



LSF9 Balta Issuer S.à r.l

Senior Secured Notes due 2024

Annual Report ended 31 December, 2020

2020

ANNUAL REPORT



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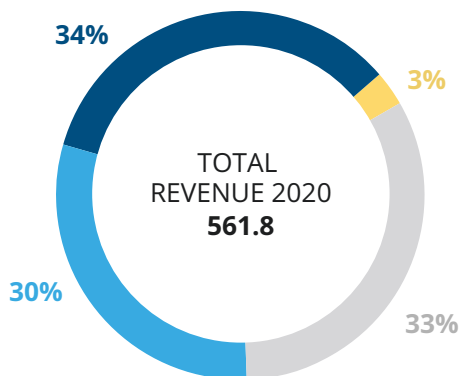


State-of-the-art weaving looms

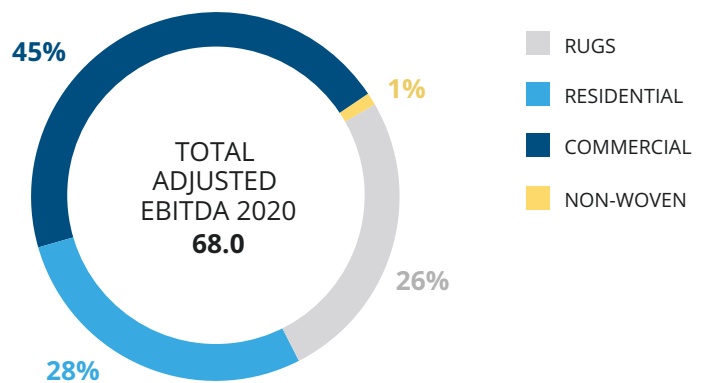
THE GROUP AT A GLANCE

Balta is a leading producer of textile floor coverings. With a consolidated revenue of € 562m and 3,838 employees, our products are manufactured in 8 production facilities and sold to 136 countries globally.

**REVENUE 2020
PER REPORTING SEGMENT**



**ADJUSTED EBITDA 2020
PER REPORTING SEGMENT**



- RUGS
- RESIDENTIAL
- COMMERCIAL
- NON-WOVEN

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.



Balta home, Re_duce

RUGS

Balta home

Segment position ⁽¹⁾:

No. 1 in Europe, no. 2 worldwide and a leader in the outdoor rugs segment in the United States.

Production plants:

Three in Belgium (Avelgem, Sint-Baafs-Vijve and Waregem) and one in Turkey (Uşak).

Distribution centres:

Two in Belgium (Avelgem and Sint-Baafs-Vijve), one in Turkey (Uşak) and two in the United States, Rome and Savannah (both in Georgia).

Distribution channels:

Major international retailers (such as home improvement, furniture, specialists, discount and DIY stores), e-commerce players and wholesalers, with whom we maintain long-lasting relationships.

Brands:

Line A®, Berclon®, Papilio®

Websites:

www.balta-home.com and www.papiliorugs.com

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

With a strong focus on sustainability, market-oriented trends and new technologies, Balta home invests firmly in collections that bring extra value for both its customers and the end-consumers. We have the know-how, the expertise and above all the drive to carefully create rug collections that fulfil all of our customers' needs. All our machine-made products are Oeko-Tex® certified.

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

The Papilio® brand, internationally known for its innovative design rugs, aggregates our handmade rug collections — designed in Belgium in close consultation with our customers and handcrafted in different countries around the world such as India and China.

RE_GENERATION rugs

Balta home values sustainable product design through innovation, being one of the key pillars of our sustainability programme. In 2020 the RE_GENERATION product line was created to turn trash into treasure. Plastic bottles, discarded cotton fabric and leather garment waste: they all 're_vive' into the unique 're_cycled' Balta home rug collections. Combined with 're_invented' softness, timeless design, enriched colours and innovative constructions, these machine- and handmade rugs certainly 're_boost' every indoor and outdoor living space, with 're_spect' for the environment. A QA-CER-certificate, issued by the Belgian Quality Association, reinforces the stated recycled content of our products, machine-made in Belgium.

NEW GENERATION rugs

Not only the reuse of post- and pre-consumer waste is taken into account during the development of new products. There is also a strong focus on creating 'easy to recycle' single-material rugs. The unique machine-tufted NEW GENERATION rugs have become an important product range since the launch in 2015. Thanks to their washability, ensuring a prolonged product lifetime, and the single-material use facilitating the recycling process, this innovative range offers a sustainable solution for any interior design scheme. A Cradle to Cradle® certification is pending.

RESIDENTIAL

Balta carpets and ITC

Segment position ⁽¹⁾:

Leader in Europe with top positions in the United Kingdom (Balta carpets), Germany and Central Eastern Europe (ITC).

Production plants:

Sint-Baafs-Vijve and Tielt, Belgium.

Distribution centres:

Sint-Baafs-Vijve and Tielt, 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®.

Websites:

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, which is 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.



Balta carpets, Marilyn

(1) Management estimate

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.

Collections reimagining comfort

With the adoption of new ways of living and working at home, consumers see their homes as sanctuaries from the unrelenting outside world. This has seen ideas of comfort and calm come to the fore, and there are few better floor coverings than carpet to reinforce these feelings.

Homeowners seeking the ultimate in comfort find their ways to the emerging Eternity®, which promises to continue its growing reputation as the collection has been extended with new qualities with a premium feel.

Newcomer Marlene is another promising highlight. Part of the Legacy collection of high-luxury velvet finish polyamide styles, Marlene is inspired by the glamour of 20th-century Hollywood. Presenting a palette of lavish colours deemed perfect by our customers.

Balta carpet tiles

Production plant and distribution centre:

Zele, Belgium.

Distribution channels:

Major retailers and wholesalers, such as specialised carpet, home improvement and furniture chains, DIY stores, independent retailers and carpet fitters.

Brands:

LCT® First (Luxury Carpet Tiles).

Websites:

www.balta-carpets.com

Balta carpet tiles offers 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, thanks to easy handling, fitting and replacing. Unique laying patterns and exciting combinations are also made possible through these carpet tiles.

COMMERCIAL

modulyss

Segment position ⁽¹⁾:

No. 3 in Europe.

Production plant and distribution centre:

Zele, Belgium.

Distribution channels:

Architects, designers, contractors and distributors (main segments: offices, education, healthcare and hospitality).

Brands:

modulyss®, LCT Pro®.

Website:

www.modulyss.com

Modulyss designs and produces high-quality carpet tiles for the international commercial segment from a production facility in Zele, Belgium. Alongside main European regions, modulyss also sells products in the United States (through Bentley Mills), Asia-Pacific, Latin America and the Middle East.

The company's desire to inspire people with unique carpet tiles remains at the heart of its business.



modulyss, First Decode



Bentley, Multiplay & Redacted

Sustainable and sound

Not only does modulyss offer solutions to issues such as space design, acoustics and wellbeing, the brand also aims to provide a more sustainable choice. That is why modulyss now offers 127 Cradle to Cradle Certified® products. Moreover, with the introduction of ecoBack – a backing that can be disassembled and recycled at the end of its life – modulyss is closing the loop and has found a way to repurpose carpet tiles. This new carpet tile backing is PVC- and bitumen-free and consists of a polyolefin-based layer with at least 75% recycled content. Furthermore, our ecoBack is Cradle to Cradle Certified® at Gold level. modulyss not only aims to improve the product composition and production of its carpet tiles, but also strives to improve the wellbeing of those installing them. Thanks to ecoBack's unique composition, flexibility and lower weight, it is easier and less strenuous for installers to cut and handle tiles with an ecoBack backing.

The story behind the product

In product design, modulyss differentiates itself by focusing on stories and the narrative behind products. Through collection groups such as Handcraft, DSGN and First, the brand develops ideas and concepts that help designers formulate aesthetic proposals for every project. In 2020, for example, the First collection group has been boosted with fresh colours and improved designs. By choosing coordinating colours, the five designs can be combined with each other, as well as with matching colours from the revamped DSGN collection group. The ability to mix and match products allows interior designers and architects to easily create different layouts and demonstrates the outstanding flexibility of modulyss carpet tiles.

Bentley

Segment position ⁽¹⁾:

A leader in the premium United States commercial segment.

Production plant and distribution centre:

Los Angeles, United States.

Distribution channels:

Architects, designers and contractors (offices, education, healthcare and hospitality).

Brand:

Bentley®.

Website:

www.bentleymills.com



arc edition, e-blend

For more than 40 years, the Bentley identity – style, service, quality and partnership – has been the driving force behind the brand. Backed by an industry-leading design team recognised for consistent innovation, Bentley is a leading producer of award-winning premium carpet tiles and broadloom for commercial interiors.

Great growth

Bentley is an iconic brand preferred 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 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 (Luxury Vinyl Tiles) 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 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 and distribution centre:

Tielt, Belgium.

Distribution channels:

Commercial customers (including offices, education, health care and hospitality), specialised retail groups and wholesale.

Brand:

arc edition®.

Website:

www.arcedition.com

⁽¹⁾ Management estimate

Arc edition provides innovative and high-quality wall-to-wall carpet for commercial environments. The brand enables flooring professionals, architects, designers and specifiers to explore the creative potential of performance flooring. Through the service collection, arc edition 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 and distribution centre:

Oudenaarde, Belgium.

Distribution channels:

Specialised B2B converters, event organisers and traditional distributors.

Brand:

Captiqs®.

Website:

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, the brand produces needle-punched, breathable, bonded non-wovens to meet the 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.

BALTA GROUP IN NUMBERS

FINANCIAL



€ 561.8m

REVENUE 2020

Adjusted
EBITDA Margin

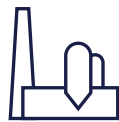
12.1%

Adjusted
EBITDA

€ 67.9m

WORLDWIDE

8
PLANTS
in the world



2
DISTRIBUTION
CENTRES



136

COUNTRIES WE SELL INTO

1,003,100 m²

TOTAL MANUFACTURING
FOOTPRINT



= 200 Football pitches

RENEWABLE ENERGY



61,125

Solar panels on 5 factory
roofs in Belgium

= **10.8 GWh/year in 2020**

= The electricity consumption
of 3,000 Belgian households



-2,561 mio kg

CO₂ per year

PEOPLE

3,838

EMPLOYEES WORLDWIDE



50+

NUMBER OF
NATIONALITIES



Balta carpets, Leonis Arcadia

BALTA GROUP WORLDWIDE





ASIA

TURKEY
Uşak
—
Balta home

Our strong international nature is highlighted by the more than 50 nationalities working at 10 sites worldwide, on 3 different continents.



arc edition, e-ssential – e-check

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 2020.

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 14 June 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 11 August 2015 ("completion Date").

On 14 June 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, carpet tiles and non-woven fabrics for the European and international markets.

On 22 March 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 31 May 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 30 May 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 14 June 2017.

HIGHLIGHTS AND KEY FIGURES

Balta delivered full year 2020 consolidated revenue of €561.8m, down 16.3% versus 2019 and Consolidated Adjusted EBITDA of €67.9m, down 8.6% year on year. Consolidated Adjusted EBITDA margin of 12.1% was up from 11.1% the year before, reflecting the solid Adjusted EBITDA growth in Rugs and Residential, partly offset by a lower margin in our Commercial division, yet to recover from the impact of COVID-19.

(€ millions)	FY 2020	FY 2019	% Change
Revenue	561.8	671.2	(16.3%)
Adjusted EBITDA	67.9	74.3	(8.6%)
Adjusted EBITDA Margin	12.1%	11.1%	102 bps
Adjusted Operating Profit ⁽¹⁾	27.9	34.7	(19.7%)
Operating Profit	20.1	28.0	(28.4%)
Profit for the period	(12.6)	10.4	(222.1%)

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

The loss for 2020 includes the non-recognition of deferred tax assets and taxation of previously untaxed Belgian reserves, offset by the net of tax impact of the €7.7m non-recurring expenses for integration and restructuring. In the absence of such events, the normalized loss for the period would have been €0.7m. Similarly, the profit for 2019 includes a net non-recurring expense of €6.6m, resulting in a normalized net profit of €6.5m.

Reported Net Debt at the end of 2020 of €283.2m includes a €36.4m IFRS16 impact. The reported figure in 2019 was €313.7m, including a €44.7m IFRS16 impact. Leverage has increased from 4.0x at the end of 2019 to 4.2x, as the result of the lower Adjusted EBITDA. Our Net Debt exclusive IFRS16 impact decreased by €22.1m.

(€ millions)	At 31 December 2020			At 31 December 2019		
	Non current	Current	Total	Non current	Current	Total
Senior Secured Notes	233,9	3,4	237,4	232,0	3,4	235,4
Senior Term Loan Facility	-	-	-	-	34,9	34,9
Bank and other borrowings	45,0	67,1	112,1	11,6	1,3	13,0
Less: Cash and Cash equivalents	-	(106,3)	(106,3)	-	(19,2)	(19,2)
Adjusted for capitalized financing fees	1,6	2,0	3,7	2,9	2,0	4,9
Net Debt (excl. IFRS 16 impact)	280,6	(33,7)	246,9	246,5	22,5	269,0
Adjusted EBITDA (excl. IFRS 16)	-	-	59,1	-	-	66,8
Leverage	-	-	4,2x	-	-	4,0x
IFRS16 impact	29,5	6,8	36,4	37,3	7,4	44,7
Reported Net Debt	310,1	(26,9)	283,2	283,9	29,8	313,7

BUSINESS REVIEW

(€ million, unless otherwise mentioned)	FY 2020	FY 2019	% change	o/w organic growth	o/w FX
Rugs	182.9	213.0	(14.2)%		
Commercial	190.5	235.6	(19.2)%		
Residential	171.2	194.4	(11.9)%		
Non-Woven	17.3	28.1	(38.4)%		
Consolidated Revenue	561.8	671.2	(16.3%)	(16.0%)	(0.3%)
Rugs	17.5	16.8	4.3%		
Commercial	30.6	40.4	(24.3)%		
Residential	19.0	15.0	26.0%		
Non-Woven	0.9	2.1	(58.3)%		
Consolidated Adjusted EBITDA	67.9	74.3	(8.6%)	(8.0%)	(0.6%)
Rugs	9.6%	7.9%			
Commercial	16.1%	17.2%			
Residential	11.1%	7.7%			
Non-Woven	5.0%	7.3%			
Consolidated Adjusted EBITDA Margin	12.1%	11.1%			



ITC, Eternity – Anemone

RUGS

Full year Revenue for 2020 of €182.9m was down 14.2% (€213.0m 2019). From a regional perspective, North America showed double-digit growth, while revenue in Europe and Rest of World saw double-digit decline. In North America, we grew our e-commerce business strongly and secured a stable share for our 2021 outdoor season programmes. In Europe, revenue significantly declined from mid-March due to COVID-19 lockdowns, but substantially rebounded in June.

