

# 2018

ANNUAL  
report



# TABLE OF contents



Rugs



Residential carpets & tiles



Commercial carpets & tiles



Non-Woven



STRATEGIC REPORT  
4



HIGHLIGHTS 2018  
10



NOVELTIES AND INNOVATIONS  
14



THE GROUP AT A GLANCE  
18



CFO FINANCIAL REVIEW  
26



NON-FINANCIAL KPI'S  
30

|                       |     |
|-----------------------|-----|
| CORPORATE GOVERNANCE  | 48  |
| SUMMARY OF MAIN RISKS | 70  |
| FINANCIAL STATEMENTS  | 74  |
| GLOSSARY              | 136 |
| INVESTOR RELATIONS    | 137 |

**DISCLAIMER**

This report may include forward-looking statements. Forward-looking statements are statements regarding or based upon our management's current intentions, beliefs or expectations relating to, among other things, Balta Groups' future results of operations, financial condition, liquidity, prospects, growth, strategies or developments in the industry in which we operate. By their nature, forward-looking statements are subject to risks, uncertainties and assumptions that could cause actual results or future events to differ materially from those expressed or implied thereby. These risks, uncertainties and assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this report regarding trends or current activities should not be taken as a report that such trends or activities will continue in the future. This report, the "Annual Report", represents the directors' report prepared in accordance with article 119 of the Code of Companies.





Cyril  
Ragoucy,  
CEO

# STRATEGIC report

## Chief Executive Officer

### OUR STRATEGY

Our vision is to bring beautiful design at affordable prices to the mid-segment mass markets by leveraging innovation capabilities and commercial and operational excellence, and to target large segments with attractive margin opportunities. We see ourselves being the preferred partner to our customers, providing leading innovation and great customer service.

In the Rugs division, our goal is to be the global innovation and design leader in machine-made rugs. In Commercial, Balta is the growing challenger in the North American and European commercial carpet and tiles segment. Finally, in Residential, we intend to hold a market leading position in Europe.

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

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

### STRENGTHEN OUR LEADING POSITION ACROSS CORE SEGMENTS

We believe that a strong focus on product development and launching new innovation is a profitable way for Balta to sustainably grow sales and margin. We are also mindful that we have to invest to expand our sales reach and capabilities for future growth in the attractive Rugs and Commercial divisions.

Our Rugs division had a challenging year, with a difficult market environment in Europe through most of the year and a setback in the US as we lost share of wallet with two home improvement customers, which could only be partly offset within the year after regaining part of the share of wallet for 2019's program. At the same time, we continued to invest in the long-term growth opportunity and have made good progress in further diversifying our US Rugs business, with new customer wins and growth in indoor rugs and e-commerce. To further support the fast growing e-commerce opportunity, we hired an expert US e-commerce team and have leased a new dedicated e-commerce warehouse in Savannah since the end of 2018, complementing our existing distribution center in Rome.

Our Commercial performance in 2018 was mixed. Our US business delivered a strong performance, growing more than 20% in a nearly flat market, as our investments in sales resources and innovative products paid off. We will continue to invest in growth opportunities, as we see potential to further take share in the office segment and at the same time make inroads in the education and multi-family segments.

In Commercial Europe, our results for 2018 were below our expectations with revenue broadly flat year-on-year. Looking forward, learning from US Commercial's example, we aim to grow our share of specification business. We are building a dedicated salesforce and are adding showrooms later this year as add-ons to the existing showroom in London, targeting the A&D community in the UK, Benelux, France and Germany.

In Residential, the market environment across our key markets has been and continues to be challenging. With volumes under pressure, our strategy has been to grow the proportion of revenues from the relatively higher margin broadloom products. While we have succeeded in increasing sales of these products, which currently represent 33% of Residential sales (versus 20% a year ago and 7% three years ago), this was more than offset by overall volume declines.

In addition, significant raw material cost price increases and the decline in the GBP have further impacted our margins. Brexit uncertainty impacted consumer confidence, thereby resulting in fewer housing transactions and lower retail footfall. The resulting sharp decline in the UK market since the end of 2017 is expected to persist in 2019. We remain committed to the UK, as we believe in a normalisation of this market in the mid-term and in the meantime work on improving our cost efficiency and service towards this market.

### FOCUS ON COMMERCIAL & OPERATIONAL EXCELLENCE

To be successful in today's market, it takes more than having the right product. That is why we increased our focus on Commercial Excellence. We have launched a group-wide dedicated commercial action room, which identifies and targets the potential across our businesses and customers. By reviewing and optimizing our sales processes, setting up a uniform Customer Relationship Management (CRM) tool and using a more structured approach towards market segmentation and pricing we aim to increase our sales force effectiveness.

In a capital intensive manufacturing industry such as ours, 'Operational Excellence' is a key ingredient of success. We continue to automate our Rugs and Commercial production processes to lower the cost of manufacturing. If our products cannot benefit from automation, we have been shifting production to our Turkish facilities, where we can manufacture labor intensive products at competitive prices. We constantly strive to optimise our infrastructure to changes in the markets we operate in.

In 2018, as part of the six key initiatives, we continued with and extended the annual program of 'Operational Excellence' initiatives to compensate for cost inflation from wage, energy and transportation costs. With the continued cost inflation we are seeing, renewing and accelerating our efforts in 'Operational Excellence' will be a key pillar for 2019 as well. We have identified and dedicated resources to start implementing





Burnish Collection, Bentley.

Lean initiatives across our factories. In addition to lowering our conversion cost, these initiatives will further reduce the complexity of some of our processes and benefit our working capital management.

We completed the restructuring of the operational infrastructure in Belgium within our Residential business, by consolidating the Oudenaarde facility into two factories in the region. We executed well and fully captured the anticipated benefits. However, with the continued volume declines we saw in Residential, these benefits were already more than offset.

### SELECTIVELY SEEKING COMPLEMENTARY ACQUISITION OPPORTUNITIES

At current leverage levels, our focus will be to deleverage before we continue evaluating complimentary acquisition opportunities with attractive shareholder returns.

In 2018, we made a very small investment in Papilio Rugs, active in designing and sourcing natural hand-made rugs. Papilio allows us to broaden the product offering of Balta home and address a growing niche of the rugs segment in which we had no presence before. While still very small today, we believe the underlying drivers are present for Papilio's niche to grow over the next few years.

## PERFORMANCE IN 2018

**Looking back, 2018 has proven to be a difficult year for Balta. First, we were impacted by a slow trading environment across some of our key markets. In addition, we did not escape the industry-wide trend of cost inflation in raw materials, freight and energy costs. Despite the strong performance of our Commercial business and having executed well on the six key initiatives, the aforementioned headwinds led us to lower our expectations for the full year at our H1 2018 results. We ended the year with an improved Q4 in line with this revised guidance.**

The trading environment across some of our key markets has been challenging throughout most of the year. At the same time, the raw material price increases that started impacting our performance in the second half of 2017 continued to have an adverse effect in 2018 as expected. But in addition to raw materials, inflation in energy and freight costs weighed on earnings.

In UK Residential, volumes saw a sharp decline after Boxing Day 2017, a trend that continued throughout 2018 as retail and wholesale were under pressure amid a longer period of unfavorable weather and declining consumer confidence. In European Rugs, after a good start to the year, trading worsened as of the second quarter and our customers started indicating lower footfall in their stores, with only a slightly improved trend towards the end of the year. Finally, in US Rugs, we lost share of wallet with two home improvement customers for the 2018 outdoor season. Despite regaining part of the share of wallet with these customers for the new season resulting in year-on-year growth in H2 2018 and growth in the rest of the US business this was a setback after consecutive years of growth in US Rugs. The lower volumes in Rugs and Residential have materially impacted our earnings evolution year on year.

While we saw a decline in our Rugs and Residential businesses, our Commercial division delivered strong growth in 2018, driven by further market share gains in the US where we strengthened our sales teams across the country and increased our focus on national and global accounts.

At the start of the year we laid out six key priorities for 2018, focused on growing profitable revenue and delivering an increased level of cost savings. We returned to growth in US Rugs in the second half of the year, delivered a solid performance in Commercial and increased the share of high margin products in Residential. At the same time, we successfully completed the Residential operational footprint reorganisation, realised the operational synergies from the Bentley acquisition and continued our focus on operational excellence. Though we executed well on these six initiatives, the associated benefits we realised were not sufficient to offset the new headwinds we faced.

## 2019 KEY INITIATIVES & OUTLOOK

As a result of the strategic and operational review begun in November 2018, we launched a holistic program, NEXT, designed to deliver a significant improvement in earnings over a three year period. The key initiatives focus on (i) delivering sustainable growth, (ii) improving commercial excellence and (iii) increasing cost competitiveness:

### 1. Delivering sustainable growth

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

In Rugs, one of the fastest growing channels for the coming years is e-commerce, both in the US and Europe. In order to be the best partner for our existing and future e-commerce customers, whether brick-and-click, pure-play or marketplaces, we have invested in people, logistics and processes to service these partners. We established an expert US e-commerce team in mid-2018 and have



leased a dedicated warehouse in Savannah, Georgia since the end of 2018. We also invested in the digital assets required to be successful in e-commerce, such as high quality picture and video content to drive website traffic and consumer sales. With the learnings from the US, we will take similar steps in Europe.

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

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

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

In Residential, the UK market has seen a sharp decline since the end of 2017 spurred by Brexit uncertainty which impacted consumer confidence, thereby resulting in fewer housing transactions and lower retail footfall. While we

expect the trend to continue in 2019, we believe in the long-term potential and a normalisation of the UK, being the largest European carpet market, in the mid-term. In the meantime we are committed to improve our cost efficiency and service towards this market.

We remain committed to bringing new and innovative products to market. Additional new collections have been and will be launched in Residential and Commercial on top of our normal renewal cycle. In Rugs, we continue to introduce new collections every six months.

## 2. Improving commercial excellence

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

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

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

## 3. Increasing cost competitiveness

Our efforts in operational excellence will be accelerated in 2019, as we keep on identifying ways to make our processes more efficient. We have performed an in-depth review of our



Bentley® - Outlier Habitat

cost competitiveness and have setup several Lean projects across our plants which will be implemented during this year with a meaningful impact from 2020.

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

Additionally, we have taken several measures targeting cost savings in procurement and SG&A.

## 2019 OUTLOOK

We anticipate 2019 to be another challenging and transformational year for our business with Adjusted EBITDA broadly flat<sup>1</sup> versus 2018. Our outlook is based on a moderate macro-economic view with the trends we have seen in 2018 set to continue. In general, the European retail trading environment, amplified by Brexit uncertainty, is expected to remain a challenging

backdrop for our Residential and Rugs businesses in Europe. At the same time, the outlook for our US Rugs and Commercial businesses remains more positive. 2019 will be marked by continued industry-wide raw material and other cost inflation as well as our growth investments in salesforce and related infrastructure. We expect the impact on our full year earnings to be offset by the price actions we have taken together with the first benefits from our growth and cost saving initiatives, which will have a more significant impact as from 2020.

**Cyrille Ragoucy,**  
**CEO Balta Group**

<sup>1</sup> Excluding the impact of IFRS16 (applicable as from 1 January 2019) as described on page 29



# HIGHLIGHTS 2018

## JANUARY:

New innovations were displayed at the Domotex show in Hanover, Germany with Balta home showing more than 1,000 rugs, of which 600 were

completely new. Balta carpets showed the LCT (Luxury Carpet Tiles) collection and the new high-end Wild Luxury Collection.



Domotex also saw Balta home launch a B2B portal [www.my-baltahome.com](http://www.my-baltahome.com), giving customers the freedom to browse through the complete standard collection and download high resolution images to be used on their e-commerce platform.

Balta Uşak participated in the 'Why Not You?' social project in cooperation with the local district governor of Selendi in Turkey. This project aims to provide meaningful employment in the Selendi region to slow the exodus from rural areas into towns. Balta plants in Turkey are now employing 110 workers from nearby Selendi and for most, it is their first industrial employment experience. As half of the workers are female, this project also contributed to the emancipation of women in rural areas.



## MARCH:

After a survey with all employees, Balta Group launched a new strategic safety plan, called 'One Balta for Safety' identifying a common goal: zero accidents. The main action points of One Balta for Safety were cemented in the Golden Safety Rules.



Being one of the remaining exhibitors from the very first show in 1999, Balta received a loyalty award for 20 years of exhibiting at Domotex Asia/CHINAFLOOR in Shanghai.

## APRIL:

On 24 April, Balta Uşak successfully passed a Customs Trade Partnership Against Terrorism (CTPAT) audit. CTPAT is a supply chain programme of US Customs and Border Protection to strengthen international supply chains and improve United States border security.

## MAY:

Balta Group hosted its first Annual General Meeting at its corporate headquarters since the IPO.

## JUNE:

Captiqs provided non-woven event carpet to six cities of the FIFA World Cup in Russia.

Under the Papilio® brand, Balta home broadens its product offering with handmade and natural rugs sourced from India, Bangladesh and China.

Balta obtained new, stricter certificates for quality in ISO 9001 and environment and energy through ISO 14001, for all Belgian factories.

Bentley's Drawing Room Collection brought home a silver honour for best broadloom carpet in Contract Magazine's coveted 'Best of NeoCon Awards'. NeoCon in Chicago, is the most important event for the American commercial design industry.



papilio  
by balta home



## JULY:

The last tufting machine was moved from Oudenaarde to Tielt, finalising the reduction of our Residential production footprint from three to two sites, as was announced in November 2017.

On 24 July, Balta Uşak passed successfully an audit of The Supplier Compliance Audit Network (SCAN).



## SEPTEMBER:

Out of more than 100 entries, the 'Made in Heaven' polyester carpet collection from Balta carpets, was given a National Flooring Innovation Award, which sets out to identify products and services that are genuinely new and exceptional in the UK flooring industry.

On 11 September 2018, Balta Uşak organised Industrial Zone Textile Technology Vocational Technical Anatolian Secondary School was inaugurated. Through a professional education, the aim of the school is to turn students into qualified technical workers, helping to bring textile companies in our Industrial Zone to the next level.



Balta Uşak helped finance this school and received an award from the Industrial Zone's Presidency for its efforts.

## OCTOBER:

Balta home US returned to growth in Q3, underpinned by new customer wins and growth in indoor rugs and e-commerce, demonstrating the further successful diversification of our US rugs business.

Modulyss & arc edition showed our commercial flooring solutions for sustainable office spaces at Orgatec in Cologne, one of Europe's premier commercial interior design events.



## NOVEMBER:

Balta home US celebrated its first-year anniversary at its Rome, Georgia, distribution centre and began looking at further expanding its activities in the US market.



November brought multiple forms of recognition for two of Bentley's outstanding collections.

Burnish, from the Outskirts Collection, took the top spot in the 'Readers' Choice Awards' of Interiors and Sources Magazine and The Drawing Room Collection – Dust Jacket and Dog Eared – was nominated for an Interior Design 'Best of Year' award in the Broadloom Flooring category.

Balta initiated a strategic and operational review of all activities to drive the full potential of the company in a changing market environment.

## DECEMBER:

For the first time an 'International Open Week' was organised in the showroom of Balta Tielt in Belgium, showcasing innovative product launches for 2019. The event was a success with 104 companies attending and 226 people from 41 different nationalities discovering a wide variety of new developments and marketing concepts creating added value.



Launch of our new investors website  
[www.baltainvestors.com](http://www.baltainvestors.com)





# NOVELTIES and INNOVATIONS in 2018

Our success is built on responding to the unique challenges of our market, offering end consumers innovative, quality-driven textile floors that bring lasting products to homes and businesses.

We achieve this through a programme of continuous design and development that pushes the envelope of possibility for carpets, carpet tiles, rugs and non-woven textiles. Talented and experienced creation teams in each division closely monitor emerging trends and technological developments, using their knowledge and insight to develop practical and beautiful flooring solutions.

From high-texture carpet tiles that mix metallic and matt effects to the latest generation of soft and resilient polyester yarns in silk-like domestic carpets, we continue to bring added value to the solutions we provide for end consumers. Discover how we've been resetting the boundaries of innovation in the flooring sector throughout 2018.

papilio  
by balta home

With the addition of award-winning Papilio, we are providing a complementary collection that brings the quality and craft of hand-woven and natural rugs. A well-established brand, Papilio offers everything from faux-fur, recycled polyester and jute to cotton, linen, viscose and wool. Designed in close collaboration with customers and made by skilled artisans in the world's best handmade rug centres, Papilio brings a new channel to build on the success of Balta home. Find out more on [www.papiliorugs.com](http://www.papiliorugs.com)



## NEW GENERATION RUGS

New Generation Rugs are all about softness and convenience. Each collection has its own look and feel, but they all share the same innovative features, for worry-free living. Machine washable and tumble dryer proof; stains and odours of all kinds are easily and conveniently washed away. New Generation Rugs are made from either 100% polyester or 100% polypropylene for easier recyclability.

Thanks to the rich, non-shedding pile yarn constructions, these cosy floor blankets feature a versatile look to complement any interior decor and can even be easily cut to size for a perfect custom fit. New Generation Rugs are equipped with a soft and supple felt backing for optimal protection of every floor.

Check out the video on: [www.balta-home.com](http://www.balta-home.com)

BALTA's NEW GENERATION RUGS are...



which makes them...



& even Clumsy-proof



BENTLEY®  
LOS ANGELES



Geo LVT from Bentley

## ELEMENTS Collection - VOLUME THREE - Luxury Vinyl Tile from Bentley

Bentley has launched the new ELEMENTS Collection – Volume Three, an attractive and practical Luxury Vinyl Tile (LVT) range that unites rich, warm tones of stained wood, quarried stone and subtle textile textures.

This collection is available in three styles; Geo, Grain and Tex in 18" x 36" and 9" x 48" formats. Through this new collection, Bentley continues to grow its LVT business.



