	(22,035)
Cash at end of period	6,597	7,632		7,632

Note 1: LfL Q3 2018 figures contain the like-for-like IFRS 16 impact in order to make the figures comparable

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

Financial position

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

(€ thousands)	Q3 2019	Q3 2018
Net debt ²	277,446	276,894
Leverage	3.9	4.0

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

2. Management discussion and analysis of the results

2.1. Group Financial Highlights

- Q3 consolidated: Revenue €155.6m +3.0%, Adjusted EBITDA €17.3m -7.0% on a like-for-like basis¹, Adjusted EBITDA margin 11.1%
 - Organic revenue growth +1.7% and FX +1.3%
 - Revenue growth by division: Rugs +0.4%, Commercial +7.1%, Residential 0.0%
- Adjusted EBITDA on a like-for-like basis¹ impacted by lower Rugs margin, partly offset by improved margins in both Commercial and Residential. Overall investments in NEXT in Q3 of €1.0m (year to date €3.0m)
- Net Debt stable vs. Q3 2018 (reported Net Debt Q3 2019 of €319.6m includes €42.2m IFRS16 impact) on a like-for-like basis²
- Leverage 3.9x stable vs. Q3 2018 on a like-for-like basis²

2.2. Business Update

- The implementation of NEXT, the three year program designed to deliver a significant improvement in earnings, continued in Q3 with a first set of initiatives fully implemented in procurement and lean.
- Following the strong growth realized by Rugs in H1 2019, primarily from regained US outdoor programs and the timing of European program roll-outs, Rugs achieved also slight top line growth in Q3. For 2020, we secured an overall stable share for next year's US outdoor programs. Rugs margin for the quarter was negatively impacted by the one-off adjustment in relation to higher than foreseen sales discounts at Balta USA on sales in previous quarters, as well as our investments in NEXT, in particular the start-up costs for the US e-commerce business. Without these effects, Rugs had a solid underlying margin generation.
- Strong revenue evolution with further improved margins in Commercial, driven by the continued growth of our US business. In Europe, volumes were down over Q3 2018, but in line with expectations at better prices and margins.
- In Residential, Q3 revenue was flat year-on-year. UK revenue was slightly up, benefiting from pre-Brexit stocking at some of our customers. Trading in our Continental European markets remained subdued in the third quarter, but margins benefited from the price increases introduced at the start of the year.

2.3. Outlook

“Third quarter results for our Residential and Commercial divisions were in line with our expectations, showing improved margins versus last year, despite the upfront investments in NEXT. In Rugs, revenue growth was in line with expectations, however, margins were again penalized by exceptional items. We continue to focus on implementing the various growth and cost saving initiatives identified in NEXT, which will start benefiting our results and will contribute significantly to 2020 earnings. We remain on track for the full year 2019 guidance we provided in March.”

¹ Like-for-like IFRS16 adjustment on Q3 2018 Adjusted EBITDA

² Excluding impact of IFRS16

3. Operating review per segment

3.1. Revenue and Adjusted EBITDA per segment

3.1.1. YtD 2019

(€ million, unless otherwise stated)	YTD Q3 2018	Lfl IFRS16 Impact	Lfl YTD Q13 2018	YTD Q3 2019	% change Lfl ⁽¹⁾	o/w organic growth	o/w FX
Rugs	144.1		144.1	163.3	13.3%		
Commercial	156.4		156.4	174.8	11.7%		
Residential	152.2		152.2	147.7	(3.0)%		
Non-Woven	20.2		20.2	21.3	5.2%		
Consolidated Revenue	472.9		472.9	507.0	7.2%	5.7%	1.5%
Rugs	18.4	0.8	19.2	11.8	(38.6)%		
Commercial	22.0	3.7	25.7	29.7	15.7%		
Residential	8.7	0.2	9.0	11.4	27.2%		
Non-Woven	2.1	0.0	2.1	1.6	(20.1)%		
Consolidated Adjusted EBITDA	51.2	4.7	55.9	54.6	(2.4)%	(4.5)%	2.1%
Rugs	12.8%		13.3%	7.2%			
Commercial	14.1%		16.4%	17.0%			
Residential	5.7%		5.9%	7.7%			
Non-Woven	10.1%		10.2%	7.7%			
Consolidated Adjusted EBITDA Margin	10.8%		11.8%	10.8%			

Note: the segment table has been copied from the press release issued by Balta Group NV, where EBITDA is €0.3m higher than at LSF9 Balta Issuer level due to a markup on management services provided at level of Balta Group NV and then charged to LSF9 Balta Issuer and subsidiaries.