Full year Adjusted EBITDA for 2020 grew 4.3% to €17.5m (€16.8m 2019) with Adjusted EBITDA margin of 9.6%, up from 7.9% in 2019. Against the backdrop of subdued volumes due to COVID-19, Adjusted EBITDA improved due to better product mix, lower raw material prices, strict cost control and margin improvements from NEXT initiatives. US e-commerce margins continue to be impacted by fixed costs until we reach critical mass.

Fourth quarter Revenue for 2020 of €50.2m was up 1.0% (€49.7m Q4 2019), despite continuing COVID-19 restrictions. Adjusted EBITDA margin for Q4 2020 was 19.0%, significantly higher than the 10.1% in Q4 2019, due to better product mix, lower raw material prices, strict cost control and margin improvements from NEXT initiatives.

COMMERCIAL

Full year Revenue for 2020 declined 19.2% to €190.5m (€235.6m 2019). The US saw a double-digit decline in revenue as COVID-19 restrictions were felt across all segments. Despite this, our gross margin improved as we continued to focus on new segments outside our traditional strength in offices. In Europe, the loss of revenue due to COVID-19 was partly offset by product mix and price improvements.

Full year Adjusted EBITDA for 2020 decreased 24.3% to €30.6m (€40.4m 2019) with Adjusted EBITDA margin of 16.1%, down from 17.2% in 2019. Despite strong results from NEXT initiatives and cost savings, the margin impact of the lower volumes could not be entirely mitigated.

Fourth quarter Revenue for 2020 of €45.5m dropped 25.2% (€60.8m Q4 2019), although Adjusted EBITDA margin for Q4 2020 improved to 21.1% from 17.6% in Q4 2019, due to continued cost control, NEXT margin enhancements in the US and Europe, better product mix and lower raw material prices in Europe.

RESIDENTIAL

Full year Revenue for 2020 reduced by 11.9% to €171.2m (€194.4m 2019) reflecting the impact of COVID-19, despite a strong rebound in the second half of the year. Higher margin products now represent 40% of Residential FY2020 revenue.

Full year Adjusted EBITDA of €19.0m was up 26.0% (€15.0m 2019) with Adjusted EBITDA margin of 11.1% improved from 7.7% in 2019. Our continued focus on growing our share of higher margin products, lower raw material prices, cost control and margin enhancements from NEXT initiatives, more than compensated for the significant volume drop.

Fourth quarter Revenue for 2020 increased by 9.7% to €51.3m (€46.7m 2019), driven by pre-Brexit stocking in the UK and increased sales across Europe and the US. The COVID-19 impact continued to be felt in Central and East Europe. Adjusted EBITDA margin for 2020 of 16.9% was up from 7.8% in Q4 2019, due to volume growth, lower raw material prices and margin improvements from NEXT initiatives.

FINANCIAL REVIEW

(€ thousands)	2020	2019
Revenue	561,833	671,151
Raw material expenses	(234,327)	(317,005)
Changes in inventories	(15,860)	(278)
Employee benefit expenses	(150,646)	(167,286)
Other income	5,698	3,970
Other expenses	(98,801)	(116,270)
Adjusted EBITDA ⁽¹⁾	67,896	74,282
Depreciation / amortisation	(40,038)	(39,602)
Adjusted Operating Profit ⁽¹⁾	27,953	34,754
Integration and restructuring expenses	(7,770)	(6,641)
Operating profit / (loss)	20,089	28,039
Finance income	1	205
Finance expenses	(29,213)	(25,357)
Net finance expenses	(29,212)	(25,152)
Profit / (loss) before income taxes	(9,123)	2,888
Income tax benefit / (expense)	(3,523)	7,472
Profit / (loss) for the period from continuing operations	(12,646)	10,360

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

NON-RECURRING ITEMS

Several non-recurring items had a material impact on our 2020 net income. The impact of these events amounts to a net expense of €7.7m, as compared to €6.6m in 2019. The expense in the current year mainly for advisory fees related to the NEXT programme in the first half of the year and for amending and extending our financing.

NET FINANCING COSTS

The net finance expense of €29.2m (€25.2m in 2019) primarily represents the interest expense on external borrowings. The net cost increased compared to 2019 as the European and US revolving credit facilities were fully drawn as a precaution against the potential impact of COVID-19 and the FX translation impact.

TAXATION

The Group reported a tax expense for 2020 of €3.5m (tax income of €7.5m 2019) based on a loss before tax of €9.1m (profit before tax of €2.9m for 2019). The tax expense is mainly driven by non-recognition of deferred tax assets, non-deductible costs and taxation of previously untaxed Belgian reserves

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 27 of the Consolidated Financial Statements.

OTHER REVIEW

COMPANY'S LIKELY FUTURE DEVELOPMENT

Strategic priorities

Looking forward, we have identified three strategic priorities which we believe are crucial to drive the long term value of our businesses:

NEXT⁽¹⁾:

Operational savings are on track, albeit slightly delayed due to our decision to postpone capital expenditure until early July. In July, we resumed investment in Lean, supply chain and procurement initiatives across our 8 plants. In 2020, NEXT initiatives achieved €7m of incremental Adjusted EBITDA versus 2019 and contributed to the cash generating reduction of inventory. We continue to have a strong pipeline of NEXT cost initiatives.

Despite subdued demand and the overall revenue decline due to COVID-19, we achieved material revenue from our e-commerce channel initiative in Rugs, our direct route-to-market approach at Modulyss and the launch of sustainable products in all divisions. At the end of 2020, top-line NEXT initiatives remain on track with €68m of cumulative incremental revenue since we started, and €43m of incremental revenue in 2020 versus 2019.

- In Rugs e-commerce, we continued to penetrate the US and European markets through our dedicated fulfilment centre in the US and our European partnerships with leading digital platforms. E-commerce revenue has more than doubled in 2020 and now represents 17% of North-American revenue. Fulfilment performance improved as well and same-day shipping in the US reached 95% for ecommerce products.
- Despite of an overall decline in European Commercial tiles revenue, our targeted direct route-to-market approach in Modulyss delivered €7m of incremental sales in 2020 versus 2019.
- Other revenue initiatives produced strong results, with €28m of incremental revenue in 2020 versus 2019 through the launch of innovative products more tailored to customer expectations. Residential introduced a premium carpets range with a strong focus on durability and comfort, whilst Rugs introduced new sustainable qualities which already represent 20% of divisional Q4 2020 revenue. Bentley's EliteFlex range targets the Healthcare and Educations segments with its unique noise-absorbing backing and thermoplastic layers which are impermeable to moisture.

Environmental, Social and corporate Governance (ESG):

Sustainability is an integral part of Balta's business strategy. The primary goal of Balta's product development process is to increase recycled content and make products easier to recycle so we achieve a fully circular lifecycle.

In 2020, Balta's commitment to have a net positive impact on the planet and its population, by establishing a circular economy in the flooring industry, translated into some important milestones:

- Bentley successfully completed its NSF/ANSI 140 Audit, which represents the highest US standard for environmentally responsible carpet products. The audit addressed economic, environmental and societal impacts throughout the supply chain and assures the sustainability of Bentley's full product life-cycle.
- Sustainable products, with a minimum content of 40% recycled material or single-material rugs, with 10 sustainable collections launched.
- Modulyss was awarded Cradle to Cradle Certified® Platinum, Gold and Silver certificates for 127 sustainable products. The carbon neutral qualification of these products gives us a competitive advantage and wider access to more specified projects.
- Safety remains our number one priority in caring for our employees' wellbeing. In 2020, we achieved a 30% year-on-year drop in the Lost Time Accident Frequency Rate.

Digital Transformation:

In 2020, our digital transformation accelerated allowing us to better manage the customer relationship and improve digital operations, logistics and planning.

- Bentley enhanced its digital tools for online sample ordering. Bentley's latest software allows it to create high quality rendering for carpet tiles.
- With physical fairs and events cancelled by COVID-19 restrictions, virtual events were organised to launch new collections digitally, with digital showroom tours, webinars and digital brochures.
- Data from the new integrated forecasting tool available to our salesforce on their mobile devices will materially improve production planning. Implementation is expected in H1 2021.
- Our Field Service Management project has been successfully piloted in 2 plants in 2020 and will be rolled out across all plants in 2021. It is a step change in the way Balta manages maintenance by providing real-time stock levels for spare parts, interactive planning and on-line feedback from maintenance technicians.

(1) See Glossary in Note 1.25 for definition of the NEXT Key Assumptions and NEXT Impacts

ENVIRONMENTAL AND PERSONNEL MATTERS

In 2020, the Group employed an average of 3,843 employees (expressed in full-time equivalents) compared to 3,915 employees per 2019. 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 €8.1m of research and development expenses during the 12 months ended in December 31 2020 compared to the €8.7m of research and development expenses during the 12 months ended in December 31 2019 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

The Group announced on 2 February 2021 that it has entered into an agreement with noteholders representing c. 52% of the aggregate principal amount of the 7.75% Senior Secured Notes due 2022 (the "Existing Notes") issued by LSF9 Balta Issuer S.à r.l (the "Issuer"), to tender their Existing Notes in an exchange offer (the "Exchange Offer") for new Senior Secured Notes with

a maturity of 31 December 2024 (the "New Notes"), to vote in favour of certain amendments to the terms of the Existing Notes and the indenture governing the Existing Notes (the "Existing Indenture") by way of a consent solicitation ("Consent Solicitation") and to support commencement of a scheme of arrangement under Part 26 of the UK Companies Act 2006 or an analogous legal process in the United Kingdom (the "Scheme") (the "Scheme Solicitation").

On 3 March 2021 the Group was pleased to announce that it has received sufficient support for the Exchange Offer to implement it without the need to apply a scheme of arrangement. Eligible holders of the Existing Notes had validly tendered (and not validly withdrawn) €233,061,300 in aggregate principal amount (representing 99.22%) to exchange their Existing Notes for new Senior Secured Notes with a maturity of 31 December 2024 (the "New Notes") or cash and to vote in favour of certain amendments to the terms of the Existing Notes and the Existing Indenture by way of the Consent Solicitation. As a result, the €61m European Super Senior Revolving Credit Facility further extended to 30 June 2024.

On 22 February 2021, S&P revised the Company's outlook from negative to positive after Balta successfully managed to extend the maturity dates of its Senior Secured Notes and the European Senior Secured Revolving Credit Facility to 2024.

COVID-19 STATEMENT

Following a strong start in the first two months of 2020, the disruptive impact of COVID-19 began in March 2020. Balta took swift and decisive measures to protect its employees and other stakeholders, to reduce its operating costs and to manage its cash flows. In the second quarter, 6 of our 8 plants were temporarily shut down on a voluntary basis to manage costs, senior staff took voluntary reductions in pay, the vast majority of staff were put into temporary unemployment programmes and all non-essential expenditure was deferred. Despite the voluntary closures, we retained the flexibility to resume partial production at our facilities to satisfy demand and service customer orders. As a precautionary measure, to address our short-term liquidity and working capital needs, revolving credit facilities were fully drawn and covenants renegotiated. In Q1 2021, we saw Q4 2020 trends broadly continue and we have a solid order book. We remain vigilant as new pandemic restrictions have been imposed in

most of our markets and together with other market distortions, such as capacity constraints of raw material supplies and freight congestion, are leading to cost increases.

The current crisis has and will continue to impact our working capital. We are closely monitoring our daily cash flows. To further protect our liquidity position, we are still reducing our marketing costs as well as samples and other capital expenditure. Additionally, we are closely monitoring our accounts receivable and accounts payable to manage our cash inflows and outflows. Nevertheless, we were able to repay during Q4 2020 half of the outstanding amount of the \$18.0m revolving credit facility leaving us with a further €7.4m headroom to draw under the US revolving credit facility. We have also assumed that our customers will continue to pay according to invoice terms (which was the case in 2020 and so far in 2021). Based on these assumptions and based on the currently available information and forecasts in combination with the extension of our Senior Secured Notes as discussed above, the Group currently believes that it will be able to meet its liabilities and commitments as they fall due across the applicable forecast period and has determined that the going concern basis remains the appropriate basis of preparation for its financial statements.

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 authorized for issue by the Board of Managers on April 29 2021. 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: 26 August 2018

Jan-Christian Werner

Manager

Start of mandate: 11 September 2019

Jean-Philippe Kuhn

Manager

Start of mandate: 16 June 2017

Amandine Le Floch

Manager

Start of mandate: 18 November 2020

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



SUMMARY OF MAIN RISKS

At Balta, risk management is an inherent part of doing business. The summary below, though not exhaustive, provides an overview of the main risks we were able to identify. While we take mitigating actions, we cannot guarantee that such risks will not materialise.

MARKET COMPETITION

The global flooring market is competitive and each of our divisions face competition from other soft flooring manufacturers as well as hard flooring alternatives.

The key to our competitiveness is our ability to identify and respond to rapidly changing consumer preferences which require us to frequently renew our designs and product mixes, and to continuously innovate.

There is a clear upward trend in digital acceleration. In order to capture growing online demand and reduce cost-to-serve, we need to engage with customers, secure online presence, deploy new digital sales channels and build adequate e-commerce capabilities.