# DELIGHT

## COLLECTION

Indulge in the delight of shimmering effects and subtle metallics with the glistening carpet tile collection Delight from modulyss. This utterly enchanting range radiates through an interior with unexpected turns and tricks of light, tantalizing at every glance.

Delight is modulyss' sophisticated response to the mixed metallic trend, made-up of five diverse carpet tile designs - Blaze, Dusk, Dawn, Gleam and Spark - unified through a gloss accent and colour range. Day or night, Delight is ready to dazzle with its alluring looks for work and hospitality spaces.

As an associate member of the Healthy Seas programme, modulyss has designed the Delight collection using high-grade ECONYL nylon yarn derived from recovered fishing nets and other recycled polyamide materials.



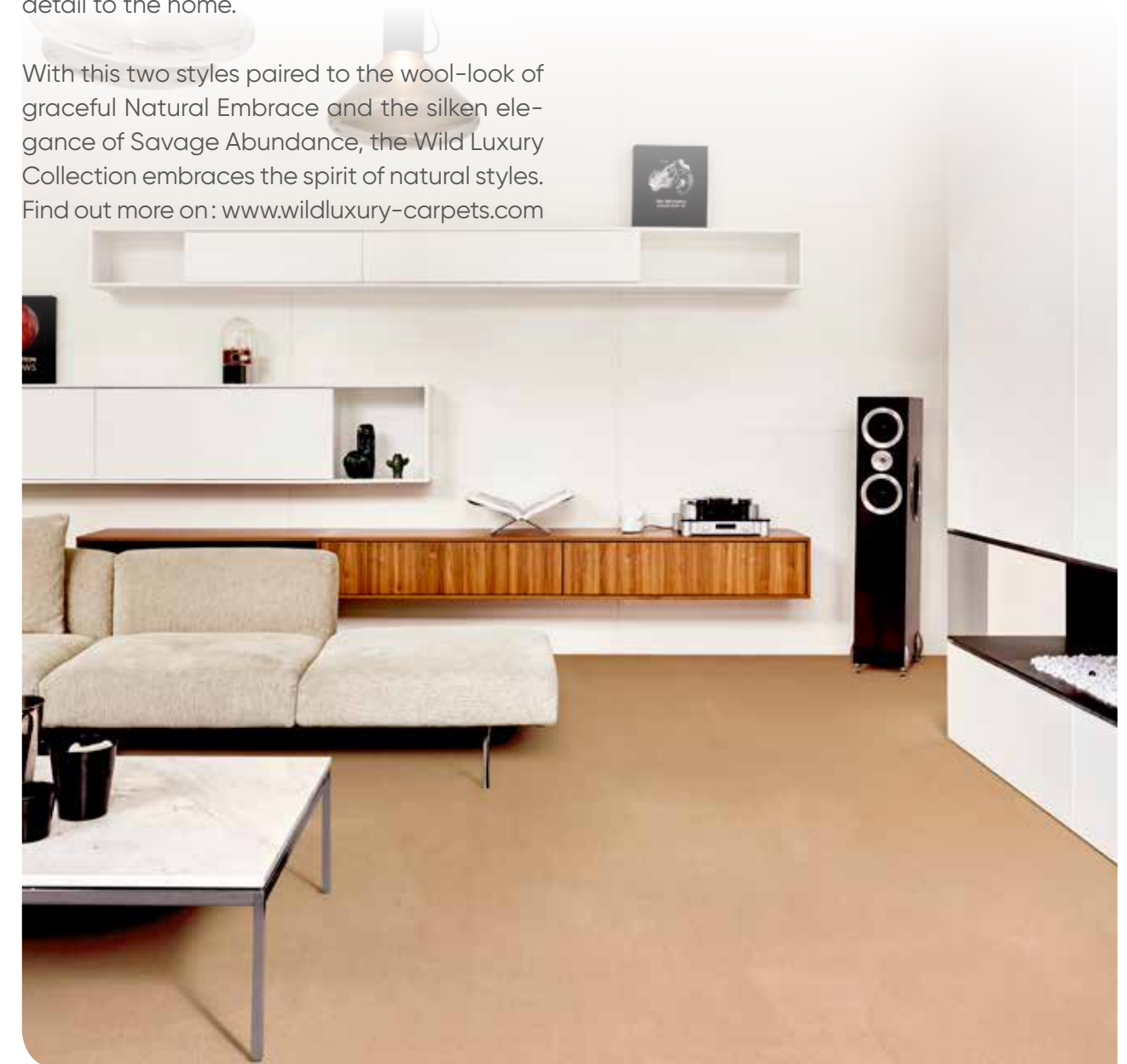
# WILD LUXURY

## -STYLED BY NATURE-

The Wild Luxury Collection is an escape to the wilds through a luxury carpet for residential customers. Featuring four luxurious and indulgent carpet styles in a palette of timeless hues, the Wild Luxury Collection invites consumers in and rewards them with exquisite softness.

Two styles are inspired by the culture and textiles of ancient nomadic Berber tribes: Earthy Privilege in a high-quality berber loop, strong underfoot yet soft to the touch. The second, Bold Indulgence, comes with a dense pile and a shimmering shaggy texture that adds lavish detail to the home.

With this two styles paired to the wool-look of graceful Natural Embrace and the silken elegance of Savage Abundance, the Wild Luxury Collection embraces the spirit of natural styles. Find out more on: [www.wildluxury-carpets.com](http://www.wildluxury-carpets.com)







Flat weaving in Balta Waregem

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

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

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

# THE GROUP at a glance



## REPORTING SEGMENTS

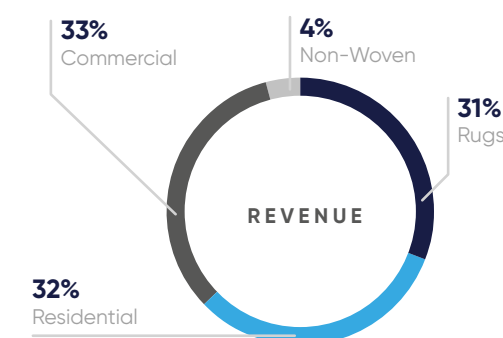


Balta has four reporting segments:

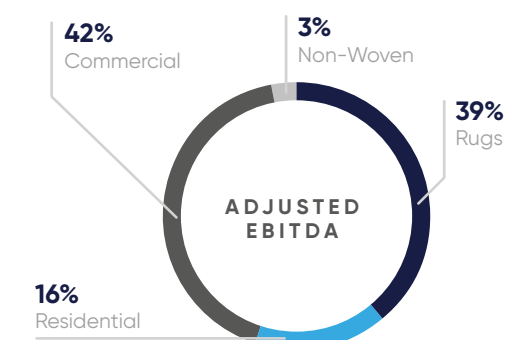
- **Rugs:** woven and tufted area rugs, under the Balta home brand.
- **Residential:** wall-to-wall carpet and carpet tiles for private use, through the brands Balta carpets, ITC and Balta carpet tiles.
- **Commercial:** wall-to-wall carpet and carpet tiles for commercial use under the brands arc edition,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

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

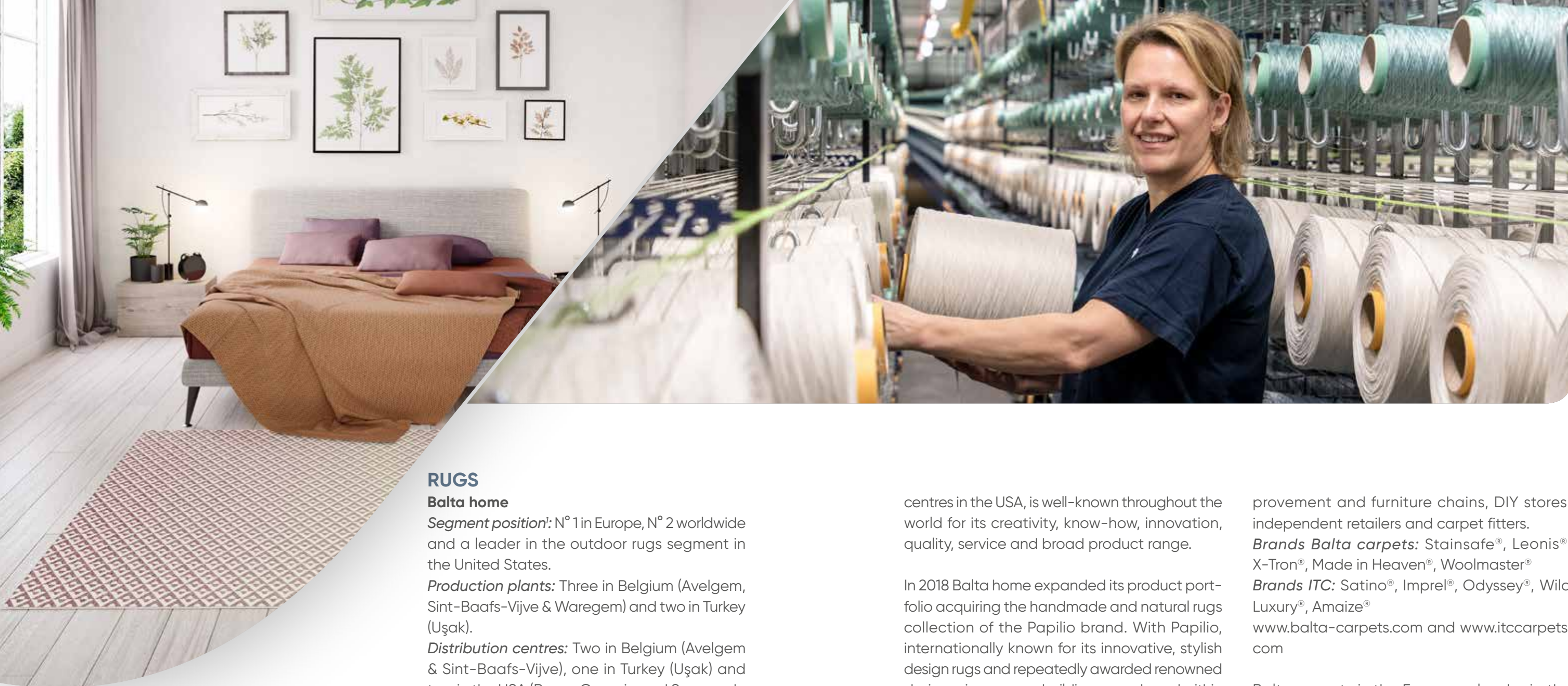
Revenue 2018  
per reporting segment



Adjusted EBITDA 2018  
per reporting segment







## RUGS

### Balta home

**Segment position<sup>1</sup>:** N° 1 in Europe, N° 2 worldwide and a leader in the outdoor rugs segment in the United States.

**Production plants:** Three in Belgium (Avelgem, Sint-Baafs-Vijve & Waregem) and two in Turkey (Uşak).

**Distribution centres:** Two in Belgium (Avelgem & Sint-Baafs-Vijve), one in Turkey (Uşak) and two in the USA (Rome, Georgia and Savannah, Georgia).

**Distribution channels:** major international retailers (such as home improvement, furniture, specialists, discount and DIY stores), e-commerce players and wholesalers, with whom we have long-lasting relationships.

**Brands:** Line A®, Berclon®, Papilio®

[www.balta-home.com](http://www.balta-home.com), [www.papiliorugs.com](http://www.papiliorugs.com)

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

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

Balta home, with its state-of-the-art production facilities in Belgium and Turkey and distribution

centres in the USA, is well-known throughout the world for its creativity, know-how, innovation, quality, service and broad product range.

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

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

## RESIDENTIAL

### Balta carpets & ITC

**Segment position<sup>1</sup>:** Leader in Europe with top positions in the UK (Balta carpets), Germany and Central Eastern Europe (ITC).

**Production plants:** Sint-Baafs-Vijve and Tielt in Belgium.

**Distribution centres:** Sint-Baafs-Vijve and Tielt in Belgium.

**Distribution channels:** major retailers and wholesalers, such as specialised carpet, home im-

provement and furniture chains, DIY stores, independent retailers and carpet fitters.

**Brands Balta carpets:** Stainsafe®, Leonis®, X-Tron®, Made in Heaven®, Woolmaster®

**Brands ITC:** Satino®, Imprel®, Odyssey®, Wild Luxury®, Amaize®

[www.balta-carpets.com](http://www.balta-carpets.com) and [www.itccarpets.com](http://www.itccarpets.com)

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

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

<sup>1</sup> Management estimate



### Balta carpet tiles

**Production plant & distribution centre:** Zele in Belgium

**Distribution channels:** major retailers and wholesalers, such as specialised carpet, home improvement and furniture chains, DIY stores, independent retailers and carpet fitters.

**Brand:** LCT® First (Luxury Carpet Tiles)

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

### COMMERCIAL

#### modulyss

**Segment position¹:** N° 3 in Europe.

**Production plant & distribution centre:** Zele in Belgium.

**Distribution channels:** architects, designers, contractors and distributors (offices, education, health care and hospitality).

**Brands:** modulyss®, LCT Pro®

[www.modulyss.com](http://www.modulyss.com)

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

### Bentley

**Segment position¹:** a leader in the premium US commercial segment.

**Production plant & distribution centre:** Los Angeles in the USA.

**Distribution channels:** architects, designers and contractors (offices, education, health care and hospitality).

**Brand:** Bentley®

[www.bentleymills.com](http://www.bentleymills.com)

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

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

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

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



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

#### arc edition

**Segment position¹:** one of the leaders in Europe, with a top position in Central Eastern Europe.

**Production plant & distribution centre:** Tielt in Belgium.

**Distribution channels:** commercial customers (including offices, education, health care and hospitality), specialised retail groups and wholesale.

**Brand:** arc edition®

[www.arcedition.com](http://www.arcedition.com)

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

### NON-WOVEN

#### Captiqs

**Segment position¹:** European mid-level player.

**Production plant & distribution centre:**

Oudenaarde in Belgium.

**Distribution channels:** specialised B2B converters, event organisers and traditional distributors.

**Brand:** Captiqs®

[www.captiqs.com](http://www.captiqs.com)

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

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





**3,899**

Total number of employees (31/12/18)

**50**

Number of nationalities



**139**

Countries we sell into



**752,000 m<sup>2</sup>**

Total manufacturing footprint = 150 football pitches



**€646m**

Revenue 2018



Fully automated handling of rugs with robot

Green electricity produced on our factory roofs



**61,150**

Solar panels on 5 factory roofs in Belgium

**33.7 ha**

Factory roof

**67**

Football pitches



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



**-4.75 million kg**  
CO<sub>2</sub> per year





Balta HQ, Sint-Baafs-Vijve, Belgium

# CFO

## Financial Review

**Balta delivered full year 2018 Consolidated Revenue of €646.2m, a decline of 2.3% versus 2017 and Consolidated Adjusted EBITDA of €72.4m, down 14.3% year on year. Consolidated Adjusted EBITDA margin of 11.2% was down from 12.8%, reflecting the impact to earnings of lower volumes, adverse currency movements and industry wide cost inflation, which was not sufficiently offset in the financial year by the compensating actions we have taken.**

Including Bentley Mills for twelve months for both the current and prior year, Revenue was down 6.2% (at constant currency down c.4%) and Adjusted EBITDA declined 17.1% (at constant currency down c.16%).

### FINANCIAL REVIEW BY DIVISION

#### Rugs

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

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

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

Full year Adjusted EBITDA declined 25.7% to €27.9m with an Adjusted EBITDA margin of 14.1%, down from 16.5%. The year on year margin reduction reflects the lower volumes and impact of industry wide cost inflation.

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

#### Commercial

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

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

Full year Adjusted EBITDA increased by 27.8% to €30.6m. Commercial Adjusted EBITDA margin slightly increased year on year to 14.2% (versus 13.9% in 2017).

In the fourth quarter, Commercial Revenue grew with approximately 9% (at constant currency) and a positive currency impact of 2.0%. While we realised another quarter of strong growth in the US and our European broadloom business achieved low single-digit growth, we saw a decline in our European tiles business. Fourth quarter Adjusted EBITDA margin was 14.6% vs. 12.5% in Q4 2017.

#### Residential

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

Full year Adjusted EBITDA of €11.4m, down from €20.2m or 43.4% versus the prior year. The Residential Adjusted EBITDA margin of 5.5% was impacted by the lower volumes and adverse impact of currency movements and cost inflation. These were not sufficiently offset by the



benefits from the optimisation of the Residential operational footprint that was completed in the first half of 2018.

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

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

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

## OTHER FINANCIAL ITEMS REVIEW

### Non-Recurring Items

Several one-off events had a material impact on our 2018 results. The impact of these events amounts to a net expense of €7.7m (€0.21 per share). 2017 was characterised by a net expense of €13.8m, mainly as a result of the one-off's related to integration and restructuring (€11.4m) and finance expenses related to the debt financed acquisition of Bentley and the partial early redemption of Senior Secured Notes (€9.3m), offset by re-measurement of deferred tax assets and liabilities (€8.6m).

The non-recurring expenses for 2018 mainly relate to:

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

### Net Financing Costs

The net finance expense amounted to €26m, primarily the interest expense related to external borrowings. Compared to prior year, the net financing cost decreased as a result of the full year run rate benefit from repayment of €55.1m Senior Secured Notes in 2017 and the fact one-off finance expenses related to the IPO, partial repayment of the Senior Secured Notes and acquisition of Bentley in 2017 did not repeat.

### Taxation

The Group reported an income tax income for the year of €1.0m based on profit before taxes of the year of €6.4m. The tax income is mainly driven by the utilisation of previously unrecognised deferred tax assets.

### Earnings per share

Earnings per Share are equal to €0.20 in 2018 compared to €0.08 in 2017.

### Dividend

In light of our investments in the various growth and cost saving initiatives resulting from the strategic and operational review, combined with our Leverage exceeding 3.0x at year-end, the Board does not propose to pay a dividend for the year.