Note (1): Like-for-like IFRS16 adjustment on Q3 2018 Adjusted EBITDA

3.1.2. Q3 2019

<i>(€ million, unless otherwise stated)</i>	Q3 2018	Lfl IFRS16 Impact	Lfl Q3 2018	Q3 2019	% change Lfl ⁽¹⁾	o/w organic growth	o/w FX
Rugs	43.4		43.4	43.5	0.4%		
Commercial	54.5		54.5	58.4	7.1%		
Residential	47.1		47.1	47.1	(0.0)%		
Non-Woven	6.1		6.1	6.7	8.8%		
Consolidated Revenue	151.0		151.0	155.6	3.0%	1.7%	1.3%
Rugs	5.9	0.3	6.3	2.6	(58.2)%		
Commercial	7.9	1.2	9.1	10.5	15.5%		
Residential	2.5	0.1	2.5	3.5	39.0%		
Non-Woven	0.7	0.0	0.7	0.6	(9.5)%		
Consolidated Adjusted EBITDA	17.1	1.5	18.6	17.3	(7.0)%	(9.1)%	2.1%
Rugs	13.7%		14.4%	6.0%			
Commercial	14.6%		16.7%	18.0%			
Residential	5.3%		5.4%	7.5%			
Non-Woven	10.9%		11.0%	9.1%			
Consolidated Adjusted EBITDA Margin	11.3%		12.3%	11.1%			

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

Note (1): Like-for-like IFRS16 adjustment on Q3 2018 Adjusted EBITDA

3.2. Rugs

Our Rugs division realized Revenue of €43.5m, up 0.4% versus the third quarter of 2018, resulting in a year-to-date growth of 13.3%. In the US, our e-commerce sales from the dedicated state-of-the-art warehouse in Savannah have continued to progress albeit still at a low level. Revenue in the quarter was further impacted by the one-off adjustment for the higher than anticipated sales discounts on sales in previous quarters. In Europe, top-line grew versus the third quarter of 2018, against the backdrop of a challenging market environment.

Adjusted EBITDA in Q3 was €2.6m, down from €6.3m on a like-for-like basis¹ in the same period last year. This drop in the Adjusted EBITDA¹ margin from 14.4% to 6.0% is mainly a result of a one-off adjustment for the higher than foreseen sales discounts at Balta USA on sales in previous quarters and costs for NEXT, in particular in relation to the startup of the US e-commerce activities. Without these effects, Rugs had a solid underlying margin generation.

3.3. Commercial

Our Commercial division realized Revenue of €58.4m, up 7.1% versus the third quarter of 2018, resulting in a year-to-date growth of 11.7%. The US business continued its strong organic growth spurred by additional share gains. In Europe, Revenue declined year on year on the back of lower volumes as the market

¹ Like-for-like IFRS16 adjustment on Q3 2018 Adjusted EBITDA

environment remained more challenging, while pricing improved. We continued to execute our strategy to grow our presence in the direct channel, targeting architects and designers, by adding dedicated sales personnel.

Adjusted EBITDA in Q3 was €10.5m, up from €9.1m on a like-for-like basis¹ for the same period last year with Adjusted EBITDA margin further improving from 16.7% to 18.0% on a like-for-like basis¹. Overall volume growth and the impact from price increases had a positive effect on margins, more than offsetting cost inflation and investments in NEXT, in particular for expanding our sales teams.

3.4. Residential

Our Residential division had Revenue of €47.1m, flat versus the third quarter of 2018, resulting in a year-to-date top-line decline of -3.0%. In the UK, we realized modest sales growth against a generally challenging and volatile environment. Our performance in the third quarter benefited from modest pre-Brexit stocking by some of our customers. In Continental Europe we succeeded in increasing the prices of our products while volumes continued to be subdued. We continue to focus on growing our share of higher margin products, representing 37% of Q3 2019's Residential Revenue.