CUSTOMER DEPENDENCY

Our main customers consist of large retailers and wholesalers with a substantial buying power. In 2020, our top three customers accounted for 14% of our

revenue. We strive to successfully retain our key customers as they represent an important part of our sales. Moreover, we are dependent on our customers' continued success in their own markets.

In line with normal industry practice, we have no formal contracts with the majority of our customers. We typically deal with our customers on a non-exclusive basis without minimum purchase obligations.

GENERAL MACRO-ECONOMIC AND GEOPOLITICAL EVENTS & TRADE REGULATIONS

Product demand depends significantly on consumer confidence and factors impacting both the residential and commercial renovation as well as the construction markets.

With production and distribution facilities in Belgium, Turkey and the United States, and sales in over 136 countries, we are exposed to geopolitical risk on both the demand and supply side.

As the United Kingdom represents 16% of our 2020 revenues, mainly resulting from our Residential business, the Group is exposed to the consequences of the United Kingdom's exit from the European Union (Brexit). Therefore Management assessed scenarios to be prepared for changes in our logistical flows. We concluded an in-depth assessment of the Brexit readiness of our logistics partners. The Group will continue to translate the impact of the Brexit-deal into practical measures.

In October 2020, we expanded to EU AEOF (Authorised Economic Operator), a certification for full authorisation (combining AEOS and AEOC), which certifies us to securely organise and protect our supply chains from threats. The Belgian customs authorities have audited all of our production sites in Belgium. AEOF is part of our plan to mitigate risks in post-Brexit export to the UK and is applicable for export to all non-EU countries. This will help to secure the continuation of a premium worldwide delivery service.

To be in possession of this certificate allows membership of the Custom Trade Partnership Against Terrorism (CTPAT), a US Customs and Border Protection (CBP) voluntary private-public partnership programme. CTPAT ensures that goods in the supply chain are legitimate and legal from manufacturer through to end-users. While it was originally set up to protect supply chains in the US from terrorist activity and illegal trade, it does minimise the potential risk for Balta when trading internationally.

Since the UK ceased to be a member of the EU as of 1 January 2021, it is Balta's plan to align with the requirements of the Common Foreign and Security Policy (CFSP). This is the organised, agreed foreign policy of the EU which encompasses security and defence diplomacy and actions. CFSP only deals with a specific part of the EU's external relations. Its domains include Trade and Commercial Policy as well as other areas such as funding to third countries. We will generally trade with the UK under CFSP status.

Additionally, measures have been taken to help protect the revenue stream from a potential devaluation of the Pound sterling by combining pricing mechanisms and hedging contracts.

Increased import duties or sanctions against the import of particular goods in certain countries could pose barriers to the success of our business.

LEGAL AND COMPLIANCE

Failure to comply with the laws of the countries we do business with may result in a delay or temporary suspension of our sales and operations which may impact our financial position.

Insufficient precautions or awareness regarding safeguarding confidential matters in our highly competitive market may lead to competitive disadvantages, loss of business intelligence and reputation damage.

PUBLICITY AND REPUTATION

We may be affected by product recall or liability claims or otherwise be subject to adverse publicity.

EMPLOYEES

Our ability to successfully execute our strategy depends on our efforts in attracting, retaining and developing our employees.

If the relationship with our employees or trade unions were to deteriorate, this could have an adverse impact on our business.

The COVID-19 outbreak came as an unprecedented event which disrupted our way of life and caused increased stress and anxiety for employees everywhere. The Company has explored options on how to provide additional physical and emotional support to its employees during this period of uncertainty. By focusing on delivering effective communication only, we addressed the impact of agile and remote working.

RAW MATERIALS AND SUPPLY CHAIN

We use large quantities of raw materials for which we depend on a limited number of suppliers. Most of these suppliers are large companies and can exert substantial supplier power. We have long-standing relationships with our key suppliers.

In 2020, raw material expenses represented 41,7% of our revenues. The key raw materials used were polypropylene, yarn, latex and polyamide. Together they represented approximately 70% of our total raw material expenses.

Raw material prices can be volatile and depend on factors that are often beyond our control. This includes, but is not limited to, local supply and demand balance, general economic conditions and fluctuations in commodity prices. The majority of our price agreements with customers do not include raw material price indexation mechanisms.

Reference is made to commodity price risk, as described under Note 27 of the section Financial Risk Management in the Financial Statements.

PRODUCTION AND LOGISTICS

The ability to produce and deliver products on time is key to both attracting new and retaining existing customers.

Disruptions at our manufacturing or distribution facilities may occur and could result in temporary shortfalls in production, late or incomplete deliveries or an increase in our cost of sales. We may incur losses that are completely or partially uninsured.

We do not have our own transportation facilities and depend on third-party service providers for a timely delivery of our products.

IT

Failure of our IT platform could hamper our ability to process orders on time. With the use of our IT platform, we manage our operations (including sales, customer service, logistics and administration). We have a complex and heterogeneous application landscape that consists of certain systems from prior acquisitions that

have only been partially integrated, which could trigger operational risks.

Businesses are also contending with increasing cyber-crime-related incidents, which require us to maintain adequate cyber security. Any failure to do so may adversely affect our operations.

Organisations are increasingly investing in digital transformation. Key technologies such as intelligent automation, artificial intelligence, low code application development, technological decision may guard businesses against future disruptions. Falling behind on these trends could lead to an increased vulnerability to disruptions and a disadvantage in competitiveness.

FINANCIAL

Our activities expose us to a variety of financial risks including, but not limited to, currency risk, interest rate risk, credit risk and liquidity risk.

Part of our sales and purchases are denominated in currencies other than the euro. Key currencies include Pound sterling, US dollar and Turkish lira. The fluctuation of these currencies versus the euro may impact our results. Additionally, a devaluation of currencies versus the euro for countries where our competitors manufacture or source raw materials, such as Turkey or Egypt, may have an impact on our competitiveness.

Some of our external borrowings carry interest at a variable rate.

Not all the credit risk exposure towards our customers is covered by our external credit insurance agreements. Amongst others, a reduction in external credit limits might cause the existing factoring not to be available at existing levels or cost going forward.

Changes in our own credit rating could detrimentally affect our working capital and liquidity.

Our external financing agreements include obligations, restrictions and covenants, which may have an adverse effect on our business, financial situation and operational result if we would be unable to meet these. More details on this can be found in Note 27 of the section Financial Risk Management in the Financial Statements.

Changes in tax legislation or accounting rules could affect future results.

Changes in assumptions underlying the carrying value of our assets could result in an impairment of such assets, including intangible assets such as goodwill.

In March 2021, Balta received strong support for its February 2021 exchange offer (the "Exchange Offer") on its 7.75% Senior Secured Notes due September 2022 ("Existing Notes"). Eligible holders of Existing Notes validly tendered 99.22% of aggregate principal amount, to exchange the Existing Notes for new Senior Secured Notes with a maturity of 31 December, 2024. Consents were received to (i) substantially remove all covenants, other obligations and certain events of default under the indenture of the Existing Notes, (ii) amend the existing indenture and the Existing Notes such that (A) all guarantors are released from their obligations under the existing guarantees, (B) all liens in collateral granted for the benefit of the existing noteholders are released, (C) the interest rate applicable to the Existing Notes is reduced to 3.00% per annum and (D) the maturity date of the Existing Notes is extended to 31 December, 2030. Consequently, the maturity of our € 61m European super Senior Secured Notes Revolving Credit Facility automatically extended to 30 June 2024. The Exchange Offer substantially improved Balta's debt maturity profile and will enable Balta to further execute its strategy. We continue to monitor the markets closely to identify the best possible window for future refinancing of our debt, at the right time and under the right terms and conditions.

Reference is made to the risk factors referred to in Note 27 of the section financial risk management in the Financial Statements.

NEXT PROGRAMME

As a result of the strategic and operational review, we launched the transformational programme called "NEXT". This programme is designed to deliver a significant improvement in earnings over a three-year period. The key initiatives focus on delivering sustainable growth, improving commercial excellence and increasing cost competitiveness through Lean initiatives and procurement savings. While our NEXT commercial initiatives are essential for addressing pricing, entering new and existing markets and increasing service levels, we may be delayed or fall below our expectations on the anticipated improvements in earnings.

SUSTAINABILITY

Customer expectations on delivering sustainable products are increasingly demanding and challenging. The risk of not meeting new technology, sustainability requirements and missing out on market developments may lead to competitive disadvantages as well as significant loss of share. Failing to integrate sustainability as a part of the Group strategy can affect future competitiveness, long term value creation and Group longevity.

In the near future, the carpets and rugs industry will be confronted with more stringent legislation about Extended Producer Responsibility (EPR). In order to implement these new regulations Balta will need to engage with national and international sector federations. In 2020, Balta incorporated a Sustainability Committee as a next step towards more effective management of sustainability within the Group.

Global warming or the effect of climate change has resulted in new material climate-related risks (physical and transition risks, mobility and transport, sourcing raw materials, etc.) which may have significant impacts on our reputation, access to finance, cost of complying with new regulations, business profitability and long term resilience.

COVID-19

Pandemics such as COVID-19 have the capacity to severely impact the Group's earnings by interrupting supply chains, reducing demand and disrupting the workforce. The Group addressed short-term COVID-19 risks by securing financial stability, achieving a lower and more agile cost structure, adapting operations, engaging with customers and increasing resilience. There is no doubt that the pandemic has caused permanent changes in the way individuals live, the way the government serves citizens and how businesses operate. Making it possible to face mid- and long-term risks, the Group also closely screens changes in the global economy, technology evolution, shifts in societal norms and consumer behaviour, and reframes the enterprise so it is ready for the new value-based economy.



Balta home, Mira

FINANCIAL REPORT



1. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31 DECEMBER

(€ thousands)	Note	2020	2019
I. CONSOLIDATED INCOME STATEMENT			
Revenue	NOTE 4	561,833	671,151
Raw material expenses		(234,327)	(317,005)
Changes in inventories	NOTE 15	(15,860)	(278)
Employee benefit expenses	NOTE 6	(150,646)	(167,286)
Other income	NOTE 7	5,698	3,970
Other expenses	NOTE 7	(98,801)	(116,270)
Depreciation / amortization	NOTE 8	(40,038)	(39,602)
Adjusted Operating Profit ⁽¹⁾		27,859	34,680
Integration and restructuring expenses	NOTE 9	(7,770)	(6,641)
Operating profit / (loss)		20,089	28,039
Finance income		1	205
Finance expenses	NOTE 10	(29,213)	(25,357)
Net finance expenses		(29,212)	(25,152)
Profit / (loss) before income taxes		(9,123)	2,888
Income tax benefit / (expense)	NOTE 11	(3,523)	7,472
Profit / (loss) for the period from continuing operations		(12,646)	10,360
PROFIT / (LOSS) FOR THE PERIOD		(12,646)	10,360
<i>Attributable to:</i>			
Equity holders		(12,646)	10,360
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		(21,287)	(2,133)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting		116	(245)
<i>Items in other comprehensive income that will not be reclassified to P&L</i>			
Changes in deferred taxes		(45)	393
Changes in employee defined benefit obligations		290	(1,740)
Other comprehensive income for the period, net of tax		(20,926)	(3,725)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(33,572)	6,634
Basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the company	NOTE 33	(0.09)	0.08

(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.

2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

(€ thousands)	NOTE	2020	2019
Property, plant and equipment		312,288	337,594
<i>Of which IFRS 16 related right-of-use assets (excluding sale-and-leaseback)</i>		34,030	42,072
Land and buildings	NOTE 13	170,545	186,173
Plant and machinery	NOTE 13	131,624	138,807
Other fixtures and fittings, tools and equipment	NOTE 13	10,118	12,614
Goodwill	NOTE 5	189,952	195,991
Other intangible assets	NOTE 12	9,466	10,357
Deferred income tax assets	NOTE 14	8,259	10,680
Trade and other receivables	NOTE 16	815	1,121
Total non-current assets		520,780	555,742
Inventory	NOTE 15	125,072	152,948
Derivative financial instruments	NOTE 25	-	3
Trade and other receivables	NOTE 16	50,581	58,966
Current income tax assets		334	259
Cash and cash equivalents	NOTE 17	106,289	19,241
Total current assets		282,276	231,417
TOTAL ASSETS		803,056	787,159
Share capital	NOTE 18	137,848	137,848
Share premium	NOTE 18	155,486	155,486
Other comprehensive income	NOTE 19	(58,037)	(37,112)
Retained earnings	NOTE 20	2,450	15,115
Other reserves		(14,283)	(14,283)
Total equity		223,464	257,055
Senior Secured Notes	NOTE 21	233,936	232,001
Bank and Other Borrowings	NOTE 23	74,513	48,963
<i>Of which IFRS 16 related lease liabilities (excluding sale-and-leaseback)</i>		29,515	37,318
Deferred income tax liabilities	NOTE 14	38,404	41,004
Provisions for other liabilities and charges	NOTE 30	2,487	2,729
Employee benefit obligations	NOTE 28	3,643	4,106
Total non-current liabilities		352,982	328,802
Senior Secured Notes	NOTE 21	3,425	3,425
Senior Term Loan Facility	NOTE 22	-	34,927
Bank and Other Borrowings	NOTE 23	73,981	8,680
<i>Of which IFRS 16 related lease liabilities (excluding sale-and-leaseback)</i>		6,846	7,357
Provisions for other liabilities and charges	NOTE 30	-	164
Derivative financial instruments	NOTE 26	103	413
Other payroll and social related payables	NOTE 29	33,837	36,928
Trade and other payables	NOTE 31	112,242	112,072
Income tax liabilities		3,020	4,694
Total current liabilities		226,609	201,302
Total liabilities		579,592	530,104
TOTAL EQUITY AND LIABILITIES		803,056	787,159