### Cashflow and Net Debt

Net debt at the end of 2018 equalled €261.8m, compared to €253.5m at the end of 2017. Leverage has increased from 2.9x Pro Forma Adjusted EBITDA at the end of 2017 to 3.6x Adjusted EBITDA at the end of 2018, mainly as the result of the lower Adjusted EBITDA. The increase in Net debt was the result of a reduction in cash of €10.5m, while at the same time gross debt decreased by €2.1m. As a reminder, 2018 saw one-off cash out of approximately €10m related to the Residential operational footprint reorganisation. Gross debt at the end of 2018 equalled €288.7m (excluding capitalised financing fees), of which €240.3m Senior Secured Notes, €35.0m Senior Term Loan Facility and €13.4m of finance leases.

### IMPACT OF IFRS 16 IN 2019

IFRS 16 has been applicable since 1 January 2019. The new accounting standard results in almost all leases being recognised on the balance sheet by lessees, as the distinction between an operating and finance lease is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised.

The Group has set up a project team which has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will primarily affect the accounting for the Group's operating leases. For the remaining lease term, the Group expects to recognise right-of-use assets and lease liabilities of approximately €45m on 1 January 2019.

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





# NON-FINANCIAL

## Key Performance Indicators

**Embedding a culture of sustainability across the entire Balta Group takes a combined effort on many levels and through our commitment to this single goal during 2018, we have made positive inroads across many aspects of our business. Of course, there is still much work to be done, but we are determined to continue to respect the environment, people and ethics in building a business that offers value for all stakeholders.**

Through the expertise and experience of our stakeholders, we have been able to analyse the actions of our business through three key strategic pillars: People, Planet and Prosperity. Within each of these pillars Balta Group focusses on becoming a sustainable company and through this ambition gaining competitive advantage.

From improving the recycled content and recyclability of our products, through to social partnerships that help to address gender inequality and rural poverty, actions that improve the safety of our employees and policies that protect the privacy of our customers; we are actively developing practices and behaviours that will become an intrinsic part of business at Balta Group.

We have mapped our pillars against key actions identified in the United Nations' Sustainable Development Goals (SDG) programme, making the reasons for our ambitions clear across the whole group. By working towards goals such as Responsible Consumption and Production, Climate Action, Decent Work and Economic Growth, Gender Equality and Good Health and Well-being we, at Balta Group, can play a part in a more positive outlook for the planet.

As we continue to build upon our first positive steps in the direction of a sustainable business, we will develop an overarching group sustainability policy, shaping our duty in operating our business with respect to the planet, people and ethics.



PEOPLE



PLANET



PROSPERITY





## PEOPLE

2018 has been a transitional year at Balta during which Balta Group undertook positive HR initiatives to increase employee engagement and focus, as well as to guide employees and the wider organisation through change.

### Social relations

Through solid project management, progress reporting and constructive communication with all stakeholders, the restructuring of Oudenaarde went positively, with the total number of jobs lost substantially lower than first forecast. With 197 redundancies initially announced and jobs offered to everyone, the final figure for redundancies was 138 with 59 people filling vacant positions at other Balta sites. As a result of the efforts made, the relationship with our social partners, the functioning of Worker Councils and the Committee for Prevention and Protection (CPB) remained positive through the year.

### Fostering a climate of open communication

With significant change, we adopted a climate of open communication to help explain and reassure both internally and externally. Through a weekly CEO blog, the intranet, weekly HR, management announcements and increased postings on LinkedIn and Facebook, we were able to improve awareness and attractiveness. Randstad Employer Branding Research (2017 vs 2018) showed an increase regarding awareness of the Balta Group brand, and a significant increase in our attractiveness as an employer.

Alongside the continuation of quarterly senior management meetings to discuss strategy and alignment, we also set-up several HR-led focus group initiatives to enhance employee feedback. Designed to provide a base for action plans, we conducted a Young Talent focus group with 85 employees from blue- and white-collar roles in Belgium, drawn from our 450 employees younger than 31 years old, to better understand their needs. To continue this bottom-up feedback, we will also be hosting 'CEO lunches' throughout 2019.

Through the results of our employee satisfaction survey, we have also learnt that younger employees need an adjusted leadership style, with more involvement and communication, flexibility and an improved work-life balance. The survey will be repeated in 2019 to monitor our progress made in respect of these needs.

The high number of new employees in 2018 indicated a need for clarification on our employer proposition strategy and Balta Group's company values. Training and career opportunities also need increased focus and we have included

this in the HR programme for 2019. In 2018, we recruited over 140 white-collar positions in Belgium alone, with 63 (38 replacements and 25 new positions) of these at corporate level.

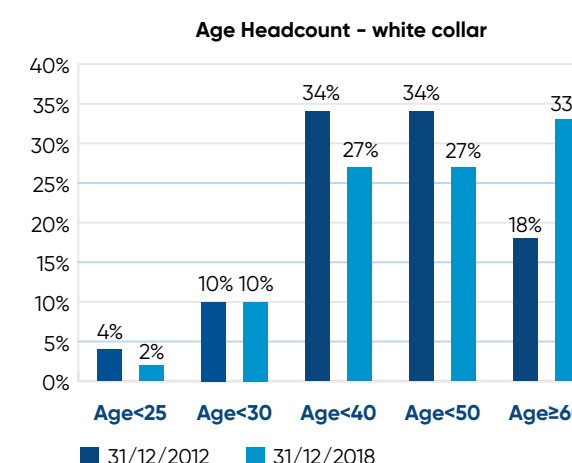
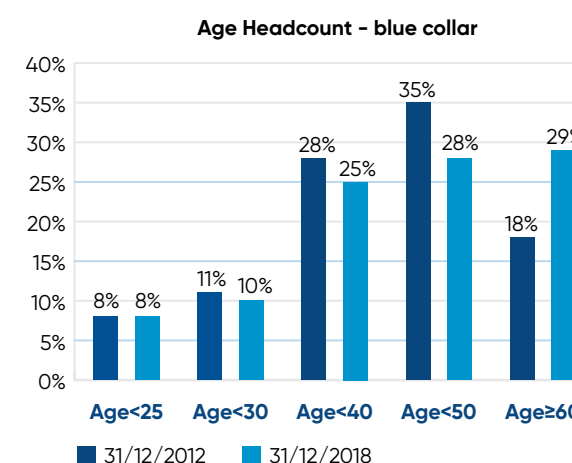
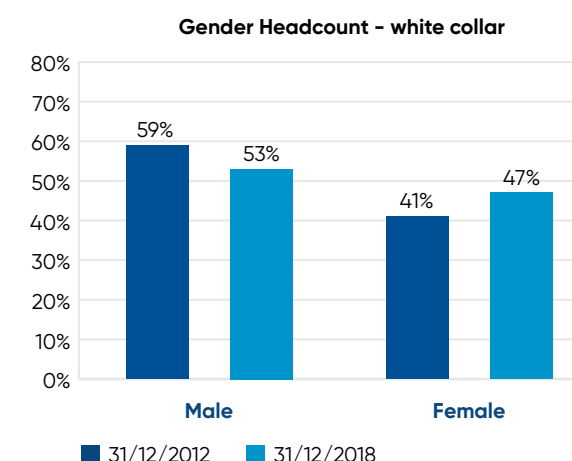
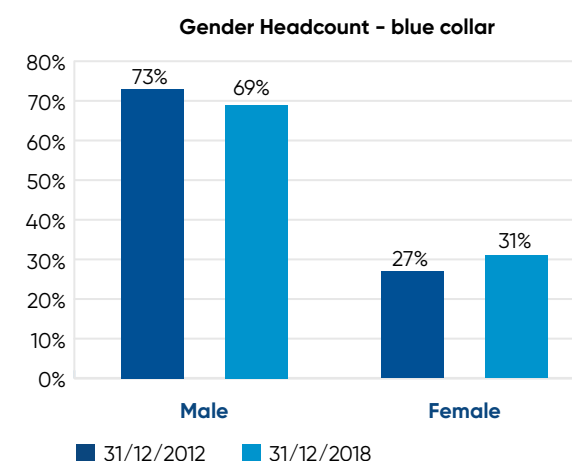
Our draft, renewed code of conduct is now available. In 2019 it will be fully implemented across the organisation.

### Demographics

The past year has seen a total headcount reduction of around 200 at group level, mainly due to the restructuring of Oudenaarde and Sint-Niklaas.

Tracking the last five-years we can see an ageing employee base in both blue- and white-collar population and this will need to be addressed through a detailed plan to attract and retain younger talent despite the very competitive labour market in Belgium.

In terms of gender equality, we made significant progress with a remarkable increase of females in white-collar positions. Also at blue-collar level, gender diversity slightly increased.







The 'Warmste Week' in Belgium



## Social responsibility

As part of taking action on SDGs (Sustainability Development Goals), 2018 saw the continuation of our involvement in the communities in which we operate. Among others, we continued our blood donation sessions at our Belgium sites, as well as fundraising through 'De Warmste Week' in Belgium. The year-round programme of events for employees and their families was our most successful yet. For safety reasons we decided to replace bicycles by carts in our Belgian plants. As a result we were able to donate a few hundred bikes to charities and social initiatives. This act alone, received over 20,000 engagements on Facebook in the first week. Elsewhere within the group, our Commercial US business unit, based in Los Angeles, engaged in a partnership with the Delhaven Community Centre, assisting people of all ages with a wide range of welfare and family services.

We also made a social impact through our Balta Turkey operations, participating in a project in the district of Selendi in order to curtail immigration from rural areas to the town. Through starting a bus service between Selendi and the production site, transporting 110 workers to and from work on a daily basis (50% of these being female), we are actively supporting the emancipation of women in rural areas of the district. Supporting this further, we also made substantial efforts to employ women in 'typically male jobs', increasing gender equality with females now accounting for 45% of the workforce, up from 41% previously.

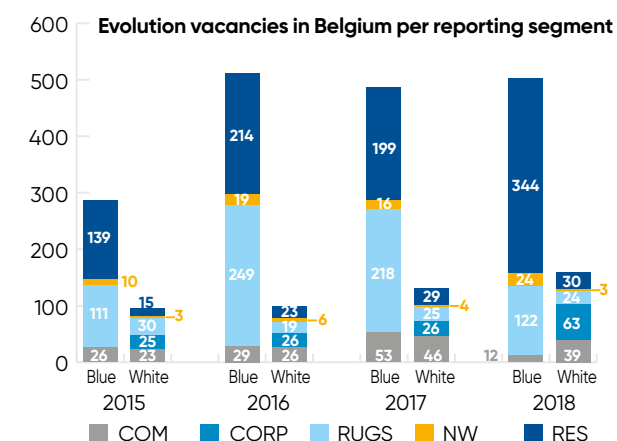
As part of our social responsibility, we also financed the Technical Anatolian Secondary School, inaugurated 11 September 2018. The education facility turns students into professional textile workers, and we received an award from the industrial zone presidency for its establishment. Additionally, in cooperation with the



Turkish Labour Council we supported members of the community in re-entering the labour market, employing 21 people as a result, along with 17 people with disabilities through another programme in collaboration with the council.

## Attraction and retention – talent management

Like many other companies, the attraction and retention of talent has become a key human resources challenge for Balta Group, particularly with the tense labour markets encountered in both Belgium and the USA. To combat the overheated American market, we launched a 'Whatever it Takes' campaign, connecting customer service levels with exceptional co-worker performance.



In 2018 we also introduced a formal talent management assessment for our senior employees, with cross-validation at Management Committee level and detailed reporting to the Remuneration and Nomination Committee. In 2019, we will cascade this down through the organisation. Alongside the introduction of this new assessment, we have also enlarged our performance management programme

and will adopt this globally throughout 2019 for all white-collar positions. Balta Group has also laid foundations for improved succession planning; with in-depth review of our senior employees was carried out and approved by the Board for further roll-out in 2019. In terms of other future priorities, we are committed to leadership development and we have begun to work on this with an internal management programme.

In 2018 we received strong employee feedback on the need for a more flexible working scheme and the contracts to support this. A pilot project for 'flex working' has been launched and will be rolled-out upon positive evaluation. In 2019, we also foresee an in-depth analysis regarding a framework and facilities for home working for managerial roles, in particular at Balta Group headquarters.

## Human resources organisation

During 2018 we repositioned the Balta Group Human Resources team to focus on group programmes and the roll-out of best practice, with the team intensifying the cooperation and involvement of local HR managers and business partners to focus on sales effectiveness.

Now positioned as the centre of expertise for talent management, compensation and benefits, international payroll, group policies and internal communication: Balta Group Human Resources aligned the performance management process for managers, as well as the annual bonus and long-term incentive plans. Strengthening international involvement with US and Turkish operations, as well as the reporting of human resource programmes and policies, the group HR team created a charter to clarify its position towards employees and the organisation and to formalise expectations and responsibilities.

Currently, we are assessing the role of HR at plant level, keeping in mind that the set-up must be adapted to meet increased international presence and alignment with our goals. Initially planned for 2018, this organisational review is



still to be carried out in detail. Elsewhere, we have increased efforts on role clarification and

### Human rights

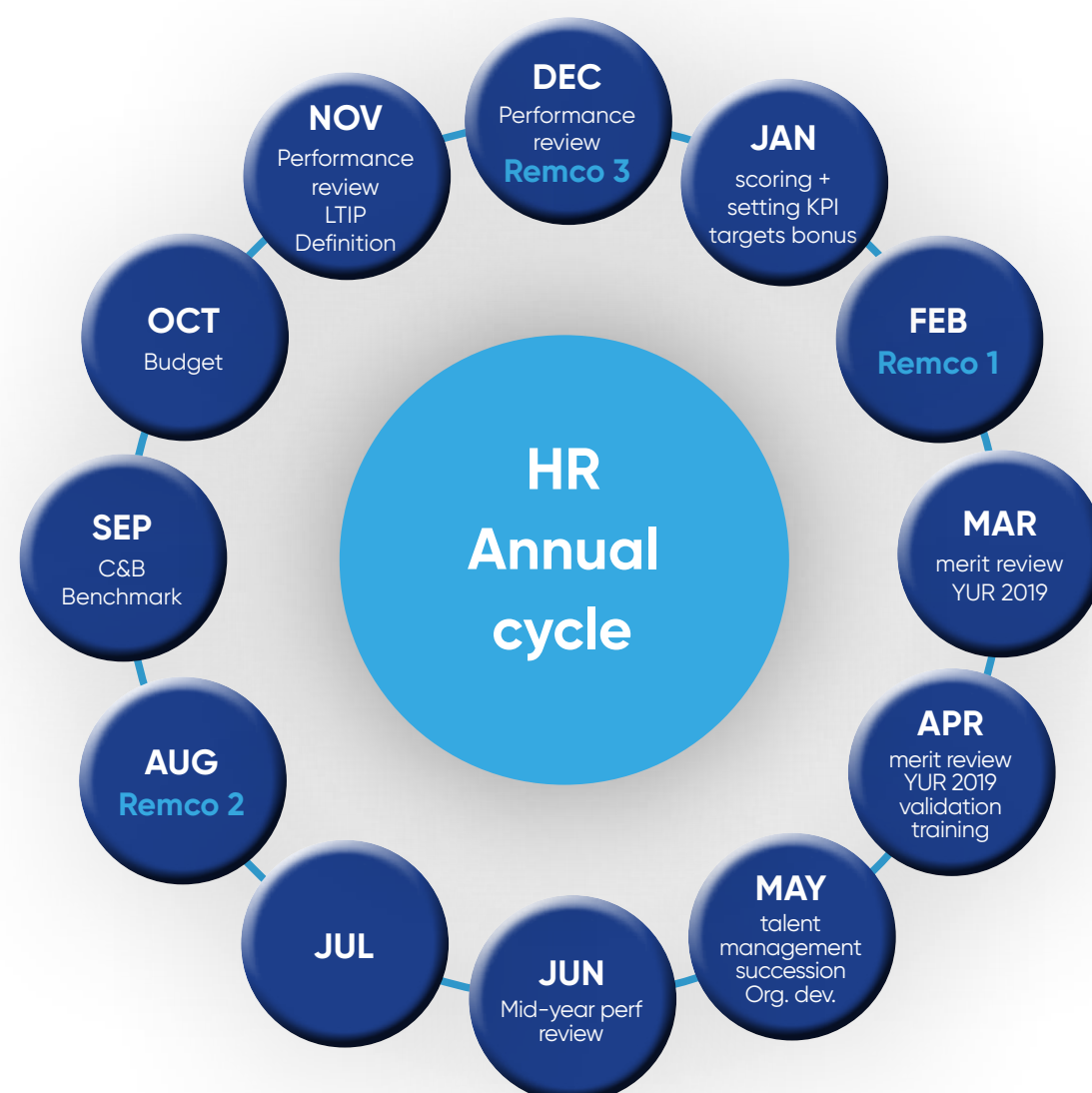
It is our duty to comply with all the applicable laws in the countries that we operate in and human rights. With a firm focus on fairness and ethics, key customer audits were passed successfully, and no human rights violations have

introduced several new tools for alignment and objective setting.

been reported. First line controls are in place and while a more formal human rights policy from Balta is available, it is yet to be officially rolled out.

### Annual HR cycle

An annual HR cycle has been developed to structure all soft and hard HR processes that support the organisation's ambitions and needs. These processes will be discussed and validated at the Management Committee. HR will implement the necessary tools to run and execute these processes efficiently.



C&B = Compensation & Benefits  
 Remco = Remuneration & Nomination Committee  
 YUR = Year Under Review  
 LTIP = Long Term Incentive Plan

### Health and Safety

Providing a safe, motivating and rewarding workplace – in line with key SDG (Sustainable Development Goals) action points – remains a central focus for Balta Group and we will continue to drive attention towards a change in mind-set and behaviour.