Adjusted EBITDA in Q3 was €3.5m, up from €2.5m on a like-for-like basis¹ for the same period last year. On a like-for-like basis¹, Adjusted EBITDA margin in Residential increased to 7.5% from 5.4%, benefiting from a growing share of higher margin products, price increases we realized outside of the UK and the first benefits from our lean projects, partly offset by our investments in NEXT.

4. Other financial items review

4.1. Integration and Restructuring Expenses

Non-recurring expenses for integration and restructuring over the first nine months of 2019 amounted to €5.6m, as compared to €3.7m in the same period last year. The expense in the current period is mainly driven by one-off costs related to NEXT.

4.2. Net financing expenses

Net finance expenses for the first nine months of 2019 are equal to €17.7m, as compared to €19.5m in the same period last year. This decrease is mainly driven by the result from foreign exchange rate differences on intercompany transactions, offset by the interest charge as a result of the change in accounting policy (IFRS 16).

4.3. Taxation

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

4.4. Earnings per share

Net earnings per share for the first nine months of 2019 were €0.02, compared to €0.03 for the same period last year.

4.5. Cashflow and net debt

Net debt at the end of September 2019 is equal to €319.6m (excluding IFRS 16 effect), versus €261.8m at the end of December 2018.

Net Debt stable vs Q3 2018 (reported Net Debt Q3 2019 of €319.6m includes €42.2m IFRS 16 impact) on a like-for-like basis.

5. Risk Factors

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

6. Consolidated Interim Financial Statements

6.1. Consolidated Statement of Comprehensive Income

(€ thousands)	Q3 2019	Q3 2018	YtD 2019	YtD 2018
I. CONSOLIDATED INCOME STATEMENT				
Revenue	155,599	151,026	507,012	472,922
Raw material expenses	(71,387)	(67,947)	(238,721)	(222,237)
Changes in inventories	(2,753)	(4,713)	(4,146)	,489
Employee benefit expenses	(39,298)	(35,944)	(125,000)	(116,290)
Other income	673	831	2,166	2,655
Other expenses	(25,646)	(26,312)	(86,995)	(86,496)
Depreciation/ amortization	(9,583)	(8,004)	(28,953)	(24,203)
Adjusted Operating Profit ¹	7,604	8,939	25,362	26,841
Gains on asset disposals	-	-	-	-
Integration and restructuring expenses	(2,492)	(1,316)	(5,585)	(3,726)
Operating profit / (loss) ¹	5,112	7,622	19,777	23,114
Finance income			190	50
Finance expenses	(5,172)	(6,787)	(17,869)	(19,554)
Net finance expenses	(5,172)	(6,787)	(17,679)	(19,504)
Profit / (loss) before income taxes	(60)	835	2,098	3,610
Income tax benefit / (expense)	(9)	610	506	505
Profit / (loss) for the period from continuing operations	(69)	1,445	2,603	4,115
Profit/ (loss) for the period from discontinued operations	-	-	-	-
Profit/(loss) for the period	(69)	1,445	2,603	4,115
Attributable to:				
Equity holders	(69)	1,445	2,603	4,115
Non-controlling interest	-	-	-	-
II. CONSOLIDATED OTHER COMPREHENSIVE INCOME				
<i>Items in other comprehensive income that may be subsequently reclassified to P&L</i>				
Exchange differences on translating foreign operations	7,316	(8,840)	1,493	(19,980)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	(457)	(148)	(144)	12
Changes in deferred taxes				-
<i>Items in other comprehensive income that will not be reclassified to P&L</i>				
Changes in deferred taxes	270	(156)	659	(115)
Changes in employee defined benefit obligations	(607)	591	(2,658)	428
Other comprehensive income for the period, net of tax	6,522	(8,505)	(649)	(19,655)
Total comprehensive income for the period	6,454	(7,059)	1,954	(15,540)
Basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the company	0.00	0.01	0.02	0.03