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

3. CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 DECEMBER

(€ thousands)	Note	2020	2019
I. CASH FLOW FROM OPERATING ACTIVITIES			
Net profit / (loss) for the period		(12,646)	10,360
<i>Adjustments for:</i>			
Income tax expense / (income)	NOTE 11	3,523	(7,472)
Finance income		(1)	(205)
Financial expenses	NOTE 10	29,213	25,357
Depreciation / amortisation	NOTE 8	40,038	39,602
(Gain) / loss on disposal of non-current assets		(43)	(1)
Movement in provisions		4,290	(1,001)
Fair value of derivatives		(190)	229
Cash generated before changes in working capital		64,184	66,869
<i>Changes in working capital:</i>			
Inventories	NOTE 15	24,102	156
Trade receivables	NOTE 16	6,592	416
Trade payables	NOTE 30	1,009	(9,524)
Other working capital		(11,153)	(818)
Cash generated after changes in working capital		84,734	57,100
Net income tax (paid)		(5,141)	(7,848)
Net cash generated / (used) by operating activities		79,593	49,252
II. CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition and disposal of property, plant and equipment	NOTE 13	(23,757)	(28,704)
Acquisition of intangibles	NOTE 12	(2,481)	(1,034)
Proceeds from non-current assets		43	2,342
Net cash used by investing activities		(26,195)	(27,396)
III. CASH FLOW FROM FINANCING ACTIVITIES			
Interest and other finance charges paid, net		(24,080)	(20,845)
Proceeds from borrowings with third parties	NOTE 25	113,872	-
Repayments of borrowings with third parties	NOTE 25	(53,456)	(8,624)
Net cash generated / (used) by financing activities		36,336	(29,469)
NET INCREASE/ (DECREASE) IN CASH AND BANK OVERDRAFTS		89,735	(7,612)
Cash, cash equivalents and bank overdrafts at the beginning of the period		19,241	26,853
Exchange gains/(losses) on cash and cash equivalents		(2,687)	-
Cash, cash equivalents and bank overdrafts at the end of the period	NOTE 17	106,289	19,241

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

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

(€ thousands)	Share capital	Share premium	Other comprehensive income	Retained earnings	Other reserves ⁽²⁾	Total	Non-controlling interest	Total equity
Balance 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	-	-	-	10,360	-	10,360	-	10,360
Other comprehensive income								
Exchange differences on translating foreign operations	-	-	(2,133)	-	-	(2,133)	-	(2,133)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	-	-	(245)	-	-	(245)	-	(245)
Cumulative changes in deferred taxes	-	-	393	-	-	393	-	393
Cumulative changes in employee defined benefit obligations	-	-	(1,740)	-	-	(1,740)	-	(1,740)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-	-	(3,725)	10,360	-	6,634	-	6,634
Balance at 31 December 2019	137,848	155,486	(37,111)	15,116	(14,283)	257,056	-	257,056

⁽²⁾ Other reserves were created as a result of certain pre IPO transactions. Refer to the 2017 annual report for more information

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

(€ thousands)	Share capital	Share premium	Other comprehensive income	Retained earnings	Other reserves ⁽²⁾	Total	Non-controlling interest	Total equity
Balance 31 December 2019	137,848	155,486	(37,111)	15,116	(14,283)	257,056	-	257,056
Profit / (loss) for the period	-	-	-	(12,646)	-	(12,646)	-	(12,646)
Other comprehensive income								
Exchange differences on translating foreign operations	-	-	(21,287)	-	-	(21,287)	-	(21,287)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	-	-	116	(19)	-	97	-	97
Cumulative changes in deferred taxes	-	-	(45)	-	-	(45)	-	(45)
Cumulative changes in employee defined benefit obligations	-	-	290	-	-	290	-	290
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-	-	(20,926)	(12,665)	-	(33,591)	-	(33,591)
Balance at 31 December 2020	137,848	155,486	(58,037)	2,451	(14,283)	223,464	-	223,464

⁽²⁾ Other reserves were created as a result of certain pre IPO transactions. Refer to the 2017 annual report for more information

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

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 in the years 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” or “Balta”), 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 2020.

The Financial Statements of the Company for the period 1 January 2020 to 31 December 2020 comprise the Company and its subsidiaries (together referred to as “the Group” and individually as “Group entities”).

These Consolidated Financial Statements are presented in EUR, which is the Group’s presentation currency and the functional currency of the Company. All amounts in these Consolidated Financial Statements are presented in thousands of EUR, 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 for the foreseeable future, that is at least the next 12 months.

Any events and/or transactions significant to an understanding of the changes since 31 December 2019 have been included in these notes to the Consolidated Financial Statements.

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.

Impact of new standards

The below listed new standards, amendments and interpretations to standards have been issued. The Group intends to adopt these standards and interpretations if applicable and considered to be significant, when they become effective and mandatory.

The following **new standards and amendments** to standards are mandatory for the first time for the financial year beginning 1 January 2020 and have **been endorsed by the European Union**:

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved 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 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 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 rely 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.
- **Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform** (effective 1 January 2020). The amendments require qualitative and quantitative disclosures to enable users of financial statements to understand how an entity’s hedging relationships are affected by the uncertainty arising from interest rate benchmark reform.

- **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 acquisitions across all industries, particularly real estate, pharmaceutical, and oil and gas. Application of the changes would also affect the accounting for disposal transactions.

The following **new amendments** have been issued, are **not mandatory** for the first time for the financial year beginning 1 January 2020 but have **been endorsed by the European Union**:

- **Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions** (effective 1 June 2020, with early application permitted). If certain conditions are met, the Amendment would permit lessees, as a practical expedient, not to assess whether particular COVID-19-related rent concessions are lease modifications. Instead, lessees that apply the practical expedient would account for those rent concessions as if they were not lease modifications.
- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2** (effective 1 January 2021). These amendments address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

The following **new standards** and amendments have been issued, but are **not mandatory** for the first time for the financial year beginning 1 January 2020 and have **not been endorsed by the European Union**:

- **Amendments to IAS 1 'Presentation of Financial Statements: Classification of Liabilities as current or non-current'** (effective 1 January 2022), affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those

items. The IASB has issued an exposure draft to defer the effective date to 1 January 2023. They:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

- **Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements**

(effective 1 January 2022). The package of amendments includes narrow-scope amendments to three Standards as well as the Board's Annual Improvements, which are changes that clarify the wording or correct minor consequences, oversights or conflicts between requirements in the Standards.

- **Amendments to IFRS 3 Business Combinations** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **Amendments to IAS 16 Property, Plant and Equipment** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets** specify which costs a company includes when assessing whether a contract will be loss-making.
- **Annual Improvements** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

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.

Intercompany transactions, balances and unrealised gains on transactions between Group entities 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 Broadloom and ITC brands) and tiles to major retailers and wholesalers. The Commercial segment designs, manufactures and distributes modular carpet tiles mainly for offices and public projects through the Group's modulyss brand in Europe (Commercial Europe), the Bentley brand in the US (Commercial US) and broadloom carpets mainly for the hospitality sector through its arc edition brand to architects, designers, contractors and distributors. 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 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 EUR, which is the Group's functional and the Group's presentational currency. All amounts are stated in thousands of EUR 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 entities that do not qualify as a net investment in a foreign operation are presented in the Consolidated statement of comprehensive income within "Finance income" and "Finance expenses". All other foreign exchange gains and losses are presented in the Consolidated statement of comprehensive income within "Other income" or "Other expenses" which are part of the operating profit.

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

	31 December 2020		31 December 2019	
	Closing	Average	Closing	Average
USD	1.2271	1.1422	1.1234	1.1195
TRY	9.0079	8.0140	6.6506	6.3481
GBP	0.8990	0.8897	0.8508	0.8778

Group entities

The results and financial position of Group entities (none of which has the currency of 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 Statement of comprehensive income 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 of 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 Statement of comprehensive income as part of the gain or loss on sale.

Foreign exchange gains and losses that relate to borrowings and transactions between Group entities in a different currency compared to the functional currency, are presented in the Statement of comprehensive income 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 trading nature, are presented in "Other comprehensive income" before they vest. At vesting date the results are recognized in in the Statement of comprehensive income 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 Statement of comprehensive income 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:

<i>Industrial and administrative buildings</i>	
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

Owned 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 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 Statement of comprehensive income.

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 recognised at fair value at the acquisition date. The fair market value is determined based on 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 which is for the current trademarks 10 years.

Software and licenses

Cost associated with acquiring software are capitalized at their cost price and are subsequently amortised over their estimated useful life using the straight line method, or over the term of the contract, if this is shorter. The useful life is usually estimated at 5 years.

Expenditure for acquired licenses are capitalized at their cost price and are subsequently amortised over their estimated useful life using the straight line method, or over the term of the contract, if this is shorter. The useful life is usually estimated at 5 years.

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 product 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 between 3-5 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 Statement of comprehensive income within "Other income" or "Other expenses" to the extent that they relate 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 Statement of comprehensive income in the same period or periods during which the hedged forecast transaction affects the Statement of comprehensive income. 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 realisable value. Net realisable values 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 labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable 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 a lower of cost versus net realisable 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 a 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 (Expected Credit Loss) 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 ability to pay (based on geographical region and type of customers such as retail, wholesale or construction & building, and delinquency status). The provision matrix is based on forecasted default rates published by Moody's, 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 general approach, the Group includes individually managed exposures on a case by case basis if not covered by the ECL model, and reflecting additional risk factors not yet included in the ECL model.

NOTE 1.11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held on call with banks, other short-term highly liquid investments and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in 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 Statement of comprehensive income within "Other income" over the period necessary to match them with the costs that they are intended to compensate against.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the Statement of comprehensive income 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 in 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.

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;
- 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 Statement of comprehensive income.

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 Statement of comprehensive income, 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 based on the tax laws enacted or substantively enacted at the Statement of financial position date in the countries where the Group entities 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 based on 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 substantively 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.

IFRIC 23 'Uncertainty over income tax treatments' (effective 1 January 2019). 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 assessed 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 recognise 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.

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 between 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 entities 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 Vandebroucke"), all Belgian defined contribution plans have to be considered under IFRS as defined benefit plans. Law Vandebroucke 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% at 31 December 2020 and per 31 December 2019) 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 AA rated corporate bonds and single A rated corporate bonds. At 31 December 2020 this gap was 25 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 fulfil certain conditions, are eligible to receive supplementary unemployment allowance, 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 Labour 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 potential 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, 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.

Short-term employee benefits

These include wages, salaries and social security contributions, paid annual leave and sick leave, bonuses and non-monetary benefits, and are taken as an expense in the relevant period. All company managers are eligible for bonuses that are based on indicators including personal performance and key financial targets. The amount of the bonus is recognized as an expense, based on an estimation made at the end of the reporting 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 model to account for revenue arising from contracts with customers. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The five steps are to identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation and recognise revenue as each performance obligation is satisfied.

Balta 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 analysed 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 applies IFRS 9 in relationship to the impairment losses on trade receivables (refer to Note 1.10). The Group has no significant contract balances where either the Group has performed the Performance Obligation (PO) for which no billing has 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.

IFRS 16 "Leases" (effective 1 January 2019). As of 1 January 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 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 consideration.

Under the IFRS 16 adoption method chosen by the Group (modified retrospective approach), prior years are not restated to conform to the new policies. Hence, the Group opted to measure the right-of-use asset at an amount equal to the lease liability at opening (no prepaid nor accrued lease expenses). Consequently, the year over year changes in profit, assets and liabilities and cash flows are impacted by the new policies.

The new accounting standard results in almost all leases being recognised on the balance sheet (except for low-value assets or leases with a lease term of 12 months or less which are accounted for in the Statement of comprehensive income).

Under the new standard, an asset (the right-to-use asset) and a liability to make lease payments (the lease liability) are recognised. The right-to-use asset of the leased assets are capitalised under property, plant and equipment and comprises the net present value of the lease. The corresponding lease liability is subdivided into current (lease payment within 12 months) and non-current liabilities. For each lease contract at the application date, an estimate has been made for the duration of the contract including an optional lease period in case there is reasonably certainty that the option would be extended.

Lease terms remain unchanged, unless an occurrence of a significant event or a significant change in circumstances that are in control of the lessee impacted the duration of the lease, in that case, the lease term will be reassessed.

The Group also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessments made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

At the commencement date of a lease, lessees recognise a lease liability (i.e. a liability to make lease payments), and a right-of-use asset (i.e. an asset representing the right to use the underlying asset over the lease term). The lease liabilities are recognised at the present value of the remaining lease payments. The right-of-use asset is depreciated over the term of the lease. Interest expense is recognised on the lease liability. The lease liability is remeasured upon the occurrence of certain events (e.g. a change in the lease term or a change in future lease payments resulting from a change in index). Such remeasurements of the lease liability will generally be recognised as an adjustment to the right-of-use asset.

The Group applies the lease recognition exemptions for short-term leases and leases for which the underlying asset is of low value. The Group elects, by class of underlying asset, not to separate non-lease components from lease components and instead accounts for each lease component and any associated non-lease component as one single lease component.

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.

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.

Organic Growth is defined as growth excluding (i) FX impact, which comprises the translation of key foreign entities, (ii) M&A impact and (iii) the impact of IFRS16.

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 Issuer S.à r.l.

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

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.

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 fixed assets adjusted for proceeds from sales of fixed assets.

Leverage is defined as the ratio of Net Debt to Adjusted EBITDA (excluding IFRS16 as per financing documentation, except for sale-and-leaseback transactions).

NEXT key assumptions and NEXT impacts are to be understood versus a baseline of 2018 or 2019:

- Impacts shown for the Revenue initiatives are the anticipated gross impacts and take no account of possible 'cannibalisation effects' or the current macro-economic uncertainty.
- Impacts shown for the Margin initiatives are the anticipated gross impacts before cost inflation.
- Impacts are calculated using forecasted volumes
- FX exchange rates are assumed stable over the period.
- Lean and Procurement are P&L impacts (excluding Capex savings or cost avoidance) and affect either COGS (raw materials consumption or costs) or fixed expenses (e.g. maintenance).

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 required to be 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;
- 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 5.

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 taxpayers and local tax authorities. 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, in line with IFRIC 23.