As announced in the previous annual report, a study based on the experience of safety was conducted at the end of 2017 and from the results of this study, a strategic action plan

was created in 'One Balta for Safety'. The plan strives to ensure that everyone at Balta Group is closely committed to the safety policy, with the common goal of zero accidents.



To improve safety at Balta, we defined five 'golden' safety rules. These rules were then clarified into specific safety behaviours, so that all employees could identify and apply them to their working practices and begin to change their mind-set.

These five safety rules are:



**I watch and think before I do**



**I keep my workplace clean and tidy**



**I wear my personal protective equipment**



**I follow our traffic rules and work instructions**



**I take care of my colleagues**

In 2018 the focus was on the roll-out of 'One Balta for Safety' in Belgium, with all other sites to follow in 2019. To support the implementation of the 'One Balta for Safety' policy, safety coaches have been appointed for each Belgian production site. These safety coaches are blue-collar workers understanding the unique challenges of production. They provide a sounding board for employees and are specifically trained to emphasise the importance of our safety policy and rules in a manner

that is positive; important for engagement and a long-term change of mind-set.

In addition, we are currently training all employees on these basic rules via 'toolbox' meetings. These informal safety briefings are conducted by supervisors. Each quarter, one rule is explained in depth, making it clear to all our employees what safety behaviour is expected from them.



Working to create a safer environment and behaviour

Throughout 2018, internal traffic plans were evaluated at all sites and adjusted where necessary. Internal bicycle traffic has been banned and a programme of continuous development for forklift drivers, aimed at teaching safe driving behaviour, has been implemented. We also spent more time on risk analysis and controls.

Understanding the positive impact of coaching and training for health and safety, we developed a software application that enables tailored training to each employee. All Balta Group managers received specific guidance on their legal obligations and responsibilities within their organisation. Alongside, additional training was provided for workplace ergonomics and working with electric service vehicles.

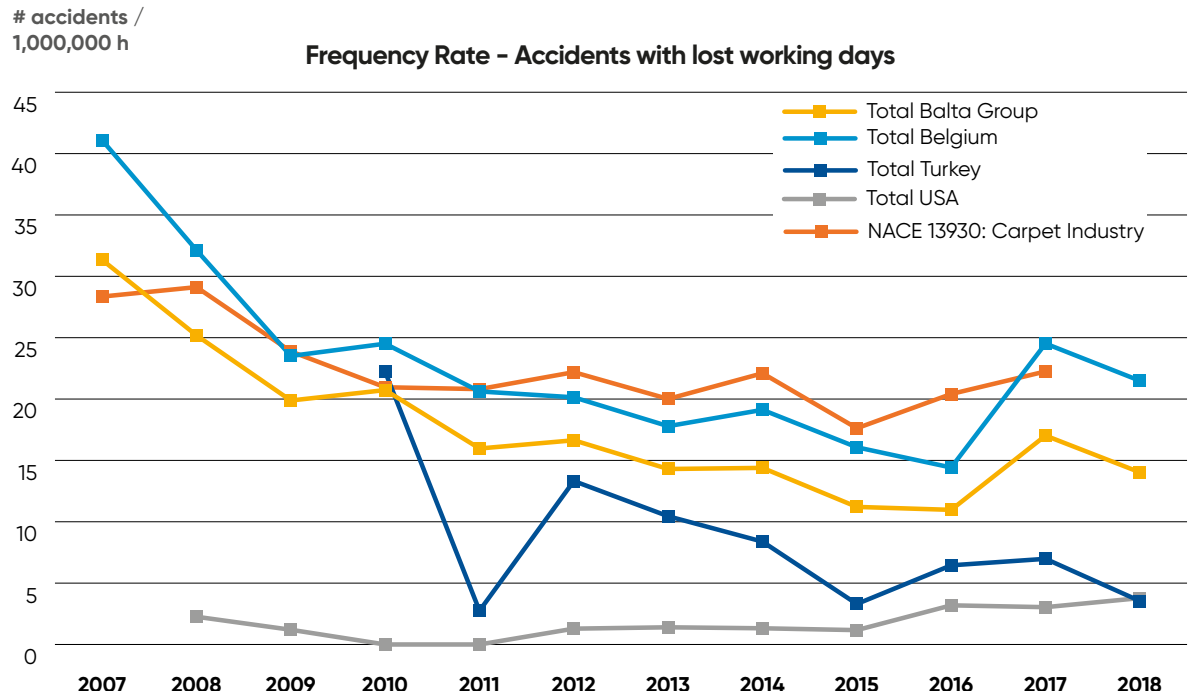
Increased focus on safety yields positive results

Our increased focus on safety across all Balta Group sites in Belgium, has led to a reduction of the frequency rate of accidents by 15%. Nevertheless, we remain some 29% higher than in 2016, so will continue our hard work to achieve our common goal of zero accidents.

Safety performance in our plants in Turkey has been improved compared to the previous year. Frequent and repetitive training is conducted regularly for all employees on general behaviour and specific actions, such as the use of pallet trolleys, forklift trucks, chemicals and working at height.

We have improved the visibility on our statistical information on incidents and accidents by installing digital information boards at the entrance to both plants. Frequent internal and external third-party audits, such as those by Turkish authorities, help us to maintain a strong focus on safety.

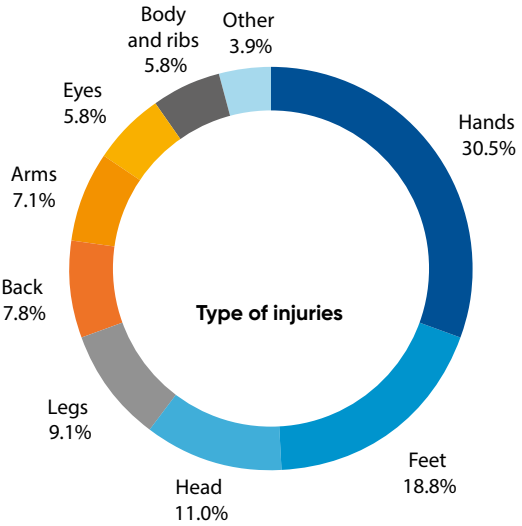
Our American facilities recorded a slight increase in frequency rate. In the new warehouse in Rome, Georgia, the main focus for reducing accidents focussed on internal traffic and the correct stacking of storage bins. At our Los Angeles production site, in addition to an upgrade of the internal emergency plan, we also introduced a weekly briefing for all departments, resulting in raised awareness of the importance of safety.



Evolution in total numbers of accidents with lost working days in Balta Group:

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|------|------|------|------|------|------|------|------|------|------|------|------|
| 190  | 144  | 102  | 102  | 83   | 84   | 77   | 80   | 65   | 65   | 105  | 83   |

As part of our efforts to continuously improve safety performance, we monitor the type of injuries occurring. This revealed that injuries to the hands and feet are most common. We therefore have taken additional preventative measures to reduce the risk and occurrence of these injury types.



Heading in the right direction

At Balta Group, we are convinced that with leadership involvement, the communication initiated at all levels and the changes and processes implemented will yield positive results into 2019.

Our target for the year ahead is to further roll out 'One Balta for Safety' programme across the whole group, including Turkey and USA, so that every employee can benefit from the positive

impact it has on boosting safety behaviour. We will increase collaboration and the exchange of best practices and learnings amongst all plants of the group, in order to accelerate positive behaviour change.

Our vision remains, 'every colleague who starts the work day or shift, returns home safe and healthy'.

PLANET

Taking a leading role in conserving the environment in the production and life cycle of our products is the only way for Balta Group to create sustainable value for all stakeholders and to gain a competitive advantage.

As a leading soft flooring producer, we win and retain customers by delivering innovative, sustainable and high-performance products. We continue to strive to reducing the environmental footprint of our products, while strengthening the impact on the well-being and comfort of the end-user. Furthermore we ensure that our

products carry the environmental certifications needed to make reasoned sustainable choices.

Working closely with our customers, we are achieving both short and long-term goals focused on responding to the environmental challenges being faced through new materials and technologies. To achieve this, our product development teams work in close cooperation with engineering departments, raw materials suppliers and sustainability managers to reduce the impact of our products.



Our segments – Rugs, Residential, Commercial and Non-Woven – face the same common sustainability challenge of reducing impact throughout production and product life cycle. The approach taken by each business unit to meet this differs: end-user specifications, legislation, national requirements, business organisation and production technologies are unique.

### Applying international standards to measure practices

All Belgian and Turkish production plants are ISO 14001 certified. The environmental management system provides the structure and continuous improvement strategy for all departments. Progress is monitored through internal and external audits, using the metrics defined in the standard.

Our Commercial manufacturing facility, based in the USA, is LEED (Leadership in Energy and Environmental Design) Gold Label certified. Renewal is currently in process. LEED is the most widely used green building system in the world, providing a framework to create highly efficient and low impact buildings.

For the European manufacture of carpet tiles, our modulyss business unit uses the GRI (Global Reporting Initiative) sustainability reporting framework in conjunction with ISO 26000 to measure and report on social responsibility issues and practices. This activity runs alongside practices in accordance with United Nations SDGs and ISO 14001 management systems.

### Conserving natural resources and energy

It is a clear ambition to minimise our impact on the planet through reducing reliance on non renewable natural resources. We are working to achieve this through operating plants with greater efficiency and the measured analysis of the life cycle impact of our products.

This is exemplified through the Environmental Product Declarations (EPDs) of our commercial carpet tiles, in which we assess the environmental impact of each life cycle stage. Analysis such

as this is a key driver in innovation towards more sustainable products, processes and business strategies. Through these EPDs and other indicators that quantify the environmental impact of resources, processes and life cycle stages, we have developed a group-wide sustainability strategy based on three central pillars:

- Sustainable product development through innovation
- Sustainable in house practices
- Sustainable value chain

For each business unit, the priority of these pillars differs in accordance with the sustainability demands of the segment in which they operate.

### Sustainable products through innovation

It is our duty to develop more sustainable products through eliminating polluting substances, meeting environmental certifications and improving recycled-content and recyclability.

In order to achieve this, we have comprehensive policies and systems for eliminating polluting substances, toxins and VOCs (Volatile Organic Compounds) across all production sites and within all products. Balta Group not only complies with the requirements of REACH (Registration, Evaluation, Authorisation & restriction of Chemicals) and the EN 14041 (CE) standard, but we also ensure compliance of our European residential and commercial carpet products with GUT/PRODIS.

This process of certification is continued for Balta home, carrying the Oeko-Tex label and by our Commercial US branch through C2C (Cradle to Cradle) Silver certified products. Alongside EPDs, modulyss also ensures that its carpet tiles comply with the stringent product requirements of New Zealand's ECNZ (Environmental Choice of New Zealand), as well as several other international standards.

Sustainability starts with the goods and materials entering our facilities and so we recently set-up a system that screens raw materials to ensure they comply with the environmental standards

of each business unit. In 2018 we have worked to create increased awareness for the system's methods and its importance in achieving our sustainability goals.

We have also looked for ways to combat shortages of raw materials of natural origin. The jute fibre used in the production of rugs by Balta home is mostly sourced from India and Bangladesh and availability is dependent on climate conditions. We have developed a partially-recycled substitute in order to cope with the eventual shortage of natural material expected through climate change.

Throughout 2018 we have strengthened collaborative efforts and shared knowledge across business units to create more sustainable products and lay the foundation for continued innovation in the years ahead. The year has also seen the development of Balta home rugs and modulyss carpet tiles with improved recyclability potential through raw material composition.

Further efforts in product innovation will see modulyss introduce a backing to improve the recyclability potential of the products. This new backing also reduces the economic risk of a raw material shortage, or a ban on materials in certain countries. For the Residential segment, Balta carpets is also developing a mono-polymer broadloom carpet that improves its recyclability potential.

As part of our activities related to the European Plastics Industry Circular Economy Voluntary Commitment, we support the ECRA (European Carpet and Rug Association) initiative to recycle 50% of plastic waste by 2040 and gradually increase the amount of recycled content in our products.

More than 10 years ago, modulyss was the first manufacturer to launch carpet tiles with regenerated nylon. We have continued to find ways of using recycled content in our products. Captiqs, the brand for our Non-Woven segment, already uses recycled PET (Polyethylene Terephthalate) fibres in felt production. These PET-based felts

are used as backing for fully-recyclable PET rugs from Balta home.

Our Commercial US operation also uses recycled PA 6.6 (Polyamide Type 6.6) in selected products and takes back end-of-life carpet and carpet tiles across the USA, through membership of the industry-wide Fulfil programme. With the use of recycled content and end-of-life recovery, Commercial US is taking the first steps in creating a circular economy.

Balta home has the ambition to have 30% of all rug products mono-polymer based by 2030. Inline with this ambition recycled content of products from the business unit will gradually increase.

### Sustainable in-house practices

When addressing the sustainability of in house practices at our facilities, we have two primary challenges: energy and waste. Energy (electricity and gas) is a multi-level concern for all our business. Waste presents a similar concern, as it influences environmental impact and product cost. By reducing water, energy and raw materials shortages, we are focusing on key actions in the SDG framework.

### Pollution

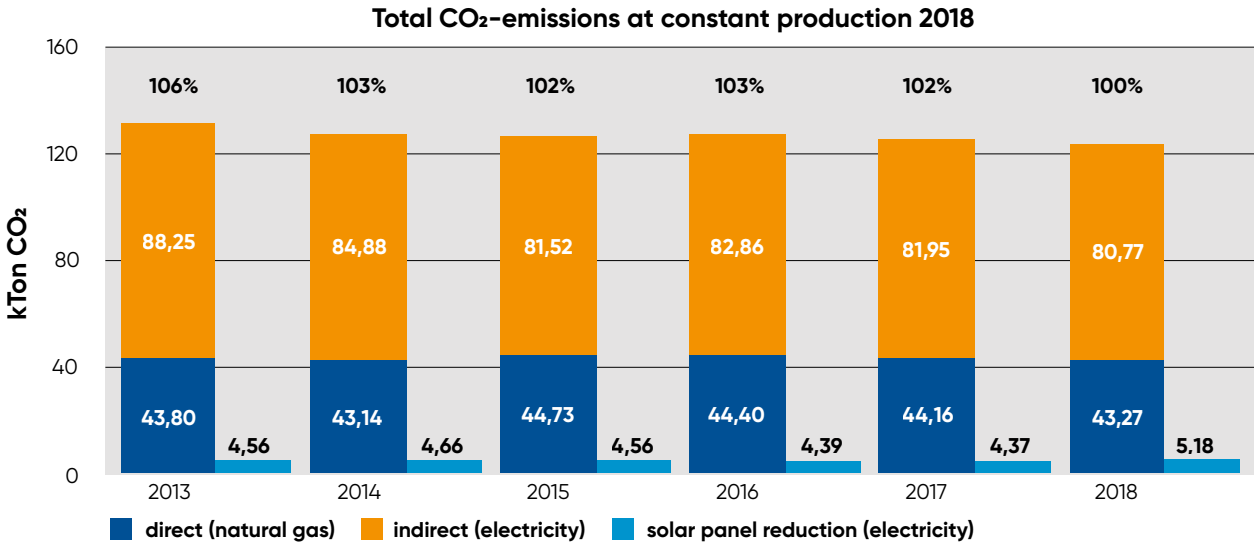
All Balta Group sites are compliant with local regulations. Moreover we have comprehensive targets and objectives in place for eliminating pollution. ISO 14001 compliant plants in Belgium and Turkey, are joined by monthly reports on VOC and NOx emissions from our US Commercial production site. Based in Los Angeles, the Commercial US plant is subject to California's strict emissions legislation, as the state's Environmental Protection Agency looks to improve air quality.



Energy

Balta Group is part of Belgium’s voluntary Energy Management Covenant, founded by the Flemish Government in 2003 and recently renewed its commitment until 2022. The covenant commits us to reduce our carbon footprint through audits and studies on energy consumption and invest in projects with an IRR (Internal Rate of Return) of more than 12.5%.

In 2018, we have reduced energy consumption in our Belgian plants through €260,000 of investments. However, with a change in product mix towards heavier commercial products that consume more energy to produce, as well as lower activity on sites having undergone energy efficiency improvements, the energy measurement metric of consumption per square metre of product reduces the overall energy efficiency improvements made.



Our Commercial US business unit released a comprehensive study on energy conservation measures undertaken that should eliminate over 1.4 million kWh of electricity and more than 19,000 therms of gas per year. These reductions will be realised through the already-installed LED lighting, industrial air compressors, and water conservation technology. The State of California has also implemented a programme to make 100% of electricity supplied through renewable resources by 2045.

We will continue our energy-reduction efforts in the coming years, with the ambition to deliver a 30% reduction in energy consumption by 2030 (calculated as CO<sub>2</sub> reduction in comparison to 2018 energy consumption, equivalent to 124 kTon CO<sub>2</sub>).