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

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

6.2. Consolidated Statement of Financial Position

(€ thousands)	30 Sept 2019	31 Dec 2018
Property, plant and equipment ⁽¹⁾	338,156	301,259
<i>(Of which IFRS 16 related right-of-use assets)</i>	40,804	-
Land and buildings	188,903	153,752
Plant and machinery	137,340	132,632
Other fixtures and fittings, tools and equipment	11,912	14,875
Goodwill	194,083	194,643
Other intangible assets	10,840	11,399
Deferred income tax assets	4,191	4,927
Trade and other receivables	1,163	996
Total non-current assets	548,433	513,222
Inventory	159,574	153,894
Derivative financial instruments	-	119
Trade and other receivables	66,622	60,745
Current income tax assets	13	278
Cash and cash equivalents	6,597	26,853
Total current assets	232,807	241,889
Total assets	781,239	755,111
Share capital	137,848	137,848
Share premium	155,486	155,486
Other comprehensive income	(34,036)	(33,386)
Retained earnings	7,359	6,286
Other reserves	(14,283)	(14,283)
Total equity	252,374	251,951
Senior Secured Notes	231,517	230,065
Senior Term Loan Facility	-	34,908
Bank and Other Borrowings	48,332	12,225
<i>Of which IFRS 16 related lease liabilities</i>	36,305	-
Deferred income tax liabilities	41,825	47,837
Provisions for other liabilities and charges	2,585	2,458
Employee benefit obligations	5,393	3,106
Total non-current liabilities	329,652	330,598
Senior Secured Notes	(1,126)	3,425
Senior Term Loan Facility	34,891	(118)
Bank and Other Borrowings	7,282	1,261
<i>Of which IFRS 16 related lease liabilities</i>	5,907	-
Provisions for other liabilities and charges	280	1,165
Derivative financial instruments	180	55
Other payroll and social related payables	32,485	36,655
Trade and other payables	120,049	125,940
Income tax liabilities	5,174	4,178
Total current liabilities	199,213	172,562
Total liabilities	528,865	503,160
Total equity and liabilities	781,239	755,111

Note 1: Upon preparation of the Q3 interim financial statement of Balta Issuer S.à r.l. a presentation inconsistency was identified on the Property, plant & equipment line in the Consolidated Statement of Financial Position of the Q2 2019 interim financial statements. As the amount of the total non-current assets is not affected, it was concluded that this does not impact the true and fair view of the interim financial statements.

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

6.3. Consolidated Statement of Cash Flows

(€ thousands)	YtD 2019	YtD 2018
I. CASH FLOW FROM OPERATING ACTIVITIES		
Net profit / (loss) for the period	2,603	4,115
Adjustments for:		
Income tax expense/(income)	(506)	(505)
Finance income	(190)	(50)
Financial expense	17,869	19,554
Depreciation, amortisation (incl. depreciation of IFRS 16 right-of-use assets - as from 2019)	28,953	24,203
(Gain)/loss on disposal of non-current assets	(50)	15
Movement in provisions and deferred revenue	(885)	(4,800)
Fair value of derivatives	100	34
Cash generated before changes in working capital	47,895	42,566
Changes in working capital:		
Inventories	(4,413)	(14,958)
Trade receivables	(3,178)	(5,684)
Trade payables	(4,517)	4,670
Other working capital	(4,138)	(8,192)
Cash generated after changes in working capital	31,649	18,402
Net income tax (paid)	(5,959)	(4,394)
Net cash generated / (used) by operating activities	25,690	14,008
II. CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(19,385)	(21,830)
Acquisition of intangibles	(1,038)	(730)
Proceeds from non-current assets	2,342	1,039
Acquisition of subsidiary	-	-
Net cash used by investing activities	(18,081)	(21,521)
III. CASH FLOW FROM FINANCING ACTIVITIES		
Interest and other finance charges paid, net	(21,613)	(20,303)
Proceeds from borrowings with third parties	-	-
Proceeds from capital contributions	-	-
Repayments of Senior Secured Notes	-	-
Repayments of borrowings with third parties (incl. IFRS 16 lease liabilities - as from 2019)	(6,252)	(1,732)
Net cash generated / (used) by financing activities	(27,865)	(22,035)
NET INCREASE/ (DECREASE) IN CASH AND BANK OVERDRAFTS	(20,256)	(29,550)
Cash, cash equivalents and bank overdrafts at the beginning of the period	26,853	37,182
Cash, cash equivalents and bank overdrafts at the end of the period	6,597	7,632