IFRIC 23 'Uncertainty over income tax treatments' (effective 1 January 2019). 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 assessed 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:

- 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;
- 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;
- On a case by case basis the Group has decided to recognise 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 total IFRIC 23 provision amounts to €8.7m for 2020 compared to €8.9m last year.

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 to change, 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 measuring 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. The Group included the following parameters: probability of default, exposure at default (including estimated coverage by credit insurance). In order to approximate these parameters, the trade receivables have been categorised based on common characteristics (mainly geographical area, type of customer and the days past due). The provision matrix is based on forecasted default rates published by Moody's, adjusted by scalar factors to reflect differences in the Group's view of current and expected economic conditions and historical conditions. The use of forecasted default rates was implemented in March 2020 which was a change compared to last years' calculation where we used historical observed default rates. Balta has revisited the assumptions used in the expected credit loss (ECL) model to reflect updated macro-economic assumptions in light of COVID-19. This adjustment has resulted in slightly increased bad debt accruals rates (approximately €1.2m), which negatively impact the results of 2020, although we do not see the negative impacts at this point.

In addition to this generalized 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 Statement of Financial Position, "Other payables". 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. Refer to revenue recognition, Note 1.21.

Brexit

Brexit did not have a significant impact on the 2020 financial statements given the negotiated deal at the end of 2020 between the EU and the UK. The Group prepared throughout 2019 and 2020 to ensure smooth supply for its UK customers. The Group adjusted its IT and logistics flows to facilitate compliance when crossing the border. Further to the terms of the negotiated deal, the Group is not subject to import duties for the majority of its products. In the last quarter of 2020, we recorded some extra pre-Brexit orders which will reduce orders in the first of quarter of 2021.

NOTE 3 RECONCILIATION OF NON-GAAP MEASURES

The table below shows the impact of non-recurring items on the Combined statement of comprehensive income for the period and provides a reconciliation between the reported information and the non-GAAP measures as presented in these Financial Statements.

(€ thousands)	2020	2019
Revenue	561,833	671,151
Raw material expenses	(234,327)	(317,005)
Changes in inventories	(15,860)	(278)
Employee benefit expenses	(150,646)	(167,286)
Other income	5,698	3,970
Other expenses	(98,801)	(116,270)
Adjusted EBITDA ⁽¹⁾	67,896	74,282
Depreciation/amortisation	(40,038)	(39,602)
Adjusted Operating Profit ⁽¹⁾	27,859	34,680
Integration and restructuring expenses	(7,770)	(6,641)
Operating profit / (loss)	20,089	28,039
Finance income	1	205
Finance expenses	(29,213)	(25,357)
Net finance expenses	(29,212)	(25,152)
Profit / (loss) before income taxes	(9,123)	2,888
Income tax benefit / (expense)	(3,523)	7,472
Profit / (loss) for the period from continuing operations	(12,646)	10,360

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

Several non-recurring items had a material impact on our 2020 net income. The impact of these events amounts to a net expense of €7.8m (€0.06 per share), as compared to €6.6m (€0.05 per share). The 2020 expense was mainly for advisory fees related to the NEXT programme in the first half of the year (€2.2m) and for amending and extending our financing (€4.0m).

NOTE 4 SEGMENT REPORTING

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

(€ thousands)	2020	2019
Revenue by segment	561,833	671,151
Rugs	182,867	213,029
Commercial	190,461	235,593
Residential	171,185	194,394
Non-Woven	17,320	28,136
Revenue by geography	561,833	671,151
Europe	322,670	414,211
North America	205,384	215,288
Rest of World	33,779	41,653
Adjusted EBITDA by segment ⁽¹⁾	67,896	74,282
Rugs	17,473	16,758
Commercial	30,611	40,413
Residential	18,951	15,043
Non Woven	861	2,068
Net Capital expenditure by segment	26,195	27,396
Rugs	8,407	9,820
Commercial	6,273	7,746
Residential	11,019	9,227
Non-Woven	495	604
Net inventory by segment	125,072	152,948
Rugs	53,621	70,301
Commercial	31,545	37,144
Residential	36,132	41,473
Non-Woven	3,774	4,030
Trade receivables by segment	42,335	50,192
Rugs	12,101	15,011
Commercial	16,010	22,826
Residential	13,596	11,594
Non-Woven	628	760

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

Given the international sales footprint of the Group, 99% of revenue is realised outside Belgium, with sales in Belgium being equal to around €7.9m in 2020 (2019: €12.5m).

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

NOTE 5 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 broken down into our European activity 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 (€65.3m). 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 as at 30 September 2020. The assets and liabilities comprising the CGU have not changed significantly since the most recent valuation.

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 as at 30 September 2020, 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 five-year period. Estimates beyond this five-year period are calculated using 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 (2019: 2%), 1% for Commercial Europe and Commercial US (2019: 1%) and an after-tax discount rate of 7.9% (2019: 7.8%).

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 weighted 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 value these two assumptions need to be independently in order to reduce the "value in use" to the carrying amount.

Sensitivity analysis per CGU	Minimal growth rate	Maximum discount rate
Rugs	1.1%	8.6%
Commercial Europe	(5.2%)	11.7%
Commercial US	(24.0%)	17.9%

Movements compared to prior year solely relate to changes in exchange rate.

NOTE 6 EMPLOYEE BENEFIT EXPENSES

The following table sets forth employee benefit expenses for the years ended 31 December 2020 and 2019:

(€ thousands)	2020	2019
Total employee benefit expenses	150,646	167,286
Wages and salaries	107,430	119,746
Social security costs	27,855	31,495
Pension costs	3,970	4,108
Other employee benefit expenses	11,391	11,937

Employee benefit expenses decreased due to an overall decrease in the workforce in combination with using available government unemployment support programmes in Belgium, the UK, France and Germany for the vast majority of our workforce in those countries mainly during the period March to May 2020. The total amounts to €150.7m, compared to €167.3m as at 31 December 2019.

The average number of employees in 2020 and 2019 was 3,843 (in full time equivalents) and 3,915 (in full time equivalents). Part-time employees are included on a proportionate basis.

	2020	2019
Average number of total employees	3,843	3,915
Average number of employees - blue collar	3,006	3,105
Average number of employees - white collar	837	811

NOTE 7 OTHER INCOME AND EXPENSES

(€ thousands)	2020	2019
Other income	5,698	3,970
Foreign exchange gains	1,929	687
Rental income from solar rooftop installations	1,323	1,342
Sales of energy certificates	27	88
Grants	1,742	488
Gain on sale of fixed assets	43	-
Other	634	1,365
Other expenses	98,801	116,270
Services and other goods	60,254	70,007
Selling expenses	31,666	41,264
Foreign exchange losses	1,626	1,693
Real estate tax	3,398	3,209
Other	1,857	98

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 €17.5m to €98.8m for the year ended 31 December 2020 from €116.3m for the year ended 31 December 2019. 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 main reason for the decrease is the impact of COVID-19 and cost

saving measures which led to lower energy cost, travel expenses and marketing related expenses.

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

The Group incurred €8.1m of research and development expenses during the 12 months ended 31 December 2020 (2019: €8.7m). 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 optimize 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 8 DEPRECIATION / AMORTISATION

The components of depreciation and amortisation can be summarised as follows:

(€ thousands)	2020	2019
Depreciation/amortisation	40,038	39,602
Amortisation of intangible assets	2,710	2,248
Depreciation property, plant and equipment	38,722	38,749
Release deferred revenue sale-and-leaseback	(1,395)	(1,395)

Depreciation / amortisation amounts to €40.0m, an increase of €0.4m compared to 2019.

The release of deferred revenue sale-and-leaseback relates to the gradual recognition of the capital gain realised on the sale-and-leaseback of one of the Group's manufacturing facilities in 2014. This deferred revenue is recognised on a straight line basis over a 12-year period as partial offset to depreciation charges over the period of the lease. The annual amount recognised in the Statement of comprehensive income is €1.4m, with the balance of deferred income equal to €7.3m as at 31 December 2020 (€8.8m at the end of 2019).

NOTE 9 INTEGRATION AND RESTRUCTURING EXPENSES

The total integration and restructuring expenses incurred in 2020 amount to €7.8m (2019: €6.6m). This comprises various items which are considered by management as non-recurring or unusual by nature.

(€ thousands)	2020	2019
Integration and restructuring expenses	7,770	6,641
Corporate restructuring	3,958	60
Strategic advisory services	2,178	6,778
Other	1,633	(197)

The 2020 expense was mainly for advisory fees related to the NEXT programme in the first half of the year (€2.2m) and for amending and extending our financing (€4.0m).

In 2019, the main component of the integration and restructuring expenses consisted of expenses in relation to NEXT. The implementation of this 3-year earnings enhancement programme focuses on delivering sustainable growth, improving commercial excellences and increasing cost competitiveness.

NOTE 10 FINANCE EXPENSES

(€ thousands)	2020	2019
TOTAL FINANCE EXPENSES	29,213	25,357
Interest expense on Senior Secured Notes	20,140	20,140
Interest expense on Senior Term Loan Facility (€35m)	120	635
Interest expense on Lease liabilities	3,409	2,417
Interest expense on Bank borrowings	1,981	312
Foreign exchange result on interco transactions	1,911	140
Other finance costs	1,652	1,713

The net finance expense amounted to €29.2m in 2020, and primarily contains the interest related to external borrowings (Senior Secured Notes, [Super Senior] Revolving Credit Facility and Leasing obligations). Refer to Notes 21 until 24 for a description of these facilities. The net cost increased compared to 2019 as the European and US revolving credit facilities were fully drawn as a precaution against the potential impact of COVID-19 and due to the FX translation impact.

Other finance costs mainly relate to factoring, commitment fees and other bank related charges. The effective interest expense for the Senior Secured Notes comprises cash interest of €18.2m and the amortisation of capitalised financing fees of €1.9m which are in line with the previous year.

NOTE 11 INCOME TAX BENEFIT / EXPENSE

(€ thousands)	2020	2019
Income tax benefit / (expense)	(3,523)	7,472
Current tax	(3,192)	(6,088)
Deferred tax	(331)	13,560
Income tax benefit / (expense)	(3,523)	7,472
Income tax calculated at Luxembourg tax rate (24.94%)	2,277	(720)
Rate differential due to transactions with foreign entities	(60)	43
Disallowed expenses	(2,509)	(660)
Tax losses for which no deferred tax asset is recognized	(2,236)	(3,131)
Taxation of untaxed reserves	(1,071)	-
Utilization and recognition of previously not recognized tax assets	-	12,485
Other	75	(546)

Income taxes represented a 'benefit' in 2019, driven by the net positive deferred tax income, while it is a 'cost' in 2020.

The Group reported a tax expense for 2020 of €3.5m (tax income of €7.5m for 2019) based on a loss before tax of €9.1m (profit before tax of €2.9m for 2019). The tax expense is mainly driven by non-recognition of deferred tax assets, non-deductible costs and taxation of previously untaxed Belgian reserves.

NOTE 12 OTHER INTANGIBLE ASSETS

(€ thousands)	Trademark	Software and licences	Internally generated intangible assets	Total
Opening net book value at 1 January 2019	8,407	1,666	1,326	11,399
Additions	-	254	780	1,034
Amortisation charge	(1,039)	(539)	(670)	(2,248)
Exchange differences	162	3	8	172
Closing net book value at 31 december 2019	7,530	1,384	1,443	10,357
Cost or fair value	10,386	6,907	9,847	27,139
Accumulated amortisation, impairment and other adjustments	(2,856)	(5,523)	(8,403)	(16,782)
Closing net book value at 31 december 2019	7,530	1,384	1,443	10,357
Opening net book value at 1 January 2020	7,530	1,384	1,443	10,357
Additions	-	727	1,759	2,486
Disposals	-	(5)	-	(5)
Amortisation charge	(951)	(896)	(864)	(2,710)
Exchange differences	(636)	(24)	-	(661)
Closing net book value at 31 december 2020	5,943	1,185	2,338	9,466
Cost or fair value	9,508	6,646	10,864	27,018
Accumulated amortisation, impairment and other adjustments	(3,565)	(5,460)	(8,526)	(17,551)
Closing net book value at 31 december 2020	5,943	1,185	2,338	9,466

The trademark of €5.9m 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 €2.7m (2019: €2.2m) is included in the line "Depreciation, amortisation and impairment" in the Statement of comprehensive income.

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

(€ thousands)	Land and buildings	Plant and machinery	Other Equipment	Total
Opening net book value at 31 December 2018	153,752	132,632	14,875	301,259
Adoption of new accounting principle	42,717	891	-	43,608
Opening net book value at 1 January 2019	196,469	133,523	14,875	344,867
Additions	3,087	21,759	11,809	36,655
Disposals	(470)	(384)	(2,550)	(3,404)
Transfers	11	707	(718)	-
Depreciation charge	(11,949)	(15,841)	(10,959)	(38,749)
Exchange differences	(975)	(957)	157	(1,775)
Closing net book value at 31 December 2019	186,173	138,807	12,614	337,594
Cost or fair value	272,118	527,211	38,578	837,908
Accumulated depreciation, impairment and other adjustments	(85,946)	(388,405)	(25,964)	(500,314)
Closing net book value at 31 December 2019	186,173	138,807	12,614	337,594
Opening net book value at 1 January 2020	186,173	138,807	12,614	337,594
Additions	1,074	16,304	8,558	25,936
Disposals	(1,475)	(108)	(140)	(1,723)
Transfers	(414)	926	(512)	-
Depreciation charge	(10,055)	(18,519)	(10,010)	(38,583)
Exchange differences	(4,757)	(5,786)	(393)	(10,935)
Closing net book value at 31 December 2020	170,545	131,624	10,118	312,288
Cost or fair value	266,590	527,136	37,200	830,925
Accumulated depreciation, impairment and other adjustments	(96,044)	(395,512)	(27,081)	(518,637)
Closing net book value at 31 December 2020	170,545	131,624	10,118	312,288

In 2020, a total of €25.9m (2019: €80.4m) has been added. The main investments in 2020 were in plant, machinery and other equipment.