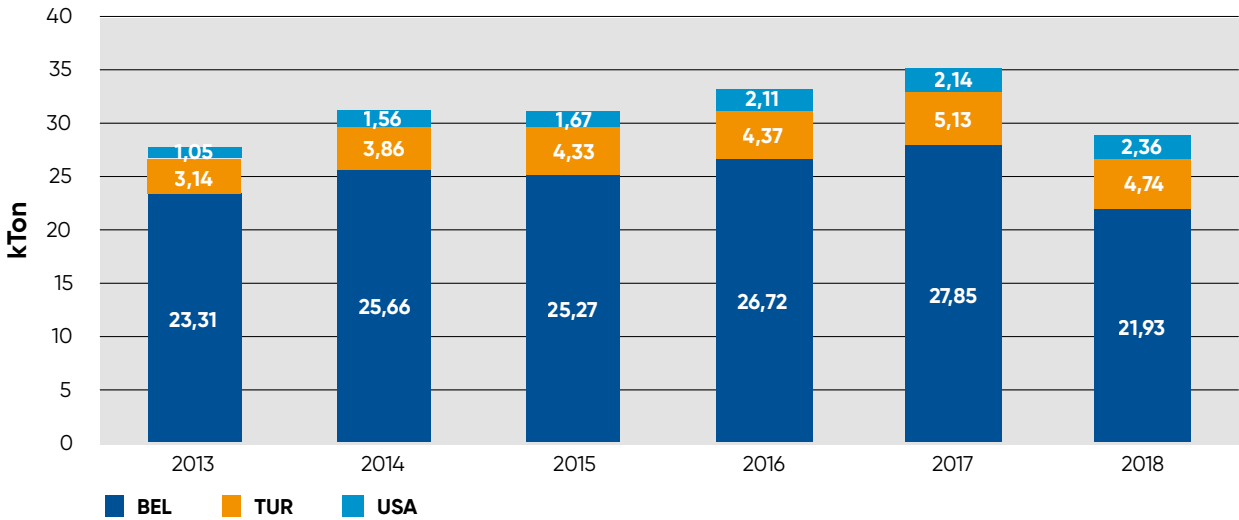
Waste

Across all sites, we have zero production waste going directly to landfill, with operational excel-

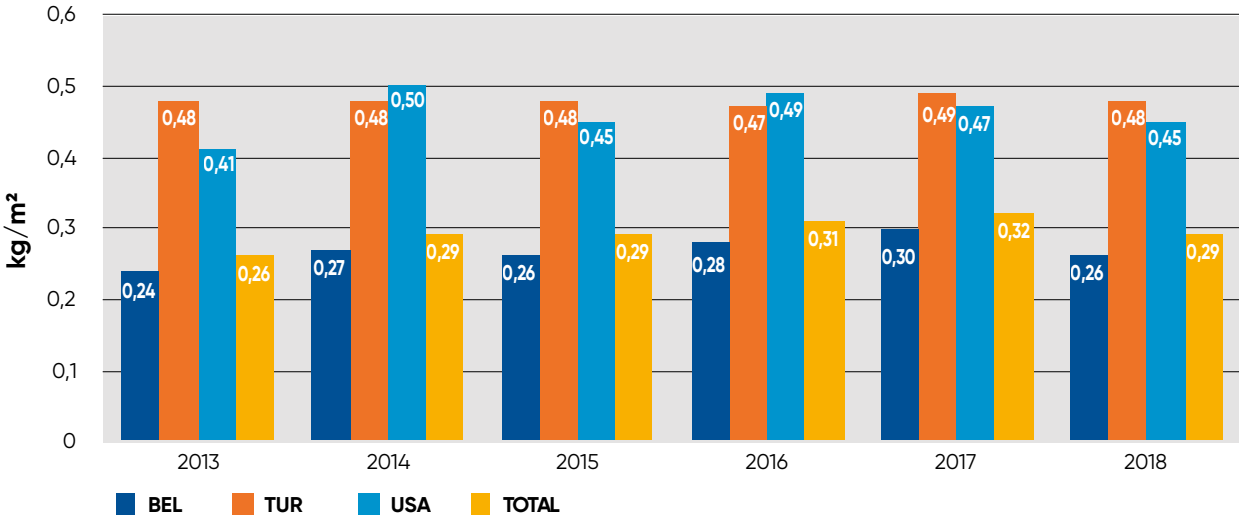
lence programmes reducing waste in production and over 100 categories collected to ensure the most considerate way of processing. We give priority to internal reuse of waste in our production processes (3.1% of total waste). Polypropylene polymer waste generated from business units in the Residential and Rugs segments, is reused in the production of staple fibre and non-woven textile, or weft yarns for weaving.

In the instances where internal reuse is not possible, we work with external partners, currently accounting for 68.7% of our total production waste. At this current time, recycling is not possible for all waste streams and so 28.3% of waste is used for energy. However, it is our ambition to achieve 100% recycling by 2030 through the sorting of the waste stream, optimising processes, re-engineering products (mono-polymer) and finding new external recycling partners.

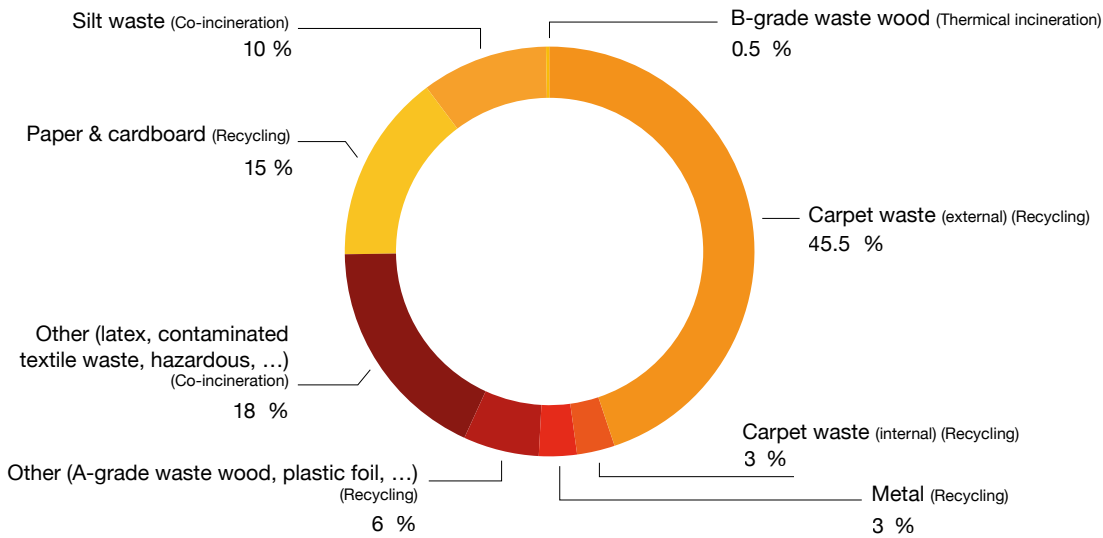
Waste evolution per country (kTon)



Specific Waste per country (kg/m<sup>2</sup>)



Waste by category and disposal method





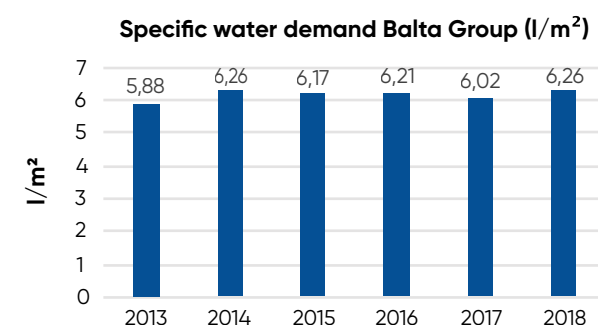
Through the Group-wide categorisation of waste and regular reporting from all production sites, we have set up a system that will allow us to closely monitor our progress in reducing waste over the coming years.

### Water

As a primary action identified by SDGs, reducing our water consumption is an important aspect of sustainable in house practices. For many years, we closely monitored water consumption at all Balta Group factories and all process and sanitary water is sent to Group-owned or public treatment plants. All cooling systems are closed-loop. We have also set-up working groups with the objective to reduce water consumption in all relevant activities.

We monitor, as one of the KPI's, specific water demand per m<sup>3</sup> and, although this is influenced by fluctuations in product mix, over the long term we strive for an overall reduction.

In 2018, our Commercial US business unit initiated a water consumption reduction project, resulting in a potential annual decrease of 10,587m<sup>3</sup> of water consumed with full impact in 2019. As the conservation of water is a global concern, every effort will be made to reduce dependancy on the water supply.



### Transportation

We have reduced our reliance on internal transport through the reorganisation of our production sites in Belgium including the closure of a remote stand alone warehouse, delivering a 25% reduction in road miles between factories and warehouses. We will examine alternative transport modes for optimising the flow between factories and for the delivery of end-products.

### Sustainable value chain

Our third pillar is based on the knowledge that the total value chain will play an important part in solving the sustainability challenge that we face. The efforts we make in the recycled content and recyclability of our products will only be effective in creating a circular economy if we work with all of our partners in the value chain. Through cooperation with suppliers, customers and the recycling industry we will make a difference, and it is our duty to stimulate this change through increasing our efforts on sustainability across the value chain. We will gradually improve recycled content, increase transparency, tracing and cooperation with our recycling partners.

We are already seeing this in action through our modulyss business unit and its partnership with Aquafil through the use of the fibre manufacturer's ECONYL yarn and membership of the Healthy Seas programme. Alongside, modulyss is also active in the CARE (Response to Used Carpet Tiles) recycling project with the Vanheede Environment Group and CO<sub>2</sub>RE, a carbon offset initiative that contributes positively to United Nations SDGs.

We are continuing to explore this pillar to determine our direction for the future and to engage divisions through shared knowledge; stimulating and encouraging our value chain partners. As a main player in the carpet industry, it is our duty to make a sustainable future a reality for our company, shareholders, customers, communities and our planet.

### Ambitions for the sustainability of Balta Group products and processes:

#### Sustainable product development:

- Further development of modulyss carpet tiles with improved recyclability potential
- Improve recyclability of residential carpet through mono-polymer technology. Initial development study to be finalised
- Balta home rugs made of recycled PET: 30% of mono-polymer based rugs by 2030.

#### Sustainable processes:

- 30% reduction in energy consumption compared to 2018 (equivalent 124 kTon) by 2030
- 30% reduction in water consumption compared to 2018 by 2030
- All waste fully recycled by 2030 through sorting and the review of products and processes
- A study of alternative transport modes for internal flows and end products.

#### Sustainable value chain:

- Amplifying collaboration with suppliers and customers to increase sustainability
- Focus on recycled raw materials, improved recyclability of products and working with partners.

## PROSPERITY

Compliance with key SDG principles is a primary goal in the future prosperity at Balta Group. We have spent the last two years working towards embedding a strong, uniform compliance culture across all our global business divisions. The Audit Committee, composed of two independent directors and one non-executive director, spearheads this commitment to ethical business and monitors the internal compliance programme and framework

### Common understanding

Since mid-2017, in order to achieve a common understanding of ethics and compliance among all employees, we developed a variety of policies and in 2018 training sessions covering a spectrum of areas were implemented to educate on these. The key risk domains identified were market abuse, antitrust, anti-fraud, anti-corruption, gifts and entertainment, anti-money laundering, economic sanctions, privacy and data protection.

For anti-bribery, anti-corruption, antitrust and anti-money laundering policies, specific target groups were identified, and these received dedicated compliance training. Through organ-

ising different training waves, each consisting of multiple sessions, we ensured that members of the target group could take part. By the end of the year, 94% of all Belgian employees and agents within the fields of sales and procurement, a total of around 120 personnel, as well as a large proportion of European employees operating within sales, received this training.

We will continue this training throughout 2019, providing the necessary ethics and compliance knowledge to the relevant employees worldwide, as well as training in our other key areas, again to dedicated target groups. We will monitor the quality and effectiveness of our compliance programme, not only by tracking completion rates, but also by verifying the knowledge gained by employees.

In parallel with the training programmes already underway, we created several communication tools to raise awareness of compliance among all group employees:

- An intranet page giving employees access to compliance policies and training material



- Employees with questions or wanting to raise issues can do so with their direct supervisor or with the compliance officer, either directly or through the compliance mailbox
- Employees that have undergone training sign an acknowledgement of compliance document.

One of our primary goals in 2019 will be to further boost awareness of our existing compliance framework. We will achieve this through several ways including the sending of targeted communications that convey key compliance issues in an accessible way, refining the employee on boarding process and developing a 'speak-up' procedure.

#### GDPR compliance

2018 saw the establishment of a data compliance programme in line with the introduction of GDPR (European General Data Protection Regulation), the most significant change in data protection for 20 years. The first step in this programme was to identify the different processing activities employed in relation to data with a group-wide data mapping exercise.

Based upon the input gathered during the exercise, we performed a gap analysis, taking into account GDPR requirements. This resulted in a remediation plan that consisted of several actions in the following areas:

- Drafting privacy policies containing information notices directed at customers, suppliers and other partners, as well as targeting our own collaborators, including employees, consultants, interns and applicants
- Setting up a framework to legitimise cross-border data transfers, if and when they occur
- Reviewing the framework for third-party relationships (data processing agreements)
- Drafting a data protection policy that sets out the Balta Group approach to data protection, and a data breach policy to be implemented by each collaborator in case of a data incident
- Identifying the risks and appropriate responses relating to information security measures.

We ensure our GDPR compliance by a Data Protection Coordinator overseeing group compliance assisted by a network of Data Protection Supervisors. These supervisors are key individuals within departments, divisions and plants and represent the pathway between group businesses and the Data Protection Coordinator.

In order to foster a culture of respect for personal data, training sessions throughout the entire organisation will continue in 2019 and we will also carry on developing the necessary enforcement mechanisms required.

#### Setting ourselves apart

Setting ourselves apart by making ethical and compliant behaviour instinctive is a key element in turning Balta Group into a truly sustainable business. It is our ambition to become a source of competitive advantage, with customers not only choosing us because of product quality and service, but also because we conduct ourselves in an ethical and responsible fashion. By setting these values in how we work and relate to our colleagues, customers and suppliers; we are confident we can achieve this.

During the course of 2018 we made huge strides in our journey to embed good behaviour throughout all divisions and Balta Group will continue this progress through 2019 and beyond.



A few hundred bikes were donated to charities and social initiatives



# CORPORATE Governance

This chapter provides information on Balta Group nv's (hereinafter also referred to as "Balta" or the "Company") corporate governance.

## Corporate governance charter

Pursuant to article 96 § 2, 1° of the Belgian Companies Code, Balta relies on the Belgian Code on Corporate Governance of 12 March 2009 (the "Corporate Governance Code") as a reference code. The Corporate Governance Code can be found on the website of the Belgian Corporate Governance Committee ([www.corporategovernancecommittee.be](http://www.corporategovernancecommittee.be)).

As a Belgian headquartered listed company with a commitment to high standards of corporate governance, the Board adopted a Corporate Governance Charter in May 2017, as required by the Corporate Governance Code. This Corporate Governance Charter is updated regularly and was revised in 2018. On 24 August 2018, the amended Charter was approved by the Board of Directors. It is available for download on the investor relations section of our corporate website [www.baltagroup/corporate\\_governance](http://www.baltagroup/corporate_governance).

The Company follows the rules provided by the Belgian Corporate Governance Code of 2009, except as explicitly stated otherwise and justified in the Corporate Governance Statement.

## Capital and shareholders structure

### Capital and capital evolutions

The capital of the Company amounts to €260,589,621 as at 31 December 2018 represented by 35,943,396 shares without nominal value. Each share carries one vote. No capital movements took place in 2018.

### Shareholder evolutions

The applicable successive thresholds pursuant to the Law of 2 May 2007 on the disclosure of

significant shareholdings in issuers whose shares are admitted to trading on a regulated market and other provisions are set at 5% of the total voting rights, and 10%, 15%, 20% and so on at incremental intervals of 5%.

In the course of 2018, the Company received a transparency declaration from Tocqueville Finance S.A. on 7 September 2018, stating that by virtue of a disposal of shares on 4 September 2018, at that date it holds 1,712,448 shares of the Company, representing 4.76% of the voting rights of the Company.

### Shareholder structure

The following table shows the shareholder structure on 31 December 2018 based on the notifications made to the Company and the Belgian Financial Services and Markets Authority (FSMA) by the shareholders listed below in accordance with article 6 of the Belgian law of 2 May 2007 on the notification of significant shareholdings:

|                            | Shareholding |       |
|----------------------------|--------------|-------|
|                            | Number       | %     |
| LSF9 Balta Holdco S.à r.l. | 19,856,416   | 55.2% |

The following transactions by persons discharging managerial responsibilities (PDMR) have been notified in the course of 2018:

| Name                   | Date             | Number of shares |
|------------------------|------------------|------------------|
| Marc Dessein           | 20 June 2018     | 84,544           |
| Tom Gysens             | 20 June 2018     | 46,815           |
| Lieven Vandendriessche | 21 June 2018     | 84,544           |
| Tom Debusschere        | 21 June 2018     | 211,359          |
| Jim Harley             | 7 September 2018 | 20,279           |

The above mentioned PDMR's acquired the shares following the vesting of pre-existing management incentive plans with Lone Star entities (our reference shareholder) following the first anniversary of the IPO.

### Dividend policy

Subject to the availability of distributable reserves and the lack of any material external growth opportunities, the Company intends to pay a dividend of between 30% to 40% of its net profits for the year based on its consolidated IFRS financial statements. The amount of any dividend and the determination of whether to pay the dividend in any year may be affected by a number of factors, including the Company's business prospects, cash requirements, and any material growth opportunities.

### Shareholders' Meeting

The first annual general Shareholders' Meeting since the IPO took place on 22 May 2018.

The shareholders acknowledged the annual report with respect to the statutory and consolidated annual accounts relating to the financial year ending on 31 December 2017, the statutory auditor's report relating to the financial year ending on 31 December 2017, the replacement of the representative of the statutory auditor and the consolidated annual account relating to the financial year ending on 31 December 2017.

The shareholders approved the remuneration report relating to the financial year ending on 31 December 2017. They further approved the statutory annual accounts relating to the financial year ending on 31 December 2017, including the allocation of the results as proposed by the Board of Directors and the adoption of a gross dividend of 0.08 euro per share. Both the directors and the statutory auditor were discharged of liability regarding the execution of their mandates during the financial year ending on 31 December 2017, the resignation of Mrs Karoline Grauebig as director of the Company with effect as of 1 March 2018 was acknowledged and the co-optation of Mr. Neal Morar as director for the remainder of Mrs Grauebig's mandate was confirmed.