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

6.4. Consolidated Statement of Changes in Equity

(€ thousands)	Share capital	Share premium	Other comprehensive income	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance 31 December 2017	137,848	155,486	(19,913)	433	(14,283)	259,571	-	259,571
Adoption of accounting policies	-	-	-	(1,308)	-	(1,308)	-	(1,308)
Balance 1 January 2018	137,848	155,486	(19,913)	(875)	(14,283)	258,263	-	258,263
Profit / (loss) for the period	-	-	-	7,171	-	7,171	-	7,171
Equity-settled share-based payment plans	-	-	-	7	-	7	-	7
Other comprehensive income								
Exchange differences on translating foreign operations	-	-	(13,833)	-	-	(13,833)	-	(13,833)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	-	-	87	-	-	87	-	87
Cumulative changes in deferred taxes	-	-	(107)	-	-	(107)	-	(107)
Cumulative changes in employee defined benefit obligations	-	-	379	-	-	379	-	379
Total comprehensive income for the period	-	-	(13,474)	-	-	(13,474)	-	(13,474)
								-
Balance at 31 December 2018	137,848	155,486	(33,386)	6,286	(14,283)	251,951	-	251,951
Adoption of accounting policies	-	-	-	(1,530)	-	(1,530)	-	(1,530)
Balance 1 January 2019	137,848	155,486	(33,386)	4,756	(14,283)	250,421	-	250,421
Profit / (loss) for the period	-	-	-	2,603	-	2,603	-	2,603
Equity-settled share-based payment plans	-	-	-	-	-	-	-	-
Other comprehensive income								
Exchange differences on translating foreign operations	-	-	1,493	-	-	1,493	-	1,493
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	-	-	(144)	-	-	(144)	-	(144)
Cumulative changes in deferred taxes	-	-	659	-	-	659	-	659
Cumulative changes in employee defined benefit obligations	-	-	(2,658)	-	-	(2,658)	-	(2,658)
Total comprehensive income for the period	-	-	(649)	-	-	(649)	-	(649)
								-
Balance at 30 September 2019	137,848	155,486	(34,036)	7,359	(14,283)	252,374	-	252,374

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

6.5.1. Significant Accounting Policies

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

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

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

New and amended standards adopted by the Group

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

- IFRS 16 Leases

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

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

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

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

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

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

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

- IFRIC 23 Uncertainty over Income Tax Treatments

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

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

- a. It has decided whether to consider its uncertain tax positions (UTPs) individually or collectively, based on which approach provided the best predictions of the resolution of the uncertainties with the tax authority;
- b. It has assumed that the tax authority will examine the position (if entitled to do so) and will have full knowledge of all the relevant information;
- c. On a case by case basis the Group has decided to recognize a UTP (group of UTPs) using either the most likely amount or the expected value, depending on which is thought to give a better prediction of the resolution of each (group of) UTP(s), to reflect the likelihood of an adjustment being realised on examination.

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

6.5.2. Segment Reporting

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

(€ thousands)	Q3 2019	Previous reported figures ⁽¹⁾	YtD 2019	Previous reported figures ⁽¹⁾
Revenue by segment	155,599	151,026	507,012	472,922
Rugs	43,510	43,352	163,296	144,116
Commercial	58,359	54,477	174,772	156,402
Residential	47,056	47,065	147,678	152,197
Non-Woven	6,675	6,133	21,267	20,207
Revenue by geography	155,599	151,026	507,012	472,922
Europe	96,839	88,508	311,373	287,262
North America	48,766	51,240	164,811	146,920
Rest of World	9,995	11,278	30,829	38,740
Adjusted EBITDA by segment ²	17,187	16,942	54,315	51,044
Rugs	2,596	5,906	11,722	18,337
Commercial	10,468	7,895	29,601	21,962
Residential	3,514	2,474	11,355	8,702
Non-Woven	607	667	1,636	2,043
Net capital expenditure by segment	8,468	6,608	20,423	21,520
Rugs	3,045	2,120	7,964	6,762
Commercial	2,850	2,121	6,036	7,308
Residential	2,422	2,204	6,011	6,892
Non-Woven	151	163	412	558
Inventory by segment	159,574	153,894	159,574	153,894
Rugs	68,086	72,940	68,086	72,940
Commercial	40,127	33,170	40,127	33,170
Residential	47,245	43,622	47,245	43,622
Non-Woven	4,116	4,162	4,116	4,162
Trade receivables by segment	55,642	51,607	55,642	51,607
Rugs	14,097	11,895	14,097	11,895
Commercial	22,839	23,774	22,839	23,774
Residential	16,889	14,714	16,889	14,714
Non-Woven	1,816	1,223	1,816	1,223