The total depreciation expense of €38.6m (2019: €38.7m) has been charged to "Depreciation and amortisation" in the Statement of comprehensive income.

(€ thousands)	Right-of-use assets	Owned PP&E	Total PP&E
As at 31 December 2019	53,325	284,269	337,594
Additions	2,010	23,926	25,936
Disposals	(1,368)	(355)	(1,723)
Depreciations	(8,722)	(29,861)	(38,583)
Transfer	48,138	(48,138)	-
FX impact	(2,731)	(8,204)	(10,935)
As at 31 December 2020	90,651	221,637	312,288

(€ thousands)	2019	2018
Right-of-use assets - Land and Buildings	85,749	47,897
Cost - Capitalised leases	138,694	62,605
Accumulated depreciation	(52,945)	(14,708)
Right-of-use assets - Plant and machinery	4,902	5,428
Cost - Capitalised leases	7,230	6,525
Accumulated depreciation	(2,328)	(1,096)
Right-of-used assets - Total leased Property, Plant & Equipment	90,651	53,325
Cost - Capitalised leases	145,924	69,130
Accumulated depreciation	(55,272)	(15,804)

The main driver behind the transfer of €48.1m from owned Property, Plant and Equipment towards right-of-use assets is the sale-and-leaseback transaction involving two of the Group's five owned production plants in Belgium in early 2020 (refer to Note 24).

The Group's assets which are pledged as security for the borrowings are described in Note 21 and 23.

Exchange differences (2020: €10.9m and 2019: €1.8m) 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 14 DEFERRED INCOME TAX ASSETS AND LIABILITIES

IFRS requires the deferred taxes for each jurisdiction to be presented as a net asset or liability. Offsetting 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)	2020	2019
Deferred tax assets:	8,259	10,680
Deferred tax assets to be reversed after more than 12 months	7,700	8,309
Deferred tax assets to be reversed within 12 months	558	2,371
Deferred tax liabilities:	(38,404)	(41,004)
Deferred tax liabilities to be reversed after more than 12 months	(34,120)	(37,074)
Deferred tax liabilities to be reversed within 12 months	(4,284)	(3,930)
Net deferred tax liabilities	(30,145)	(30,324)

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

(€ thousands)	2020	2019
Beginning of period	(30,324)	(42,910)
Adoption of accounting policies	-	(1,530)
Exchange differences	554	163
Other comprehensive income	(45)	393
Income statement charge	(331)	13,560
At 31 December	(30,145)	(30,324)

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	Deferred income sale-and-leaseback	Intangible assets	Borrowings	Employee benefits	Inventory	Provisions	Other	Total
At 1 January 2019	16,157	2,592	85	1,360	951	1,490	1,219	898	24,752
(Charged)/credited to the income statement	12,902	(1,116)	(57)	(10)	(478)	1,007	494	555	13,297
Exchange differences	115	-	-	-	329	(35)	(28)	(1)	379
Other comprehensive income	-	-	-	-	393	-	-	-	393
Adoption of accounting policy	(1,530)	-	-	-	-	-	-	-	(1,530)
At 31 December 2019	27,644	1,476	28	1,350	1,195	2,462	1,684	1,452	37,291
At 1 January 2020	27,644	1,476	28	1,350	1,195	2,462	1,684	1,452	37,291
(Charged)/credited to the income statement	(6,768)	(236)	(28)	-	(78)	(1,126)	108	(40)	(8,168)
Exchange differences	(434)	-	-	-	(31)	(122)	(154)	(66)	(806)
Other comprehensive income	-	-	-	-	(44)	-	-	-	(44)
At 31 December 2020	20,442	1,239	0	1,350	1,041	1,214	1,638	1,346	28,272

In assessing the realizability 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 31 December 2020, 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 2020, total tax credits amounted to €525.2m, resulting in a deferred tax asset of €130.6m of which the Group only recognised €20.4m at the end of 2020. As of 31 December 2019, total tax credits amounted to €536.8m, resulting in a deferred tax asset of €133.4m of which the Group only recognised €27.7m.

The majority of the tax credits in 2020 and 2019 are incurred at the level of the Group entities in Belgium, where 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 2019	(62,847)	(1,844)	(2,223)	(789)	(67,705)
Charged/(credited) to the income statement	745	61	(170)	(329)	306
Exchange differences	(241)	21	(11)	14	(217)
At 31 December 2019	(62,344)	(1,762)	(2,404)	(1,104)	(67,614)
At 1 January 2020	(62,344)	(1,762)	(2,404)	(1,104)	(67,614)
Charged/(credited) to the income statement	6,871	(204)	325	845	7,837
Exchange differences	1,510	108	(278)	20	1,360
At 31 December 2020	(53,963)	(1,859)	(2,357)	(239)	(58,417)

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 €248.5m as of 31 December 2020 (as compared to €261.4m as of 31 December 2019).

Adding up the gross amounts of deferred tax assets (€28.3m) and gross amount of deferred tax liabilities (€58.4m) results in a net deferred tax liability position at 31 December 2019 of €30.1m.

NOTE 15 INVENTORIES

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

(€ thousands)	2020	2019
TOTAL INVENTORIES	125,072	152,948
Raw materials and consumables	52,548	64,564
Work in progress	14,853	20,775
Finished goods	57,670	67,609

Inventories showed an overall decrease of €27,8m due to strict working capital management. The movement in 'Work in progress' and 'finished goods' is detailed as follows:

(€ thousands)	2020	2019
At 1 January	88,384	88,747
Income statement	(15,860)	(364)
Of which: actual movements in inventory	(15,860)	(364)
At 31 December	72,524	88,384

The Group increased the provision for obsolete inventory in 2020 by €2.9m compared to an increase of €0.2m in 2019 which is included in the Consolidated Statement of Comprehensive income under "Raw materials used" and "Changes in inventories of finished goods and work in progress".

The sum of raw material expenses and changes in inventories recognised as expenses in 2020 amounts to €250.2m as compared to €317.3m in 2019.

The Group's assets pledged as security for the Senior Secured Notes and borrowings are described in Notes 21 to 23.

NOTE 16 TRADE AND OTHER RECEIVABLES

(€ thousands)	2020	2019
TOTAL TRADE AND OTHER RECEIVABLES	51,396	60,086
Trade and other receivables (non-current)	815	1,121
Other amounts receivable	815	1,121
Trade and other receivables (current)	50,581	58,966
Net trade receivables	42,335	50,800
Trade receivables	46,625	53,538
Less: Bad debt allowance	(4,291)	(2,738)
Prepayments and accrued income	2,085	1,967
Other amounts receivable	6,162	6,199

The fair value of 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 amounts to €51.4m as of 31 December 2020 and are €8.7m lower than 31 December 2019. Mainly due to lower revenue in the final 2 months of the year compared to prior year.

As of 31 December 2020, net trade receivables that were past due amounted to €2.4m (2019: €3.3m).

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 for the Group's trade and other receivables are denominated in the following currencies:

(€ thousands)	2020	2019
TOTAL TRADE AND OTHER RECEIVABLES	51,396	60,086
EUR	18,613	24,835
USD	18,613	22,810
GBP	9,858	8,068
TRY	4,313	4,372

The Group is monitoring the recoverability of trade and other receivables on a case by case assessment. In addition, the Group has applied IFRS 9, by applying the modified retrospective approach, by using the standard's simplified approach and calculated ECLs (Expected Credit Loss) 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 and type of customers such as retail, wholesale or construction & building, and delinquency status). The provision matrix is based on forecasted default rates published by Moody's, adjusted by scalar factors to reflect differ-

ences in the Group's view of current and expected economic conditions and historical conditions. The use of forecasted default rates was implemented in March 2020 which was a change in assumptions compared to last years' calculation when we used historical observed default rates. Balta has revisited the assumptions used in the expected credit loss (ECL) model, based on updated macro-economic assumptions in light of COVID-19. This has resulted in a slightly increased bad debt accruals rates (approximately €1.2m), which negatively impact the results for 2020, although we do not see an increase in our credit losses at this point.

(€ thousands)	Not due or less than 15 days past due	More than 15 days past due	Total
Expected loss rate	2.9%	37.7%	
Gross carrying amount - trade receivables	50,200	3,338	53,538
Loss allowance	1,480	1,258	2,738
31 December 2020			
Expected loss rate	7.1%	48.9%	
Gross carrying amount - trade receivables	44,229	2,396	46,625
Loss allowance	3,120	1,171	4,291

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

(€ thousands)	2020	2019
At 1 January	(2,738)	(2,875)
Increase in loss allowance recognised in profit or loss during the year	(1,835)	(55)
Receivables written off during the year as uncollectible	222	182
Unused amounts reversed	3	13
Exchange difference	58	(4)
At 31 December	(4,291)	(2,738)

The creation and release of allowances for impaired receivables has been included in "Other income/ expenses" in the Statement of comprehensive income. 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 at 31 December 2020 the Group holds collateral (letters of credit and corporate or bank guarantees) for an amount of €1.5m (2019: €0.2m). The main reason for the increase compared to prior year is a bank guarantee used to fulfil custom duties at the UK border.

NOTE 17 CASH AND CASH EQUIVALENTS

(€ thousands)	2020	2019
TOTAL CASH AND CASH EQUIVALENTS	106,289	19,241
Cash at bank and on hands	83,243	11,734
Cash in subsidiaries outside the EU	23,046	7,507
Of which in countries with legal restrictions	580	837

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

The credit quality of the banks and financial institutions is disclosed in Note 27. The Group's assets pledged as security for the Senior Secured Notes and borrowings are described in Notes 21 and 23.

NOTE 18 SHARE CAPITAL AND SHARE PREMIUM

The legal issued share capital of the Group is €137.8m divided into 137,677,446 ordinary shares without a nominal value. All shares issued are fully paid, as is a share premium of €155.5m.

NOTE 19 OTHER COMPREHENSIVE INCOME

Components of "Other comprehensive income" ("OCI") are items of income and expenses (including reclassification adjustments) that are not recognised in the Statement of comprehensive income as required or permitted by other IFRSs. The Group has other comprehensive income which mainly relates to 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)	2020	2019
Items in OCI that may be subsequently reclassified to P&L	(58,102)	(36,931)
Cumulative translation reserves at 31 December	(58,066)	(36,780)
Cumulative translation reserves at beginning of the period	(36,780)	(34,647)
Exchange differences on translating foreign operations	(21,287)	(2,133)
Cumulative changes in fair value of hedging instruments at 31 December	(35)	(151)
Cumulative changes in fair value of hedging instruments at beginning of the period	(151)	94
Changes in fair value of hedging instruments during the period	116	(245)
Items in OCI that will not be reclassified to P&L	64	(180)
Changes in deferred tax at 31 December	(363)	(318)
Changes in deferred taxes at beginning of the period	(318)	(711)
Changes in deferred taxes during the period	(45)	393
Changes in employee defined benefit obligations at 31 December	427	137
Changes in employee defined benefit obligations at beginning of the period	137	1,877
Changes in employee defined benefit obligations during the period	290	(1,740)
TOTAL OTHER COMPREHENSIVE INCOME AT 31 DECEMBER	(58,038)	(37,111)

CASH FLOW HEDGE ACCOUNTING

The movement schedule below summarizes the amounts recorded into the cash flow hedge reserve and the portion that was recognised in the Statement of comprehensive income in relation to contracts that were settled in December 2020. The amounts recognised in the Statement of comprehensive income have been presented as "Other income" – see Note 7.

(€ thousands)	2020	2019
Cash flow hedge reserve, ending balance	(35)	(151)
Opening balance	(151)	94
Amounts recorded in the cash flow hedge reserve	309	(527)
Amounts recognized in the income statement	(193)	281

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 28 for further details.

The liability has been measured using a discount rate of 0.35% for 2020 and 0.5% for 2019.

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 20 RETAINED EARNINGS

(€ thousands)	2020	2019
Beginning of period	15,115	6,286
Adoption of accounting policies	-	(1,530)
Reclassified from OCI	(19)	-
Profit / (loss) for the year allocated to equity owners	(12,646)	10,360
At 31 December	2,450	15,115

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 Secured Debt Facilities and the restrictions which are imposed by law. 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 21 SENIOR SECURED NOTES

(€ thousands)	2020	2019
TOTAL SENIOR SECURED NOTES	237,361	235,426
Non-Current portion	233,936	232,001
Of which: gross debt	234,900	234,900
Of which: capitalised financing fees	(964)	(2,899)
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 subsidiaries. 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. We refer to the subsequent events section (refer to note 40) for information on the exchange offer we launched at the beginning of February 2021 to extend the maturity of the Senior Secured Notes by two more years.

Interest on the Senior Secured Notes accrue at the rate of 7.75% per annum and is 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 through the Statement of comprehensive income over the term of the debt in accordance with the effective interest method. It follows that the amount of capitalised financing fees expensed during 2020 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 through the Statement of comprehensive income 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 which mainly relate to shares of the guarantors and certain intra-group loans and receivables of the guarantors. In 2020, additional securities were issued in favour of the noteholders and the European Super Senior Revolving Credit Facility banks with respect to the Belgium real estate property in Waregem and Sint-Baafs-Vijve. 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 European Super Senior Revolving Credit 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 European Super Senior Revolving Credit Facility and certain hedging obligations have been repaid in full. Any such proceeds will, after all obligations under the European 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 rateable basis.

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

NOTE 22 SENIOR TERM LOAN FACILITY

(€ thousands)	2020	2019
TOTAL SENIOR TERM LOAN FACILITY	-	34,927
Current portion	-	34,927
Of which: gross debt	-	35,000
Of which: accrued interests	-	19
Of which: capitalized financing fees	-	(92)

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 ranked pari passu with the Senior Secured Notes. The Senior Term Loan Facility agreement was dated 29 August 2017 and the principal amount was released at completion date on 5 September 2017.

Similar to the European Super Senior Revolving Credit Facility (Note 23), the Group was subject to quarterly reporting requirements and an annual guarantor coverage test.