### Dealing code

On 29 August 2017, the Board approved the Company's Dealing Code in accordance with the EU Market Abuse Regulation EU 596/2014 of the European Parliament and of the Council

of 16 April 2014 on market abuse. The Dealing Code restricts transactions of Balta Group nv securities by members of the Board and the Management Committee, senior management and certain other persons during closed and prohibited periods. The Dealing Code also contains rules concerning the disclosure of intended and executed transactions by leading managers and their closely associated persons through a notification to the Company and to the FSMA. The General Counsel is the Compliance Officer for the purposes of the Balta Dealing Code.

## The Board and Committees

Balta Group nv has a Board of Directors, a Management Committee, an Audit Committee and a Remuneration and Nomination Committee.

### Board of Directors

#### Mandate of the Board

The Board of Directors is vested with the power to perform all acts that are necessary or useful for the realisation of the Company's purpose, except for those actions that are specifically reserved by law or the articles of association for the Shareholders' Meeting or other corporate bodies.

In particular the Board of Directors is responsible for:

- defining the general policy strategy of the Company and its subsidiaries;
- deciding on all major strategic, financial and operational matters of the Company;
- overseeing the management by the Chief Executive Officer (CEO) and other members of the Management Committee; and
- all other matters reserved to and obligations imposed (including disclosure obligations) on the Board of Directors by law or the articles of association.

#### Composition of the Board of Directors

Pursuant to the articles of association, the Board of Directors must comprise at least five members.

Until 26 August 2018, the Board consisted of nine members, comprising three independent non-executive directors.



Due to the resignation of Kairos Management bvba, permanently represented by Mr. Tom Debusschere, executive director and CEO, on 26 August 2018, Mr. Cyrille Ragoucy, the chairman, was appointed as interim CEO. On 1 April 2019, Mr Ragoucy was appointed as permanent CEO.

As a result of this appointment, Mr. Ragoucy no longer qualified as independent director in accordance with article 526ter of the Belgian Companies Code. Therefore the Board is currently composed of two independent non-executive members. This deviation to the independence criteria set out in the Belgian Companies Code and the Corporate Governance Code is temporary. The Board of Directors proposed the appointment of a new independent director to this year's annual Shareholders' Meeting.

On 31 December 2018 the Board of Directors consisted of eight members.

The articles of association entitle LSF9 Balta Holdco

| Name                                                | Position                                                                         | Director since | Mandate expires |
|-----------------------------------------------------|----------------------------------------------------------------------------------|----------------|-----------------|
| Cyrille Ragoucy                                     | Chairman of the Board and interim-CEO                                            | 2017           | 2021            |
| Michael Kolbeck                                     | Non-Executive Director and chairman of the Remuneration and Nomination Committee | 2017           | 2021            |
| Accelium bvba, represented by Nicolas Vanden Abeele | Independent Director                                                             | 2017           | 2021            |
| Sarah Hedger                                        | Independent Director                                                             | 2017           | 2021            |
| Neal Morar                                          | Non-Executive Director                                                           | 2018           | 2021            |
| Hannah Strong                                       | Non-Executive Director                                                           | 2017           | 2021            |
| Jeremy Fryzuk                                       | Non-Executive Director and chairman of the Audit Committee                       | 2017           | 2021            |
| Patrick Lebreton                                    | Non-Executive Director                                                           | 2017           | 2021            |

Mrs Annelies Willemyns was appointed as Corporate Secretary of the Board of Directors.

• **Cyrille Ragoucy** has more than 25 years' experience in senior management positions. His last operational position, before becoming interim CEO of Balta, was as CEO of Tarmac Ltd (originally Lafarge Tarmac), a leading building materials and construction solutions firm in the UK, where he oversaw the creation of the joint venture between Lafarge SA and Anglo American as well as the integration of several acquisitions, before the entity was purchased by CRH, a large Irish construction firm in August 2015. From 1998 to 2012, Mr. Ragoucy was with

S.à r.l., as long as it holds at least 50% of the total number of shares issued by the Company (which is the case), to nominate at least five members to be appointed by the Shareholders' Meeting.

The interim CEO has been the only executive member of the Board.

Although the term of office of directors under Belgian law is limited to six years (renewable), the Corporate Governance Code recommends that it be limited to four years. The articles of association limit the term of office of directors to four years.

The appointment and renewal of directors is based on a recommendation of the Remuneration and Nomination Committee to the Board of Directors and is subject to approval by the Shareholders' Meeting, taking into account the nomination rights described above.

On 31 December 2018, the Board of Directors was composed as follows:

Lafarge, serving as CEO of Lafarge Shui On Cement, a Chinese joint venture between Lafarge and Shui On, and CEO of Lafarge Construction Materials for Eastern Canada, among other director and executive-level posts. Currently he is also non-executive chairman of Chryso Group and non-executive director of SIG plc.

Mr. Ragoucy holds a Master of Management from the University of Paris IX (Dauphine), France.

• **Michael Kolbeck** is Managing Director and Head of Corporates Europe at Hudson Advisors UK Limited, which advises Lone Star and the funds which it administers, including Lone Star Fund IX,

an investor in the Company. Prior to his post at Hudson since January 2017, he was Managing Director at Lone Star Germany Acquisitions GmbH. He currently serves as Director and Board Member for Xella International S.A., a leading European building materials company and Dynamic Bulk LLC, a shipping company. Prior to joining Lone Star and Hudson in 2004, Mr. Kolbeck worked for several years as an investment manager for Allianz Group.

Mr. Kolbeck holds a master's degree in Business Administration from Ludwig-Maximilians University, Munich, Germany.

• **Nicolas Vanden Abeele** is currently part of the executive team of Barco, heading the Entertainment Division. He is a global leader who has served in a variety of operational and business leadership roles over the past 25 years, delivering growth, business transformation and operational excellence. Before joining Barco, he spent six years as a member of the executive committee at building materials company, Etex Group, where he headed one of its divisions and also served as a director for several Etex Group companies. Prior to Etex Group, he held various global executive positions in the technology industry with Alcatel-Lucent and strategy consulting with Arthur Andersen; living in Europe, the Americas and Asia.

Mr. Vanden Abeele holds master's degrees in Business Administration (K.U. Louvain, Belgium), International Business and European Economics (College of Europe, Belgium) and Management (Solvay School of Management/ULB, Belgium).

• **Sarah Hedger** was employed by General Electric for twelve years, prior to retiring in March 2017. She held leadership positions in its Corporate, Aviation and Capital business development teams, leaving General Electric as Leader of Business Development and M&A for its GE Capital division. While at General Electric, she served as a non-executive director of GE Money Bank AB from 2011 to 2014, prior to its sale to Santander Group, as well as GE Capital EMEA Services Limited from 2011 to 2018. Before

General Electric, Ms. Hedger worked at Lazard & Co. Limited for 11 years, leaving as Director, Corporate Finance and spent five years as an auditor at PricewaterhouseCoopers.

Ms. Hedger holds a master's degree in Electrical & Electronic Engineering and Business Studies from Imperial College, London University and is a qualified chartered accountant.

Mrs. Hedger was appointed as non-executive director of OneSavings Bank plc, a UK listed bank, on 1 February 2019.

• **Neal Morar** is a Director in the Corporates team at Hudson Advisors UK Limited, which advises Lone Star and the funds which it administers, including Lone Star Fund IX, which is an investor in the Company. Prior to his current role he held the post of UK CFO of Hudson Advisors UK Limited for five years and served on the Boards of various entities across industries including hotels and developments, Loan Servicer in Italy and an equity release company. Prior to joining Hudson in 2012, Mr. Morar worked for 5 years as Managing Director, International CFO for AIG Investments and 10 years in various CFO roles for the FTSE100 Capita Group. Since 1996, Mr. Morar is a Fellow of the Chartered Certified Accountants (FCCA) and since 2001, has been regulated with the FCA in various capacities. He holds a degree in Accounting and Finance from the University of Hertfordshire.

• **Hannah Strong** is Vice President, Legal Counsel at Hudson Advisors UK Limited, which advises Lone Star and the funds which it administers, including Lone Star Fund IX, an investor in the Company. Prior to her position at Hudson, Mrs. Strong worked as in-house legal counsel at The Carlyle Group (2013-2017) and was a corporate associate at Latham & Watkins in London (2007-2013). Hannah has extensive experience advising on legal and compliance issues that face companies across numerous industries and jurisdictions.

Ms. Strong holds a bachelor's degree in Jurisprudence from Oxford University.



• **Jeremy Fryzuk** is Director in the Corporate Private Equity Team at Hudson Advisors UK Limited, which advises Lone Star and the funds which it administers, including Lone Star Fund IX, an investor in the Company. Prior to his post at Hudson, he worked for Rhône Group (2013–2015), a mid-market private equity fund based in London. Prior to joining Rhône, he worked for Morgan Stanley in the firm’s principal investments group and investment banking division.

Mr. Fryzuk holds a Bachelor of Commerce with a major in Finance from Dalhousie University in Canada.

• **Patrick Lebreton** is Managing Director, Corporates at Hudson Advisors UK Limited, which advises Lone Star and the funds which it administers, including Lone Star Fund IX, an investor in the Company. Prior to his post at Hudson, he was a Director (Operating Partner) of Montagu Associates (2012–2015), advising the Montagu Private Equity Fund. From 2004 to 2012, he was an Executive Vice President in the Portfolio Group at Bain Capital. Previously he held executive posts at General Electric, was a manager at Accenture, and is a retired U.S. Army Officer, having served in Operation Desert Storm. He is currently the chairman of Stark Group, the leading Scandinavian builders merchant chain, and a Director of Edilans Sarl,

| Name                                                   | Boards | Attendance rate |
|--------------------------------------------------------|--------|-----------------|
| Kairos Management bvba, represented by Tom Debusschere | 5/5    | 100%            |
| Michael Kolbeck                                        | 8/8    | 100%            |
| Jeremy Fryzuk                                          | 8/8    | 100%            |
| Karoline Graebig                                       | 2/2    | 100%            |
| Neal Morar                                             | 6/6    | 100%            |
| Hannah Strong                                          | 8/8    | 100%            |
| Patrick Lebreton                                       | 8/8    | 100%            |
| Cyrille Ragoucy                                        | 8/8    | 100%            |
| Accelium bvba, represented by Nicolas Vanden Abeele    | 8/8    | 100%            |
| Sarah Hedger                                           | 8/8    | 100%            |

At every meeting, the Board of Directors reviewed and discussed financial results as well as the short- to mid-term financial forecast of the Company. On each occasion an update was given on the health and safety performance of the Company. Regular updates were given on compliance policy, including the implementation of GDPR within the Company. Upon

the leading French roofing products company.

Mr. Lebreton holds a Bachelor of Science in International Economics and Finance from Georgetown University and a master’s degree in Business Administration from Harvard Business School.

Evolution in composition during 2018

With effect as of 1 March 2018, Mrs Karoline Graebig resigned. Upon recommendation of the Remuneration and Nomination Committee, the Board decided to co-opt Mr. Neal Morar as of 1 March 2018. The annual Shareholder’s Meeting held on 22 May 2018 confirmed this co-optation for the remainder of the term of Mrs Graebig’s mandate.

On 26 August 2018 Kairos Management bvba, permanently represented by Mr Tom Debusschere, resigned.

Functioning of the Board of Directors

In principle, the Board of Directors meets at least five times a year. Additional meetings may be called with appropriate notice at any time to address specific business needs. In 2018 the Board met on eight occasions. On two occasions the Board took decisions by unanimous written consent.

recommendation of the Audit Committee, the Board discussed the potential refinancing, proposed the approval of the financial results of 2017, proposed the dividend for approval to the shareholders and approved the 2018 financial budget. It deliberated on the renewal of director mandates, on the 2018 long term incentive plan, the 2017 bonus and the 2018 bonus

methodology of the Management Committee members, as presented by the Remuneration and Nomination Committee.

The Board reviewed the Group’s divisional strategies with its management teams and closely monitored the implementation of their strategic projects.

The Board of Directors is convened by the chairman or the CEO whenever the interest of the Company so requires, or at the request of two directors.

Under the lead of its chairman, the Board will regularly evaluate its scope, composition and performance and those of its Committees, as well as its interaction with the executive management.

The CEO and other executive managers are invited to attend meetings. The Chief Financial Officer (CFO) is present at all Board meetings and also the other members of the Management Committee are regularly invited to attend. This guarantees appropriate interaction between the Board and management.

Gender diversity

| Name                                                | Position                                             | Mandate since | Mandate expires |
|-----------------------------------------------------|------------------------------------------------------|---------------|-----------------|
| Jeremy Fryzuk                                       | Chairman of the Committee and Non-Executive Director | 2017          | 2021            |
| Accelium bvba, represented by Nicolas Vanden Abeele | Member and Independent Director                      | 2017          | 2021            |
| Sarah Hedger                                        | Member and Independent Director                      | 2017          | 2021            |

In the course of 2018 the Audit Committee met six times. All members attended all meetings.

As required by the Belgian Companies Code, Jeremy Fryzuk, chairman of the Audit Committee possesses appropriate expertise and experience in this field. Reference is made to his biography in the ‘Board of Directors’ section above.

The chairman reported the outcome of each meeting to the Board of Directors.

The CEO and CFO are not members of the Audit Committee, but are invited to attend its meetings. This guarantees appropriate interaction

As a consequence of Mrs. Graebig’s resignation, the Board no longer has one-third of its members being of an opposite gender than the other members. For companies whose securities are admitted to a regulated market for the first time, the requirement to have at least one-third of board members of an opposite gender than the other members, is to be met as of the first day of the sixth financial year starting after the IPO, being for the Company as of 1 January 2023. The necessary attention is being paid to meet this requirement as soon as practically possible.

For the broader aspects of diversity, reference is made to the section Demographics in the Non-Financial Key Performance Indicators chapter.

Audit Committee

In accordance with article 526bis of the Belgian Companies Code and provision 5.2 of the Corporate Governance Code, the Board of Directors of Balta has established an Audit Committee.

On 31 December 2018, the Audit Committee consisted of three members, all being non-executive directors and a majority of them being independent directors.

between the Committee and management. As appropriate, also other Board members are invited to attend the Committee meetings.

The statutory auditor attended three meetings during which it reported on the outcome of the audit and presented the global audit plan.

In addition to its statutory powers and its power under the Corporate Governance Charter, the Audit Committee considered the following main subjects: the quarterly financial statements, the potential refinancing and related legal structure, the compliance approach and related policies, the FX exposure, the Company’s hedging strat-



egy, its Brexit readiness, its risk management approach, the annual management cycle, the closing and forecasting process and the budget.

**Remuneration and Nomination Committee**  
In accordance with article 526quater of the Belgian Companies Code and provision 5.3 and 5.4 of the Corporate Governance Code, the Board of Directors of Balta Group has established a Remuneration and Nomination Committee.

As a result of the appointment of Mr. Cyrille Ragoucy as interim CEO on 26 August 2018, it was noted that he could no longer be a member of the Remuneration and Nomination

| Name                                                | Position                            | Mandate since | Mandate expires |
|-----------------------------------------------------|-------------------------------------|---------------|-----------------|
| Michael Kolbeck                                     | Chairman and Non-Executive Director | 2017          | 2021            |
| Accelium bvba, represented by Nicolas Vanden Abeele | Member and Independent Director     | 2017          | 2021            |
| Sarah Hedger                                        | Member and Independent Director     | 2018          | 2021            |

In 2018 the Remuneration and Nomination Committee met seven times. All members attended all meetings.

The CEO and CFO are not members of the Committee, but are invited to attend its meetings, unless the members of the Committee want to meet separately (eg when discussing remuneration). This guarantees appropriate interaction between the Committee and management.

In addition to its statutory powers and its powers under the Corporate Governance Charter, the Remuneration and Nomination Committee discussed the following main subjects: the recruitment of senior management, the 2018 long term incentive plan, the compensation and benefits packages for the CEO, the members of the Management Committee and other key senior managers, the variable remuneration for 2017 and the 2018 bonus methodology of the members of the Management Committee, the performance of the members of the Management Committee and the core leadership team, the remuneration report, the annual HR cycle and talent and succession planning at management level.

Committee. Article 526 quater of the Belgian Companies Code provides, among others, that the Remuneration Committee can solely be composed of non-executive directors, and must be composed of a majority of independent directors. Therefore, it was necessary to replace Mr. Ragoucy as member of the Remuneration and Nomination Committee by an independent director of the Company. With effect as of 26 August 2018, Mrs Sarah Hedger replaced Mr. Ragoucy as member of the Remuneration and Nomination Committee.

On 31 December 2018, the Remuneration and Nomination Committee was composed as follows:

**Chief Executive Officer**  
Kairos Management bvba, with Tom Debusschere as its permanent representative, resigned on 26 August 2018. Mr. Cyrille Ragoucy, chairman of the Board has been appointed as interim CEO by the Board of Directors with effect as of 26 August 2018. As of 1 April 2019, Mr Ragoucy is assuming the role of CEO in a permanent capacity. He reports directly to the Board. The CEO has direct operational responsibility for the Company and oversees the organisation and day-to-day management of the Company and its subsidiaries.

The CEO is responsible for the execution and management of the outcome of all Board of Directors' decisions.

The CEO heads the Management Committee, which reports to him, within the framework established by the Board of Directors and under its ultimate supervision.

**Management Committee**  
The Management Committee is chaired by the CEO. Other members of the Management Committee are appointed and removed by

the Board of Directors upon the advice of the CEO and the Remuneration and Nomination Committee.

The Management Committee exercises the duties assigned to it by the CEO, under the

The Company's Management Committee consists of the following members on 31 December 2018:

| Name                                                                   | Position                                   |
|------------------------------------------------------------------------|--------------------------------------------|
| Cyrille Ragoucy                                                        | Interim Chief Executive Officer            |
| Tom Gysens bvba, represented by Tom Gysens                             | Chief Financial Officer                    |
| Marc Dessein bvba, represented by Marc Dessein                         | Managing Director Balta home               |
| Vandendriessche Consulting bvba, represented by Lieven Vandendriessche | Managing Director European carpets & tiles |

For the biography of Cyrille Ragoucy, please see the "Board of Directors" section above.