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

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

6.5.3. Integration and Restructuring Expenses

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

(€ thousands)	Q3 2019	Q3 2018	YtD 2019	YtD 2018
Integration and restructuring expenses	2,492	1,316	5,585	3,726
Corporate restructuring	11	840	52	840
Business restructuring	2,644	835	6,037	2,681
Acquisition related expenses	-	-	-	-
Idle IT costs	-	-	-	-
Strategic advisory services	-	(46)	-	312
Other	(163)	(314)	(504)	(106)

Integration and restructuring expenses over the first nine months of 2019 amounted to €5.6m, as compared to €3.7m in the same period last year. The expense in the current period is primarily driven by the one-off costs related to NEXT. During the nine months ended September 30, 2018, €2.7m in the period is driven by the previously announced optimization of the Residential operational footprint. In addition, a minor part is fees incurred for strategic advisory services supporting the execution of the six key priorities for delivering improved performance as detailed in the 2017 annual report.

6.5.4. Goodwill

The goodwill decreased by €0.5m from €194.6m as of December 31, 2018 to €194.1m as of September 30, 2019. The decrease in goodwill reflects the changes in foreign exchange rate from the US dollar to euro from the date of acquisition of Bentley. The related foreign exchange fluctuations are presented in other comprehensive income.

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

6.5.5. Net Debt Reconciliation

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

	<u>Liabilities from financing activities</u>								<u>Cash and Cash equivalents</u>		<u>Total net financial debt</u>
	Senior Secured Notes due after 1 year	Senior Secured Notes due within 1 year	Senior Term Loan facility due after 1 year	Senior Term Loan facility due within 1 year	Lease liabilities due after 1 year	Lease liabilities due within 1 year	Super Senior RCF	Bentley RCF	Total gross financial debt	Cash and Cash equivalents	
(€ thousands)											
Net debt as at 31 December 2018	(234,900)	(5,360)	(35,000)	(20)	(12,225)	(1,166)	-	-			
Adoption of IFRS 16	-	-	-	-	(37,953)	(5,655)	-	-			
Net debt as at January 1, 2019	(234,900)	(5,360)	(35,000)	(20)	(50,178)	(6,821)	-	-	(332,279)	26,853	(305,426)
Cashflows	-	4,551	-	2	-	-	-	-	4,553	(20,256)	(15,703)
Proceeds of borrowings with third parties	-	-	-	-	-	-	-	-	-	-	-
Business combinations	-	-	-	-	-	-	-	-	-	-	-
Repayments of borrowings with third parties	-	-	-	-	-	6,252	-	-	6,252	-	6,252
Other non-cash movements	-	-	35,000	(35,000)	1,846	(6,551)	-	-	(4,705)	-	(4,705)
Net debt as at September 30, 2019	(234,900)	(809)	-	(35,018)	(48,332)	(7,120)	-	-	(326,179)	6,597	(319,582)

When excluding the IFRS 16 impact (€ 42.2m), the net debt at the end of Q3 2019 amounts to € 277.4m, stable compared to Q3 2018. The net debt excluding IFRS 16 is the only relevant debt in light of Balta's financing agreements, as the effect of changes in accounting standards is to be neutralized.

6.5.6. Related Party Transactions

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

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

6.5.7. Commitments

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

6.5.8. Events After the Statement of Financial Position Date

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

7. Glossary: Alternative Performance Measures

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

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

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

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

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

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

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

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

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