Interest on the Senior Term Loan Facility accrued 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 the Senior Term Loan Facility were included in the carrying amount and amortised into the Statement of comprehensive income over the term of the debt in accordance with the effective interest method.

On 21 January 2020, the Group announced the early redemption of the €35.0m Senior Term Loan Facility after the closing of a €42m long-term sale-and-leaseback transaction (refer to Note 24).

NOTE 23 BANK AND OTHER BORROWINGS

The table below provides an overview of the bank and other borrowings that existed on 31 December 2020 and 31 December 2019:

(€ thousands)	2020	2019
TOTAL BANK AND OTHER BORROWINGS	148,493	57,643
Non-current portion	74,513	48,963
Other lease liabilities	29,515	37,788
Sale-and-leaseback liabilities	45,674	11,175
Of which: capitalised financing fees related to the sale-and-leaseback	(676)	-
Current portion	73,981	8,680
Other lease liabilities	6,846	7,469
Sale-and-leaseback liabilities	4,390	1,125
Of which: capitalised financing fees related to the sale-and-leaseback	(84)	-
Bentley RCF	7,342	-
Super Senior RCF	55,486	-
Commitment fees	-	86

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 (excluding IFRS 16 except for sale-and-leasebacks).

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 agreement providing for a €40.0m European Super Senior Revolving Credit Facility; which was increased to €45.0m in 2016, €68.0m in 2017 and eventually lowered again to €61.0m in January 2020.

On 18 July 2017, Balta renegotiated the agreement and obtained more favourable 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 below 2.00% p.a. at current leverage.

The European 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 European 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 European Super Senior Revolving Credit Facility. Amounts drawn under the European Super Senior Revolving Credit Facility may be used for working capital and other general corporate purposes of the Restricted Group (as defined in the contract), operational restructurings or permitted reorganisations of the Group.

The 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 European Super Senior Revolving Credit Facility is also guaranteed by each Guarantor. In 2020, additional securities were issued in favour of the noteholders and the European Super Senior Revolving Credit Facility banks with respect to the Belgium real estate property in Waregem and Sint-Baafs-Vijve. 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 the Senior Term Loan Facility banks will receive proceeds from the enforcement of the collateral only after indebtedness in respect of the European Super Senior Revolving Credit Facility and certain hedging obligations have been repaid in full.

As a precautionary measure, to address our short-term liquidity and working capital needs, on 11 March 2020, at the start of the COVID-19 pandemic, we drew the full amount of €56m under the European Super Senior Revolving Credit Facility.

On 9 October 2020, Balta signed agreements with each of its lenders under its existing European Super Senior Revolving Credit Facility to amend and extend the maturity date from 11 August 2021 to at least 30 June 2022. The maturity date would be further extended to a date no later than 30 June 2024, subject to a refinancing or an extension of the Senior Secured Notes due September 2022. We refer to the subsequent events section (note 40) for more information on the latter. The amendment and extension were granted in return for a small increase in interest rate.

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 favour 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. As a precautionary measure, to address our short-term liquidity and working capital needs, on 11 March 2020, we drew the full \$18.0m under the revolving credit facility. During Q4 2020, we repaid half of the outstanding amount. We confirm that we have complied with all covenants over the reporting period.

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 its normal course of business at face value less certain reserves and fees. The credit 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.

In 2020 the Group continues to recognise a portion of the receivables to the extent of its continuing involvement, in accordance with IFRS 9 (€23.3m).

The Group is also party to an Accounts Receivables Purchase Agreement with a financial institution, in the framework of a supply chain financing programme offered by a large customer. Under the 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 at the moment the cash is received.

NOTE 24 LEASES

The lease liabilities have increased from €57.6m as of 31 December 2019 to €85.7m as of 31 December 2020, the corresponding lease liability related to IFRS 16 amounts to €36.2m.

The liability was measured at the present value of the remaining lease payments, discounted at a predetermined discount rate. Balta applied several discount rates, depending on the type of asset (buildings or machines), lease term, geographical area, risk premium (from 1.80% to 3%) and the variability of the base rate (based on the market swap rates of 31 December 2018). The applied incremental borrowing rate depends on the geographical environment and the remaining duration of the agreement. For contracts in Europe, this is between 0 and 1.4%. While in the US, the incremental borrowing rate is 2.7%.

The leasing agreements under IFRS 16 have a remaining term between 1 and 9 years. We relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2020.

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.

Carrying amounts of lease liabilities and the movements in 2020:

(€ thousands)	IFRS 16 excl sale & lease back	Sale & lease back	Total
At 31 December 2019	45,257	12,342	57,599
Additions	1,665	42,000	43,665
Disposals	(1,263)	-	(1,263)
Capitalization of financing fees	-	(760)	(760)
Accretion of interest	2,007	1,416	3,422
Payments	(8,586)	(5,694)	(14,231)
Exchange impact	(2,718)	-	(2,767)
At 31 December 2020	36,362	49,304	85,665
Current lease liability	6,846	4,306	11,152
Non-current lease liability	29,515	44,998	74,513
TOTAL LEASE LIABILITY	36,362	49,304	85,665

(€ thousands)	2020	2019
TOTAL PRESENT VALUE OF LEASE LIABILITIES (EXCLUDING CAPITALIZED FINANCING FEES)	86,425	57,599
No later than 1 year	10,581	8,680
Later than 1 year and no later than 5 years	44,067	33,611
Later than 5 years	31,777	15,308

The Group uses foresight in determining the lease term where the contract contains options to extend or terminate the lease. Beside the impact on the business, criteria such as penalties and leasehold improvements are considered in this analysis. Variable lease payments are not included in the measurement of lease liabilities.

On 21 January 2020, the Group announced the closing of a €42m long-term sale-and-leaseback transaction involving two of its five owned production plants in Belgium. The lease, with a maturity of at least 10 years at an interest rate of 2.7% per annum, was concluded with three of the Group's main relationship banks.

NOTE 25 NET DEBT RECONCILIATIONS

The following table sets out an analysis of net debt and the movements in net debt:

Liabilities from financing activities											
(€ thousands)	Senior Secured Notes due after 1 year	Senior Secured Notes due within 1 year	Senior Term Loan Facility due after 1 year	Senior Term Loan Facility due within 1 year	Lease liabilities due after 1 year	Lease liabilities due within 1 year	Super Senior RCF	Bentley RCF	Total gross financial debt	Cash and Cash equivalents	Total net financial debt
Net debt as at 31 December 2019	(234,900)	(5,360)	-	(35,019)	(48,963)	(8,680)	-	-	(332,922)	19,241	(313,681)
Cashflows	-	-	-	-	-	-	-	-	-	89,735	89,735
Proceeds of borrowings with third parties	-	-	-	-	(38,008)	(3,992)	(55,442)	(16,429)	(113,872)	-	(113,872)
Foreign exchange adjustments	-	-	-	-	2,767	-	-	1,761	4,528	(2,687)	1,841
Repayments of borrowings with third parties	-	-	-	35,019	-	11,102	-	7,334	53,456	-	53,456
Other non-cash movements	-	-	-	-	9,015	(9,666)	(44)	(8)	(703)	-	(703)
Net debt as at 31 December 2020	(234,900)	(5,360)	-	-	(75,189)	(11,236)	(55,486)	(7,342)	(389,514)	106,289	(283,225)

The table above does not include the movements in capitalised financing fees, or the interest paid (see Note 21, 22 and Note 24).

NOTE 26 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	2020	2020	2019	2019
		Carrying amount	Fair value	Carrying amount	Fair value
Assets as per statement of financial positions		157,685	157,685	79,330	79,330
Loans and receivables		157,685	157,685	79,327	79,327
Trade and other receivables		51,396	51,396	60,086	60,086
Cash and cash equivalents	LEVEL 1	106,289	106,289	19,241	19,241
Assets at fair value through OCI		-	-	3	3
Foreign exchange derivative financial instruments	LEVEL 2	-	-	3	3
Liabilities as per statement of financial positions		498,200	482,303	440,480	426,516
Financial liabilities measured at amortised cost		498,097	482,200	440,067	426,106
Senior Secured Notes	LEVEL 1	237,361	221,464	235,426	221,464
Senior Term Loan Facility	LEVEL 2	-	-	34,927	34,927
Bank and other borrowings	LEVEL 2	148,493	148,493	57,643	57,643
Trade and other payables		112,242	112,242	112,072	112,072
Financial liabilities measured at fair value through OCI		103	103	413	413
Foreign exchange derivative financial instruments	LEVEL 2	103	103	413	413

Different valuation levels 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 and Senior Term Loan facility are based on a Level 1 estimate. The fair value of all other financial instruments, with the exception of cash- and cash equivalents, have been determined using Level 2 estimates. The fair value of the forward foreign exchange contracts have 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 27 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 programme 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 the Financial Statements.

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 EUR.

Our Consolidated Financial Statements are prepared in EUR. 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 EUR. 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 statement of comprehensive income, which is reported in EUR, 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 GBP and to hedge our USD 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, GBP and TRY relative to the EUR 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 EUR, our sales volumes may increase as we become more competitive in non-Eurozone markets. In contrast, a long-term strengthening of the EUR 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 2020 Net exposure	14,983	7,597	19,846	3,018	45,443
Trade and other receivables	18,613	9,858	18,613	4,313	51,396
Cash and cash equivalents	76,284	3,616	26,213	176	106,289
Trade and other payables	(79,914)	(5,877)	(24,980)	(1,471)	(112,242)

(€ thousands)	EUR	GBP	USD	TRY	TOTAL
31 December 2019 Net exposure	(49,387)	3,172	10,174	3,296	(32,745)
Trade and other receivables	24,835	8,068	22,810	4,372	60,086
Cash and cash equivalents	7,286	2,371	8,984	601	19,241
Trade and other payables	(81,508)	(7,267)	(21,621)	(1,677)	(112,073)

The following table presents the sensitivity analysis of the year-end statement of financial position in GBP, USD and TRY if the EUR were to weaken by 10%.

(€ thousands)	2020	2019
GBP denominated	(1,292)	(3,107)
Changes in fair value derivative financial instruments	(2,136)	(3,459)
Changes in carrying amount of monetary assets and liabilities	844	352
USD denominated	2,205	1,130
Changes in carrying amount of monetary assets and liabilities	2,205	1,130
TRY denominated	335	366
Changes in carrying amount of monetary assets and liabilities	335	366

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

(€ thousands)	2020	2019
GBP denominated	1,057	2,542
Changes in fair value derivative financial instruments	1,747	2,830
Changes in carrying amount of monetary assets and liabilities	(691)	(288)
USD denominated	(1,804)	(925)
Changes in carrying amount of monetary assets and liabilities	(1,804)	(925)
TRY denominated	(274)	(300)
Changes in carrying amount of monetary assets and liabilities	(274)	(300)

COMMODITY PRICE RISK

We are exposed to fluctuations in the price of the major raw materials used in the manufacturing process.

In 2020, due to a combination of lower prices and purchasing volumes, raw material expenses represented 41.7% of the Group's revenue compared to 47.2% 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.

If the commodity prices of our main raw materials had been 10% higher (lower), in the absence of any mitigating actions taken by management, adjusted EBITDA would have been approximately €11.0m lower (higher). This impact has been determined by multiplying the volumes of our main raw materials purchased on an annual basis by a 10% variance on the average purchase price for the year. The sensitivity calculation takes into account the typical time lag between purchasing raw materials and recognising the raw material expenses against sales.

When we hedge, we might do so by entering into fixed price contracts with our suppliers. No such arrangements were entered into in 2020 or 2019.

When we hedge, we might do so by entering into fixed price contracts with our suppliers. No such arrangements were entered into in 2020 or 2019.

INTEREST RATE RISK

Our interest rate risk principally relates to external indebtedness that bears interest at variable rates. Excluding IFRS 16 (except for sale-and-leaseback), only the amounts that we borrow under European Super Senior Revolving Credit Facility, our capital leases of buildings and the amounts under our factoring 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 25 bps shift in the € yield curve.

(€ thousands)	25 bps downward shift in EUR yield curve	25 bps upward shift in EUR yield curve
TOTAL PRESENT VALUE OF FINANCE LEASE LIABILITIES	23	(36)
Non-derivative floating rate financial liabilities	23	(36)

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 of the trade receivables where the credit 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. As a result of changing market conditions, Balta has taken the necessary actions to limit the credit risk as much as possible. Balta has revisited the assumptions used in the expected credit loss (ECL) model (refer to Note 16), based on updated macro-economic assumptions in light of COVID-19. This has resulted in slightly increased bad debt accruals rates (approximately €1.2m), which negatively impact the results for 2020, although we do not see the negative impacts at this point.

Default rates did not exceed 1% for 2020 and 2019.

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)	2020	2019
TOTAL CASH AND BANK EQUIVALENTS	106,289	19,241
A rating	105,731	18,404
BBB Rating	555	-
BB Rating	2	837

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 the 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 2020 are the Senior Secured Notes, European Super Senior Revolving Credit 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 2020. Please note this does not take into account the exchange offer we launched at the beginning of February 2021 to extend the maturity of the Senior Secured Notes by two more years. We refer to the subsequent events section (refer to note 40).

(€ 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 AT 31 DECEMBER 2020	(190,445)	(15,287)	(244,777)	(33,791)	(34,055)
Senior Secured Notes	(9,102)	(9,102)	(234,900)	-	-
Bentley RCF	(7,342)	-	-	-	-
Super Senior RCF	(55,486)	-	-	-	-
Lease liabilities	(6,183)	(6,177)	(9,877)	(33,791)	(34,055)
Trade and other payables	(112,242)	-	-	-	-
Gross settled derivative financial instruments - outflows	(15,610)	(723)	-	-	-
Gross settled derivative financial instruments - inflows	15,521	716	-	-	-

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. We refer to subsequent event section of this report (Note 40) for more information on the extended maturity of both our Senior Secured Notes and our (European) Super Senior Revolving Credit Facility.