• **Tom Gysens** joined the Balta Group as CFO in 2016. Prior to this, Mr. Gysens worked for Beaulieu International Group for over 10 years, serving as Group CFO from 2008 to 2016 and Group Controller from 2005 to 2008. Before Beaulieu, Mr. Gysens was Financial Projects Manager for Berry Floor Group from 2004 to 2005 and Senior Audit Manager for PricewaterhouseCoopers Bedrijfsrevisoren from 1997 to 2004.

He holds master's degrees in Commercial Engineering (cum laude) and in Accountancy and Auditing (cum laude) from the Catholic University of Leuven.

• **Marc Dessein** has worked for the Balta Group since 1992, serving as Managing Director of the Rugs division since 2006. From 1993 until 2006, he was General Manager of the Wool-Heatset Rugs Business Unit of Balta Group and prior to that Export Sales manager. From 1985 to 1992 he held sales and management positions at Pfizer, Radar and Sun International. From 1981 to 1985 he was Assistant Professor at the Faculty of Medicine, Catholic University Leuven.

Mr. Dessein holds master's degrees in Physical Education (magna cum laude) from the Catholic University of Leuven and in Marketing (magna cum laude) from Vlerick Management School, University of Ghent.

ultimate supervision of the Board of Directors. It does not constitute an executive committee ("directiecomité" / "comité de direction") within the meaning of article 524bis of the Belgian Companies Code. The Management Committee is an informal executive committee.

• **Lieven Vandendriessche** joined the Balta Group as Managing Director of the Carpets and Tiles division in 2016. From 2011 to 2016, he worked as General Manager Europe and served as a member of the Executive Committee for Bekaert Deslee, a private equity owned global market leader for mattress textiles. From 2005 to 2011, Mr. Vandendriessche was Group Vice President of Operations for Deceuninck, a global leader in PVC window profile systems, having joined the group in 1995.

Mr. Vandendriessche earned a Master of Business Economics (magna cum laude) from Erasmushogeschool, Brussels.

**Statutory auditor**  
The audit of the unconsolidated and consolidated financial statements of the Company is entrusted to the statutory auditor appointed at the Shareholders' Meeting, for renewable terms of three years. The current statutory auditor is PricewaterhouseCoopers Bedrijfsrevisoren BCVBA, with its registered office at Woluwedal 18, 1932 Sint-Stevens-Woluwe, and represented by Mr. Peter Opsomer.

The mandate of PricewaterhouseCoopers Bedrijfsrevisoren BCVBA will expire at the annual Shareholders' Meeting that will be asked to approve the annual accounts for the financial year ended on 31 December 2019.

Article 140/1 of the Belgian Companies Code and article 24 of the Law of 7 December 2016



on the organisation of the profession of and the public supervision over auditors, limit the liability of auditors of listed companies to €12 million for, respectively, tasks concerning the legal audit of annual accounts within the meaning of article 16/1 of the Belgian Companies Code and other tasks reserved to auditors of listed companies by Belgian law or in accordance with Belgian law, except for liability resulting from the auditor's fraud or other deliberate breach of duty.

In 2018, the remuneration paid to the statutory auditor for auditing activities amounted to €351,000. Remuneration paid for special assignments was €40,000 and €147,000 for other assignments outside the mandate.

### Relevant information in the event of a takeover bid

Article 34 of the Royal Decree of 14 November 2007 on the obligations of issuers of securities which have been admitted to trading on a regulated market, requires that listed companies disclose certain items that may have an impact in the event of a takeover bid.

### Capital structure

A comprehensive overview of our capital structure as at 31 December 2018 can be found in the "Capital Structure" section of this Corporate Governance Statement.

### Restrictions on transfers of securities

The Company's articles of association do not impose any restrictions on the transfer of shares. Furthermore, the Company is not aware of any such restrictions imposed by Belgian law except in the framework of the Market Abuse Regulation.

### Holders of securities with special control rights

There are no holders of securities with special control rights other than the nomination rights set out below.

### Employee share plans where the control rights are not exercised directly by the employees

The Company has not set up employee share plans where control rights over the shares are not exercised directly by the employees.

### Restriction on voting rights

The articles of association of the Company do not contain any restrictions on the exercise of voting rights by the shareholders, provided that the shareholders concerned comply with all formalities to be admitted to the Shareholders' Meeting.

### Shareholder agreements

Balta is not aware of any shareholder agreement which includes, or could lead to, a restriction on the transfer of its shares or exercise of voting rights related to its shares.

### Rules on the appointment and replacement of members of the Board of Directors and on amendments to the articles of association

The term of office of directors under Belgian law is limited to six years (renewable) but the Corporate Governance Code recommends that it be limited to four years.

In accordance with the articles of association, the Company is managed by a Board of Directors that shall consist of a minimum of five directors. These are appointed by the Shareholders' Meeting for a maximum term of four years, as recommended by the Corporate Governance Code, and may be reappointed. Their mandate may be revoked at any time by the Shareholders' Meeting.

Should any of the directors' mandates become vacant, for whatever reason, the remaining directors may temporarily fill such vacancy until the next Shareholders' Meeting appoints a new director.

For as long as LSF9 Balta Holdco S.à r.l. ("LSF9") or a company affiliated therewith within the meaning of article 11 of the Belgian Companies Code (a "company affiliated therewith"), directly or indirectly, holds at least 50% of the total number of shares issued by the Company – which was the case in 2018 – it is entitled to nominate at least five directors to be appointed by the Shareholders' Meeting.

For as long as LSF9 or a company affiliated

therewith, directly or indirectly, holds less than 50% but at least 40% of the total number of shares issued by the Company, it is entitled to nominate four directors to be appointed by the Shareholders' Meeting.

For as long as LSF9 or a company affiliated therewith, directly or indirectly, holds less than 40% but at least 30% of the total number of shares issued by the Company, it is entitled to nominate three directors to be appointed by the Shareholders' Meeting.

For as long as LSF9 or a company affiliated therewith, directly or indirectly, holds less than 30% but at least 20% of the total number of shares issued by the Company, it is entitled to nominate two directors to be appointed by the Shareholders' Meeting.

For as long as LSF9 or a company affiliated therewith, directly or indirectly, holds less than 20% but at least 10% of the total number of shares issued by the Company, it is entitled to nominate one director to be appointed by the Shareholders' Meeting.

If the direct or indirect shareholding of LSF9 or a company affiliated therewith in the Company falls below one of the aforementioned thresholds, LSF9 shall cause a director appointed upon its nomination to tender its, his or her resignation as director with effect as of the date of the next annual Shareholders' Meeting, failing which the mandate of the director who was most recently appointed upon LSF9's nomination, shall automatically terminate on the date of the next annual Shareholders' Meeting.

The CEO is vested with the day-to-day management of the Company and the representation of the Company in respect of such management. The Board of Directors appoints and removes the CEO.

Within the limits of the powers granted to him/her by or pursuant to the articles of association, the CEO may delegate special and limited

powers to a management committee, other than within the meaning of article 524bis of the Belgian Companies Code, or any other person.

Save for capital increases decided by the Board of Directors within the limits of the authorised capital, only an Extraordinary Shareholders' Meeting is authorised to amend the Company's articles of association. A Shareholders' Meeting is the only body which can deliberate on amendments to the articles of association, in accordance with the articles of the Belgian Companies Code.

### Authorised capital and acquisition of own shares *Authorised capital*

According to article 6 of the articles of association, the Board of Directors may increase the share capital of the Company once or several times by a (cumulated) amount of maximum 100% of the amount of the share capital as such amount was recorded immediately after the closing of the Initial Public Offering of the shares of the Company on 16 June 2017.

This authorisation may be renewed in accordance with the relevant legal provisions. The Board of Directors can exercise this power for a period of five years as from the date of publication in the Annexes to the Belgian State Gazette of the amendment to the articles of association approved by the Extraordinary Shareholders' Meeting of 30 May 2017.

Any capital increases which can be decided pursuant to this authorisation will take place in accordance with the modalities to be determined by the Board of Directors and may be made (i) by means of a contribution in cash or in kind (where appropriate including a non-distributable share premium), (ii) through conversion of reserves, whether available or unavailable for distribution, and issuance premiums, with or without issuance of new shares with or without voting rights. The Board of Directors can also use this authorisation for the issuance of convertible bonds, warrants or bonds to which warrants or other tangible values are connected, or other securities.



When exercising its authorisation within the framework of the authorised capital, the Board of Directors can limit or cancel the preferential subscription right of the shareholders in the interest of the Company, subject to the limitations and in accordance with the conditions provided for by the Belgian Companies Code. This limitation or cancellation can also occur to the benefit of the employees of the Company or its subsidiaries, or to the benefit of one or more specific persons, even if these are not employees of the Company or its subsidiaries.

The Board of Directors is expressly empowered to proceed with a capital increase in any and all form, including but not limited to a capital increase accompanied by the restriction or withdrawal of the preferential subscription right, (even after receipt by the Company of a notification by the FSMA) of a takeover bid for the Company's shares. Where this is the case, however, the capital increase must comply with the additional terms and conditions laid down in article 607 of the Belgian Companies Code. The powers hereby conferred on the Board of Directors remain in effect for a period of three years from the date of the completion of the condition precedent of the amendment to the articles of association approved by the Extraordinary Shareholders' Meeting of 30 May 2017. These powers may be renewed for a further period of three years by resolution of the Shareholders' Meeting, deliberating and deciding in accordance with applicable rules. If the Board of Directors decides upon an increase of authorised capital pursuant to this authorisation, this increase will be deducted from the remaining part of the authorised capital specified in the first paragraph.

In the course of 2018, the Board of Directors did not make use of its mandate to increase Balta's capital as stated in article 6 of the articles of association.

#### *Acquisition of own shares*

According to its articles of association, the Board of Directors may, without any prior authorisation of the Shareholders' Meeting, in accordance with articles 620 ff. of the Belgian Companies Code

and within the limits set out in these provisions, acquire, on or outside a regulated market, up to 20% of the Company's own shares, profit-sharing certificates or associated certificates for a price which will respect the legal requirements, but which will in any case not be more than 10% below the lowest closing price in the last thirty trading days preceding the transaction and not more than 10% above the highest closing price in the last thirty trading days preceding the transaction. This authorisation is valid for five years from the date of the completion of the condition precedent of the amendment to the articles of association approved by the Extraordinary Shareholders' Meeting of 30 May 2017. This authorisation covers the acquisition on or outside a regulated market by a direct subsidiary within the meaning and the limits set out by article 627, indent 1 of the Belgian Companies Code. If the acquisition is made by the Board of Directors outside a regulated market, even from a subsidiary, the Board shall comply with article 620, §1, 5° of the Belgian Companies Code.

The Board of Directors is authorised, subject to compliance with the provisions of the Belgian Companies Code, to acquire for the Company's account the Company's own shares, profit-sharing certificates or associated certificates if such acquisition is necessary to avoid serious and imminent harm to the Company. Such authorisation is valid for three years as from the date of publication of the completion of the condition precedent of the amendment of the articles of association, approved by the Extraordinary Shareholders' Meeting of 30 May 2017, in the Annexes to the Belgian State Gazette.

By resolution of the Extraordinary Shareholders' Meeting held on 30 May 2017, the Board of Directors is authorised to divest itself of part of or all the Company's shares, profit-sharing certificates or associated certificates at any time and at a price it determines, on or outside the stock market or in the framework of its remuneration policy to employees, directors or consultants of the Company or to prevent any serious and imminent harm to the Company. The authorisation covers the divestment of the Company's shares, profit-sharing certificates or

associated certificates by a direct subsidiary within the meaning of article 627, indent 1 of the Belgian Companies Code. The authorisation is valid without any time restriction, irrespective of whether the divestment is to prevent any serious and imminent harm for the Company or not.

#### **Material agreements to which Balta or certain of its subsidiaries is a party containing change of control provisions**

##### *Senior Secured Notes*

On 3 August 2015, LSF9 Balta Issuer S.à r.l. (the "Issuer") issued €290,000,000 in aggregate principal amount of 7.75% Senior Secured Notes due 2022 of which €234,900,000 remained outstanding after the partial redemptions in 2017.

Upon the occurrence of a change of control (as defined in the Senior Secured Notes Indenture), the Senior Secured Notes Indenture requires the Issuer to offer to repurchase the Senior Secured Notes at 101% of their aggregate principal amount, plus accrued and unpaid interests and additional amounts, if any, to the date of purchase.

##### *Revolving Credit Facility*

On 3 August 2015, the Issuer and LSF9 Balta Investments S.à r.l. entered into a revolving credit facility agreement (as amended or supplemented from time to time, the "Revolving Credit Facility Agreement"), which currently provides for €68,000,000 of committed financing.

The Revolving Credit Facility Agreement requires mandatory prepayment in full or in part in certain circumstances including upon a change of control (as defined in the Revolving Credit Facility Agreement).

##### *Senior Term Loan*

On 29 August 2017, LSF9 Balta Issuer S.à r.l. entered into a €35,000,000 Senior Term Loan Facility (the "Senior Term Loan Facility Agreement").

The Senior Term Loan Facility Agreement requires mandatory prepayment in full or in part in certain circumstances including upon a change of control (as defined in the Senior Term Loan Facility Agreement).

#### *2018 Long Term Incentive Plan*

In 2018, a long term incentive plan ("LTIP") was implemented to create alignment between managers' and shareholders' interests. The LTIP consists of PSUs which convert into shares and vest to relevant managers that still provide services to the Balta Group on the 3rd anniversary of their award, to the extent that the Company's share price has reached certain defined targets. As approved by the Shareholders' Meeting of 16 June 2017 in accordance with article 556 of the Belgian Companies Code, the PSU vesting is accelerated in the event of a change of control or the closing of a public takeover bid over the Company.

#### *One-off PSU package CEO*

As mentioned below in the section relative to remuneration, Mr Ragoucy has been awarded a one-off package consisting of Performance Share Units ("PSUs") in view of his appointment as permanent CEO. The agreement relative to this one-off award contains a clause that triggers an accelerated vesting of the PSUs on the occurrence of a public takeover resulting in a change of control (i.e. the closing/first settlement date of a voluntary or mandatory public takeover bid on all shares of Balta Group nv).

#### *2019 Long Term Incentive Plan*

On 16 April 2019, the Board of Directors approved the main characteristics of the 2019 LTIP. The PSUs granted under the 2019 LTIP will vest to relevant managers that still provide services to the Balta Group on the 2nd and 3rd anniversaries of their award, to the extent that the Company's share price has reached certain defined targets. The clause allowing for accelerated PSU vesting in the event of the closing of a public takeover bid over the Company will be submitted for approval by the Shareholders' Meeting of 28 May 2019, in accordance with article 556 of the Belgian Companies Code.

#### **Severance pay pursuant to the termination of contract of Board members or employees pursuant to a takeover bid**

The Company has not concluded any agreement with its Board members or employees which would result in the payment of specific

severance pay if, pursuant to a takeover bid, the Board members or employees resign, are dismissed or their employment agreements are terminated.

Please see section "Provisions concerning individual severance payments for Management Committee members / Termination Provisions" of this Corporate Governance Statement on termination provisions of the members of the Management Committee.

## Conflicts of interest

### Directors' conflicts of interest

Article 523 of the Belgian Companies Code provides for a special procedure if a director of the Company, save for certain exempted decisions or transactions, directly or indirectly has a personal financial interest that conflicts with a decision or transaction that falls within the Board of Directors' powers. The director concerned must inform the other directors before any decision of the Board of Directors is taken and the statutory auditor must also be notified. For listed companies, the director thus conflicted may not participate in the deliberation or vote on the conflicting decision or transaction.

#### *Relevant section of the minutes of the Board of Directors of 28 February 2018:*

Before the deliberation of the Board of Directors of 28 February 2018 started, Kairos Management bvba, permanently represented by Mr. Tom Debusschere declared to have a conflict of interest, as defined in article 523 of the Belgian Companies Code ("BCC"), concerning the following items on the agenda: the approval of the LTIP and the approval of the 2018 bonus methodology.

The conflict arises as the manager providing services on behalf of the aforementioned director is, together with the other members of the Management Committee, a beneficiary of an LTIP and of the 2018 bonus plan. The resolutions to be adopted envisage the approval of the 2018 LTIP, possibly granting shares linked to the reaching of certain performance criteria and the approval of the 2018 bonus methodology, possibly providing

the pay-out of an annual variable fee linked to the meeting of certain performance criteria.

In accordance with article 523 BCC, Kairos Management bvba refrained from taking part in the deliberations and from voting on the resolutions. The statutory auditor of the Company will be informed of this conflict of interest.

The implementation of the LTIP is in the interest of the Company as it is intended to facilitate the recruiting and retaining of personnel of outstanding ability. The bonus plan encourages the contribution of the members of the Management Committee to the strategy of the Company. The Board is therefore of the opinion that these are justified.

The number of shares to be granted and the variable fee to be paid by the Company will depend on the share price reaching a defined target and on the performance criteria as set out in the bonus scheme being met.

Each of the other directors stated that he/she did not have any direct or indirect conflicting interest of a patrimonial nature with a resolution or operation upon which the Board of Directors will decide during this meeting or as referred to under article 523 BCC.

#### *Relevant section of the minutes of the Board of Directors of 2 May 2018:*

Before the deliberation of the Board of Directors of 2 May 2018 started, Kairos Management bvba, permanently represented by Mr. Tom Debusschere declared a conflict of interest, as defined in article 523 of the BCC, concerning the following item on the agenda: the approval of the 2017 bonus.