In particular, the European Super Senior Revolving Credit Facility includes a springing Leverage covenant at 6.5x, however this is only tested at the end of a quarter, and provided more than 30% of the European Super Senior Revolving Credit Facility is used at that time which was the case at the end of December 2020. The leverage at the end of the year was 4.2x. The \$18m revolving credit facility at BPS Parent Inc. includes a local leverage and fixed charge coverage covenant, providing ample headroom.

As a precautionary measure at the start of the COVID-19 pandemic, to address our short-term liquidity and working capital needs, on 11 March 2020, we fully drew both the €56.0m (European) Super Senior RCF and the \$18.0m revolving credit facility.

The difference in total lease liabilities in the table above (€90.1m) versus the table shown in Note 24 (€86.4m) is because the €90.1m is an undiscounted amount while the €86.4m represents the net present value.

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 2019.

(€ 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 AT 31 DECEMBER 2019	(161,157)	(13,556)	(26,302)	(273,771)	(20,856)
Senior Secured Notes	(9,102)	(9,102)	(18,205)	(253,105)	-
Senior Term Loan Facility	(35,046)	-	-	-	-
Lease liabilities	(4,480)	(4,452)	(8,097)	(20,666)	(20,856)
Trade and other payables	(112,072)	-	-	-	-
Gross settled derivative financial instruments - outflows	(14,122)	(970)	-	-	-
Gross settled derivative financial instruments - inflows	13,666	969	-	-	-

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 as follows:

(€ thousands)	2020	2020	2019	2019
	Moody's	S&P	Moody's	S&P
Long-term issue rating Senior Secured Notes	Caa1	B-	B2	BB-
Corporate rating	B3	B-	B2	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 transparency as a public company, strengthened corporate governance arrangements and enhanced access to equity capital markets. In November 2018, the rating was downgraded to 'B2' with a negative outlook on the back of financial performance. During April 2020, Moody's decided to further downgrade the corporate rating to 'B3' and the Senior Secured Notes to 'Caa1' both with a negative outlook mainly referring to the uncertainties caused by the outbreak of COVID-19 and the challenges that Balta may face in refinancing its near-term debt maturities.

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 the €290m Senior Secured Notes and its 'BB-' long-term issue rating to the €68m European Super Senior Revolving Credit Facility. In July 2017, the corporate rating was increased to 'B+' and the long-term issue rating to 'BB' 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 financial performance, the corporate rating was reduced to 'B' and the long-term issue rating on the European Super Senior Revolving Credit Facility to 'BB-'.

In March 2020, S&P decided to further downgrade the ratings to 'B-' due to cash flow generation uncertainty and refinancing risks. We also refer to the subsequent event section for the latest update on our ratings (see Note 40).

CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern to provide returns for shareholders, 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 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 21 to 23 for further details.

NOTE 28 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

0.35% and 0.5% in 2020 and 2019, respectively. The annual pension cost, relating to the pension plan is disclosed in Note 6.

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

(€ thousands)	2020	2019
TOTAL EMPLOYEE BENEFIT OBLIGATIONS	3,950	4,533
Pension plans	3,070	3,333
Provisions early retirement pension	880	1,201
TOTAL EMPLOYEE BENEFIT OBLIGATIONS	3,950	4,533
Non current	3,643	4,106
Current	307	427

PENSION PLANS: OVERVIEW

Pension plans have been put in place for management and are 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 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 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 the relevant date of closing.

Pension plans: main valuation assumptions

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

	2020	2019
Discount rate BE	0.35%	0.50%
Discount rate TR	3.67%	4.57%
Retirement age	65 years	65 years
Mortality	MR/FR-5	MR/FR-5

For the year ended 31 December 2020, the defined benefit obligation, taking into account the tax effect, amounts to €19.6m (2019: €18.6m) and the offset by plan assets of €16.9m (2019: €15.9m).

NOTE 29 OTHER PAYROLL AND SOCIAL RELATED PAYABLES

(€ thousands)	2020	2019
TOTAL OTHER PAYROLL AND SOCIAL RELATED PAYABLES	33,837	36,928
Holiday pay	15,912	14,834
Social security taxes	3,876	6,233
Salaries and wages payable	9,277	11,048
Early retirement provision	307	427
Group insurance	2	68
Withholding taxes	1,055	1,439
Other	3,409	2,879

Other payroll and social related payables decreased from €36.9m as of 31 December 2019 to €33.8m as of 31 December 2020. The decrease can be explained due to an overall decrease in the workforce.

NOTE 30 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

(€ thousands)	Asset retirement obligation	Restructuring	Warranty	Other	Total
At 1 January 2020	863	164	1,853	13	2,893
Additional provisions made and increases to existing provisions	155	-	-	-	155
Exchange differences	(48)	-	(170)	-	(218)
Amounts used	-	(164)	(166)	(13)	(343)
At 31 December 2020	970	-	1,517	-	2,487

Analysis of total provisions (€ thousands)	2020
Non-current	2,487
Current	-
	2,487

The provision for other liabilities and charges decreased by €0.4m to €2.5m for the year ended 31 December 2020.

NOTE 31 TRADE AND OTHER PAYABLES

(€ thousands)	2020	2019
Trade and other payables	112,242	112,072
Trade payables	85,455	83,741
Accrued charges and deferred income	26,050	27,661
Other payables	738	671

Trade payables as of 31 December 2020 of €112.2m include the amounts for outstanding invoices (€70.3m, as compared to €70.8m as of 31 December 2019) and invoices to be received in relation to goods and services received during the current period (€15.1m, as compared to €13.0m as of 31 December 2019).

Accrued charges and deferred income mainly relate to:

- Deferred revenue relating to the sale-and-leaseback of one of the facilities which is recognised in the Statement of comprehensive income over the leasing period of the facilities (€7.3m, as compared to €8.7m as of 31 December 2019);
- Deferred revenue relating to advance payments on rental agreements (€2.1m, as compared to €2.5m as of 31 December 2019);
- Accrued charges for customer discounts (€13.6m, as compared to €13.3m as of 31 December 2019).

NOTE 32 SHARE BASED PAYMENTS

The Company has a long-term incentive plan for certain employees, which depends on the share price reaching a defined target. As this moment, the options are "out-of-the money". Refer to the remuneration report, part of the "Corporate Governance Statement".

NOTE 33 GOVERNMENT GRANTS

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

The main incentives received comprise:

- Environmental grants: the Group receives government 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"). In 2020, €1.5m has been received in this framework, compared to €0.4m in 2019.
- Investment grants: the Group granted €0.2m in 2019 for the development of alternative polyolefins for bitumen of which it received €0.1m in 2020.

NOTE 34 EARNINGS PER SHARE**BASIC AND DILUTED EARNINGS PER SHARE**

(€ thousands)	2020	2019
BASIC AND DILUTED EARNINGS PER SHARE		
Net result from continuing operations	(12,646)	10,360
Percentage of net result from continuing operations attributable to holders of ordinary and diluted shares	100%	100%
Net result from continuing operations attributable to holders of ordinary and diluted shares	(12,646)	10,360
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)	(0.09)	0.08

In accordance with IAS 33, basic earnings per share is 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.

ADJUSTED EARNINGS PER SHARE

The result for 2020 and 2019 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.

(€ thousands)	2020	2019
Adjusted earnings per share ⁽¹⁾		
Net result from continuing operations	(12,646)	10,360
Normalisation adjustments:	9,134	(3,856)
Adjusted Net Result from continuing operations	(3,512)	6,503
Percentage of net result from continuing operations attributable to holders of ordinary and diluted shares	100%	100%
Net result from continuing operations attributable to holders of ordinary and diluted shares	(3,512)	6,503
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)	(0.03)	0.05

The loss for 2020 includes the non-recognition of deferred tax assets and taxation of previously untaxed Belgian reserves (see Note 11), offset by the net of tax impact of the €7.7m non-recurring expenses for integration and restructuring. In the absence of such events, the normalized loss for the period would have been €3.5m. Similarly, the profit for 2019 includes a net

non-recurring expense of €6.6m (as in Note 3), resulting in a normalized net profit of €6.5m.

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 35 DIVIDENDS PER SHARE

Given the uncertain COVID-19 environment, the investments in growth and cost saving initiatives resulting from our NEXT programme, combined with our Leverage exceeding 3.0x at year-end, the Board will not propose a dividend for 2020.

NOTE 36 COMMITMENTS

ENERGY

Our fixed price purchase commitments for electricity and gas, for deliveries in 2021 and 2022, are equal to €4.2m as of 31 December 2020 compared to an amount of €17.3m as of 31 December 2019.

CAPITAL EXPENDITURES

As of 31 December 2020, €3.6m capital commitments are outstanding compared to €2.1m as of 31 December 2019.

NOTE 37 LIST OF CONSOLIDATED COMPANIES

The subsidiaries and jointly controlled entities of Balta Group NV, the Group's percentage of interest and the Group's percentage of control of the active companies are presented below.

	2020		2019	
	% of interest	% of control	% of interest	% of control
Belgium				
Balta NV	100%	100%	100%	100%
Balta Industries NV	100%	100%	100%	100%
Modulyss NV	100%	100%	100%	100%
Balta Oudenaarde NV	95%	100%	95%	100%
Balfid BV	100%	100%	100%	100%
Luxembourg				
Balfin Services 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%
United Kingdom				
Balta Floorcovering UK	100%	100%	100%	100%

Balta Floorcovering UK, with company registration 11978782, a subsidiary of our company, is taking advantage of exemption from audit in accordance with section 479A of the Companies Act 2006 of the United Kingdom and is, therefore exempted from the requirement of this Act

NOTE 38 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. In 2018, a contract was signed with a related party of the main shareholder, the impact on the 2019 and 2020 financials is limited.

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 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)	2020	2019
TOTAL KEY MANAGEMENT COMPENSATION	3,580	3,404
Short term employee benefits	3,404	3,221
Long term employee benefits	-	10
Board compensation	154	163
Share-based payments	22	9

Refer to the 'Corporate Governance Report' for information with respect to remuneration of directors and members of the Group's Management Committee.

OTHER TRANSACTIONS WITH RELATED PARTIES

Year-end balances arising from daily operations:

(€ thousands)	2020	2019
Other payables to related parties	(2,564)	(3,144)

The year-end balances mainly arise from current account positions as a result of payments which have been performed on behalf of Group entities. All these current accounts were settled.

NOTE 39 FEES PAID TO THE GROUP'S AUDITORS

(€ thousands)	2020	2019
Audit services	535	324
Audit of the Group pursuant to legislation	535	324
Non-audit services	124	147
Tax services	80	-
Other services	44	147
TOTAL FEES PAID TO THE GROUP'S AUDITOR	659	471

NOTE 40 EVENTS AFTER THE REPORTING PERIOD

The Group announced on 2 February 2021 that it has entered into an agreement with noteholders representing c. 52% of the aggregate principal amount of the 7.75% Senior Secured Notes due 2022 (the "Existing Notes") issued by LSF9 Balta Issuer S.à r.l (the "Issuer"), to tender their Existing Notes in an exchange offer (the "Exchange Offer") for new Senior Secured Notes with a maturity of 31 December 2024 (the "New Notes"), to vote in favour of certain amendments to the terms of the Existing Notes and the indenture governing the Existing Notes (the "Existing Indenture") by way of a consent solicitation ("Consent Solicitation") and to support commencement of a scheme of arrangement under Part 26 of the UK Companies Act 2006 or an analogous legal process in the United Kingdom (the "Scheme") (the "Scheme Solicitation").

On 3 March 2021 the Group was pleased to announce that it has received sufficient support for the "Exchange Offer" to implement it without the need to apply a scheme of arrangement. Eligible holders of the "Existing Notes" had validly tendered (and not validly withdrawn) €233,061,300 in aggregate principal amount (representing 99.22%) to exchange their Existing Notes for new Senior Secured Notes with a maturity of 31 December, 2024 (the "New Notes") or cash and to vote in favour of certain amendments to the terms of the Existing Notes and the Existing Indenture by way of the Consent Solicitation. As a result, the €61m European Super Senior Revolving Credit Facility further extended to 30 June 2024.

On 22 February 2021, S&P revised the Company's outlook from negative to positive after Balta successfully managed to extend the maturity dates of its Senior Secured Notes and the European Senior Secured Revolving Credit Facility to 2024.

COVID-19 STATEMENT

Following a strong start in the first two months of 2020, the disruptive impact of COVID-19 began in March 2020. Balta took swift and decisive measures to protect its employees and other stakeholders, to reduce its operating costs and to manage its cash flows. In the second quarter, 6 of our 8 plants were temporarily shut down on a voluntary basis to manage costs, senior staff took voluntary reductions in pay, the vast majority of staff were put into temporary unemployment programmes and all non-essential expenditure was deferred. Despite the voluntary closures, we retained the flexibility to resume partial production at our facilities to satisfy demand and service customer orders. As a precautionary measure, to address our short-term liquidity and working capital needs, revolving credit facilities were fully drawn and covenants renegotiated. In Q1 2021, we saw Q4 2020 trends broadly continue and we have a solid order book. We remain vigilant as new pandemic restrictions have been imposed in most of our markets and together with other market distortions, such as capacity constraints of raw material supplies and freight congestion, are leading to cost increases.

The current crisis has and will continue to impact our working capital. We are closely monitoring our daily cash flows. To further protect our liquidity position, we are still reducing our marketing costs as well as samples and other capital expenditures. Additionally, we are closely monitoring our accounts receivable and accounts payable to manage our cash inflows and outflows. Nevertheless, we were able to repay during Q4 2020 half of the outstanding amount of the \$18.0m revolving credit facility leaving us with a further €7.4m headroom to draw under the US revolving credit facility. We have also assumed that our customers will continue to pay according to invoice terms (which was the case in 2020 and so far in 2021). Based on these assumptions and based on the currently available information and forecasts in combination with the extension of our Senior Secured Notes as discussed above, the Group currently believes that it will be able to meet its liabilities and commitments as they fall due across the applicable forecast period and has determined that the going concern basis remains the appropriate basis of preparation for its financial statements.



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 2020, 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 2020;
 - 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 Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for 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.

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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.

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, 26 April 2021

Anne Derouané

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