The conflict arises as the manager providing services on behalf of the aforementioned director is, together with the other members of the Management Committee, a beneficiary of the 2017 bonus. The resolutions to be adopted envisage the approval of the 2017 bonus arrangement.

In accordance with article 523 BCC, Kairos Management bvba refrained from taking part in the deliberations and from voting on the resolutions. The statutory auditor of the Company will be informed of this conflict of interest.

The bonus pay-out is in the interest of the Company as it encourages the contribution of members of the Management Committee to the strategy of the Company. The Board is therefore of the opinion that these pay-outs are justified.

As the relevant manager voluntarily transferred the bonus payment he was to receive regarding 2017 to 2018, this amount was added to his target bonus for 2018 and would be paid out in 2019, subject to meeting specific performance criteria set for 2018 (on EBITDA).

Each of the other directors stated that he/she did not have any direct or indirect conflicting interest of a patrimonial nature with a resolution or operation upon which the Board of Directors will decide during this meeting or as referred to under article 523 BCC.

#### *Relevant section of the minutes of the Board of Directors of 5 November 2018:*

Before the deliberation of the Board of Directors of 5 November 2018 started, Mr. Cyrille Ragoucy declared a conflict of interest, as defined in article 523 of the BCC, concerning the following item on the agenda: the approval of the remuneration of the interim CEO.

The conflict results from the fact that Mr. Ragoucy is both director of the Company and since 26 August 2018 also a member of the Management Committee. The resolution to be adopted envisages approval of his remuneration as managing director and interim CEO.

In accordance with article 523 BCC, Mr. Cyrille Ragoucy refrained from taking part in the deliberations and from voting on the resolutions. The statutory auditor of the Company will be informed of this conflict of interest.

The Board is of the opinion that the remuneration proposed is in accordance with market practice and justifiable for an interim managing director/CEO role with uncertain duration and limited benefits/notice period.

The fixed monthly remuneration amounts to €50,000 gross. The CEO is also eligible to receive a quarterly variable fee with respect to performance during each three months' period following 26 August 2018. The performance objectives applicable with respect to each three months' reference period will be determined in writing. Subject to satisfying the performance objectives set by the Board of Directors, each quarterly variable fee may be equal to €120,000 gross.

Each of the other directors stated that he/she did not have any direct or indirect conflicting interest of a patrimonial nature with a resolution or operation upon which the Board of Directors will decide during this meeting or as referred to under article 523 BCC.

### Compliance with the 2009 Belgian Code on Corporate Governance

Balta is committed to high standards of corporate governance and to the Corporate Governance Code as a reference code. As the Corporate Governance Code is based on a "comply or explain" approach, the Board of Directors intends to comply with the Corporate Governance Code, except with respect to the following:

- 1) the articles of association allow the Company to grant shares, stock options and other securities vesting earlier than three years after their grant;
- 2) certain members of the Management Committee are entitled in certain circumstances to severance pay higher than 12 months of remuneration;
- 3) the group of directors appointed at the nomination of LSF9 Balta Holdco S.à r.l., constitute a majority of the directors (5 out of 8) as a consequence of the majority of shares held by that company;



- 4) the chairman of the Board and the CEO are the same individual (art 1.5) as a consequence of the chairman becoming CEO; and
- 5) due to the chairman becoming an executive director, the Board is composed of two independent directors (art 2.3).

The exception under 2 is a contractual constraint which was already applicable before the public offering of Balta shares. The exception under 5 is temporary pending appointment of another independent director, proposed by the Board of Directors for approval at this year’s annual Shareholders’ Meeting.

**Remuneration report**  
**Procedures for developing the remuneration policy and for determining the remuneration granted to individual directors**

The remuneration of the independent members of the Board of Directors was decided by the Shareholders’ Meeting dated 30 May 2017 as follows:  
Director fee for independent directors: annual fee of €40,000 gross;  
Additional fee for Committee membership (per Committee): annual fee of €10,000 gross; and  
Additional fee applicable to the chairman of the Board of Directors: annual fee of €70,000 gross.

The remuneration of the chairman of the Board of Directors is capped at €120,000 gross. During

the period that the chairman was executing the mandate as managing director and interim CEO of the Company, Mr. Ragoucy was only entitled to the fee connected to the mandate as chairman, i.e. the annual fee of €70,000. As of assuming the role of CEO in a permanent capacity, Mr Ragoucy is no longer remunerated for his directors’ mandate.

In order to ensure the independence of the Board of Directors in its supervisory function over the Management Committee, the remuneration system for the non-executive directors does not contain any performance-related components. It takes into account the responsibilities and the commitment of the Board members to develop the Company and is intended to attract and retain individuals who have the necessary experience and competencies for this role.

No director fee is paid to the non-executive directors appointed upon nomination by LSF9 Balta Holdco S.à r.l. No attendance fees are granted.

The remuneration policy will be reviewed on a regular basis by the Remuneration and Nomination Committee and the Board of Directors in line with prevailing market conditions for listed companies in Belgium. It will submit proposals in this regard to the General Shareholders’ Meeting for decision.

**Procedures for developing the remuneration policy and for determining the remuneration granted to members of the Management Committee**

The remuneration policy for the CEO and the members of the Management Committee takes account of prevailing legislation, the Corporate Governance Code and market data.

It is monitored by the Remuneration and Nomination Committee – with the assistance of specialist members of staff – to see whether it complies with the law, the Corporate Governance Code and prevailing market practices and trends. The chairman of the Remuneration and Nomination Committee informs the Board of Directors of the Committee’s activities and advises it of any proposed changes to the remuneration policy and its practical implementation.

Based on the advice obtained from the Remuneration and Nomination Committee, the Board of Directors determines the remuneration to be granted to the CEO and the members of the Management Committee and will assess this amount at regular intervals. The amount in question is split into a fixed component and performance-related components.

**Remuneration policy regarding the remuneration granted to members of the Management Committee**

For the remuneration related to 2018, the following principles were applied for the CEO and the other members of the Management Committee:

*Principles to determine the remuneration*  
Balta’s remuneration philosophy is to ensure that all employees are rewarded fairly and appropriately for their contribution. In setting remuneration levels, the Remuneration and Nomination Committee takes appropriate market benchmarks into account, ensuring an emphasis on pay for performance. This approach helps to attract, engage, retain, and motivate key management, while ensuring their behaviour remains consistent with its values and strategy.

A review of the performance of each member of the Management Committee will be conducted annually by the CEO and discussed with the Remuneration and Nomination Committee. The results will be presented to and discussed by the Board of Directors. This performance review was carried out during the Committee meeting of 31 October 2018.

The Board of Directors will also meet annually in a non-executive session (i.e. without the CEO being present) in order to discuss and review the performance of the CEO. This took place on 26 August and 13 December 2018.

*Different components of remuneration and their characteristics*

The remuneration of individual Management Committee members is made up of a fixed annual fee, a variable annual fee and a long-term incentive.

The **fixed annual fee** is defined on the basis of various criteria, such as the market value of the role, the scope of the position and the profile of the incumbent in terms of skill set and professional experience. The purpose of the guaranteed fixed fee is to compensate the management for time and competence at a market-related rate.

The aim of the **variable fee** is to create a high-performance culture through a cash bonus linked to performance against contracted deliverables with due regard to preventing excessive risk taking. This Short-Term Incentive Plan (STIP) is harmonised throughout the organisation. It is designed to reward the performance of the Company and its divisions over a one-year time horizon.

The STIP rewards the realisation of key financial performance indicators against targets recommended by the Remuneration and Nomination Committee and approved by the Board of Directors for the period from 1 January 2018 to 31 December 2018.

Actual remuneration granted to the non-executive directors in 2018:

| Name                                                | Chairmanship | Independent directorship                      | AC membership | RNC membership                          | Total    |
|-----------------------------------------------------|--------------|-----------------------------------------------|---------------|-----------------------------------------|----------|
| Cyrille Ragoucy                                     | €70,000      | €26,022<br>(independent until 26 August 2018) | -             | €6,505<br>(member until 26 August 2018) | €102,527 |
| Michael Kolbeck                                     | -            | -                                             | -             | €0                                      | €0       |
| Jeremy Fryzuk                                       | -            | -                                             | €0            | -                                       | €0       |
| Accelium bvba, represented by Nicolas Vanden Abeele | -            | €40,000                                       | €10,000       | €10,000                                 | €60,000  |
| Sarah Hedger                                        | -            | €40,000                                       | €10,000       | €3,495<br>(member as of 26 August 2018) | €53,495  |
| Karoline Graeubig                                   | -            | -                                             | -             | -                                       | €0       |
| Neal Morar                                          | -            | -                                             | -             | -                                       | €0       |
| Hannah Strong                                       | -            | -                                             | -             | -                                       | €0       |
| Patrick Lebreton                                    | -            | -                                             | -             | -                                       | €0       |

For the CEO and the CFO, the STIP for 2018 has been based on group financial targets: 70% on group-adjusted EBITDA and 30% on seasonality adjusted net debt. For other members of the Management Committee the STIP has been based on the realisation of divisional financial targets: 70% on Divisional Adjusted EBITDA and 30% on Divisional Working Capital.

The Remuneration and Nomination Committee evaluated the achievement of the 2018 objectives for the members of the Management Committee and proposed the calculation of a short-term variable remuneration based on the 2018 performance criteria to the Board of Directors.

The variable remuneration is not spread over time.

During his appointment as interim CEO, Mr Ragoucy was eligible for a quarterly variable fee with respect to performance during each three-month period. Due to the interim nature of the assignment, the performance objectives for the last quarter of 2018 were a combination of short term financial, organisational and strategic targets.

In 2018, the target STIP has been 80% of the fixed annual remuneration for the CEO and, on average, 46% of the annual fixed remuneration for other members of the Management Committee.

In 2018, a **Long Term Incentive Plan** (LTIP) was implemented to create alignment between manager's and shareholders' interests.

The LTIP consists of PSUs. The PSUs will vest to relevant managers that still provide services to the Balta Group on the third anniversary of their award and are converted into shares, to the extent that the Company's share price has reached defined targets with a minimum hurdle of €13.25 per share required for any conversion. The 2018 LTIP was awarded to Kairos Management bvba, represented by Tom Debusschere and to the other members of the Management Committee.

The purpose of the LTIP is to drive the performance and long-term growth of the Balta Group by offering long-term incentives to managers who contribute to such performance and growth. The LTIP is also intended to facilitate recruiting and retaining personnel of outstanding ability.

#### *Remuneration policy for the next two financial years*

Going forward, the remuneration policy will be reviewed on a regular basis by the Remuneration and Nomination Committee in line with prevailing market conditions for listed companies in Belgium and companies of similar scale and business characteristics.

#### **Remuneration awarded to the CEO as a member of the Management Committee**

Kairos Management, represented by Tom Debusschere (until 26 August 2018)

- Base salary (gross remuneration): €381,484
- Variable remuneration (relating to performance in 2018, paid out in 2019): nil
- The 2017 bonus which was delayed to 2018 was not paid out.
- Pension: nil
- Other compensation components (representation allowances): €15,677.42
- Due to the ending of the position with the Company,
  - the phantom share retention bonus that had been put in place lapsed and was not payable.
  - the 14,088 PSU's that were granted within the framework of the LTIP, forfeited and will no longer vest.

Cyrille Ragoucy (as from 26 August 2018 in his capacity as interim CEO)

- Base salary (gross remuneration): €209,677 (excluding the chairmanship fee)
- Variable remuneration (relating to performance in 2018, paid out in 2019): €165,652
- Pension: nil
- Other compensation components (company car, fuel card and smartphone): €4,000.

As mentioned above, Mr Ragoucy was appointed as permanent CEO on 1 April 2019. In

terms of fixed and (short-term target) variable remuneration, the remuneration awarded to him as permanent CEO is largely in line with the remuneration package to which he was entitled as interim CEO, except for the variable fee now being measured and paid on an annual basis. In the context of his appointment as permanent CEO and in order to compensate (a) Mr Ragoucy in view of the fact that no LTIP award was made to him in 2018 and (b) the loss of income connected to him giving up external roles, Mr Ragoucy has been awarded a one-off package consisting of PSU's in view of this appointment, which would vest subject to a significant increase in the Company's share price (i.e. a minimum share price of €13). Mr Ragoucy will also participate in the 2019 LTIP.

Mr Ragoucy has also been offered by Balta Group's reference shareholder (LSF9 Balta Holdco S.à r.l.) a conditional incentive that would be payable in cash by LSF9 Balta Holdco S.à r.l. subject to and linked to a significant increase of the value of its stake in Balta Group.

#### **Remuneration awarded to the other Management Committee members**

For the year ended 31 December 2018, the total remuneration of the Management Committee members was as follows:

- Base salary (gross remuneration): €1,302,444
- Variable remuneration (relating to performance in 2018, paid out in 2019): €50,670
- Certain members of the Management Committee had voluntarily transferred the bonus payment they were to receive regarding 2017 to 2018. This amount was added to their target bonus for 2018 and would be paid out in 2019 subject to the meeting of specific performance criteria set for 2018. Due to the target not being met, no deferred bonuses will be paid out.
- Pension: nil
- Other compensation components: nil
- Within the framework of the LTIP, 32,578 PSU's were granted in 2018.

As part of the IPO process, the members of the Management Committee were entitled to a share

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

#### **Remuneration awarded in the context of the IPO**

In the context of the IPO, certain managers received shares and a cash bonus from LSF9 Balta Midco S.à r.l. pursuant to pre-existing management incentive schemes with Lone Star entities. After the resignation of Mr. Debusschere, the total number of shares awarded to the current members of the Management Committee and the current manager of Bentley Mills Inc amounted to 633,592 shares, of which 161,232 shares were granted upon completion of the IPO, another 236,182 shares vested on the first anniversary of the IPO and the remainder (236,178 shares) will vest on its second anniversary.

A manager who leaves the Balta Group voluntarily or is dismissed for cause prior to a vesting date will lose his/her entitlement to unvested shares.

#### **Provisions concerning individual severance payments for Management Committee members / Termination Provisions**

Other than in the case of termination in certain events of breach of contract, before his appointment as permanent CEO, Mr Ragoucy, in his capacity as interim CEO was entitled to a notice period of one month or a termination fee equal to his fixed fee for a period of one month. As of his permanent appointment, the CEO is entitled to a notice period of six months or a termination fee equal to the proportion of the fixed fee that he would be entitled to during this six months' period.

Other than in the case of termination in certain events of breach of contract, the CFO is entitled to a notice period of twelve months or a termination fee equal to his fixed fee for



a period of twelve months. The CFO is subject to a non-competition clause for a period of up to one year from the date of termination or resignation restricting his ability to work for competitors.

Other than in the case of termination in certain events of breach of contract, Mr. Lieven Vandendriessche is entitled to a notice period of twelve months or a termination fee equal to his fixed fee for a period of twelve months. Mr. Lieven Vandendriessche is subject to a non-competition clause for a period of up to one year from the date of termination or resignation, restricting his ability to work for competitors. A non-compete compensation of 50% of his fixed fee is due if this non-compete is not waived within thirty days of the agreement ending.

Other than in certain cases of termination for breach of contract, Mr. Marc Dessein is entitled to a notice period of eighteen months and a termination fee equal to the relevant portion of his fixed and variable fee paid out in the preceding calendar year for early termination of the notice period. Mr. Dessein is subject to a non-competition clause for a period of up to one year from the date of termination or resignation, restricting his ability to work for competitors. He is entitled to receive compensation in an amount equal to up to €162,500 of remuneration if this non-competition clause is applied.

Other than for Mr Ragoucy, the above-mentioned termination provisions were included in management agreements dated before the IPO. The termination provision included in Mr. Dessein's management agreement is justified given his skills and seniority.

#### **Severance payments for Management Committee members who left in 2018**

In line with the contractual arrangements, the Board approved to grant Kairos Management bvba a termination fee equal to the fixed fee for a period of twelve months. A lump sum of 50% of his annual fixed fee was paid as indemnity for respecting the contractual agreed non-compete provision. The 2017 bonus which was delayed

to 2018 was not paid out. The phantom share retention bonus that had been put in place has lapsed and shall not be payable. All PSU's are forfeited and will no longer vest due to the ending of the position with the Company.

#### **Clawback provision regarding members of the Management Committee**

There are no clawback provisions if remuneration is paid on the basis of inaccurate data. Grants will be based on audited financial information.

#### **Changes to the remuneration policy since the end of 2018**

At the beginning of 2019, the Remuneration and Nomination Committee reviewed the 2019 STIP targets for members of the Management Committee. Due to the transformational character of 2019 with the implementation of project NEXT (the 3 year earnings enhancement program), the STIP for the CEO and CFO is no longer based on realisation of short term group financial targets only, now being 50% on group-adjusted EBITDA, 20% on seasonality adjusted net debt, and 30% on realisation of personal objectives set to drive longer term financial improvements in the context of project NEXT. Also for the other members of the Management Committee the STIP will be based 30% on the realisation of personal objectives and 70% on financial targets, being 25% on group adjusted EBITDA, 25% on divisional adjusted EBITDA and 20% on divisional working capital.

The Board of Directors approved the main characteristics of the 2019 LTIP on 16 April 2019. Similar to the 2018 LTIP, the purpose of the 2019 LTIP is to drive the performance and long-term growth of the Balta Group by offering long-term incentives to managers who contribute to such performance and growth. The PSUs granted under the 2019 LTIP will vest to relevant managers that still provide services to the Balta Group on the 2nd and 3rd anniversaries of their award, to the extent that the Company's share price has reached certain defined targets, all significantly above the current share price levels. The clause allowing for accelerated PSU vesting in the event of the closing of a public takeover

bid over the Company needs to be approved by the Shareholders' Meeting, in accordance with article 556 of the Belgian Companies Code.

## **Risk management and internal control framework**

### **Introduction**

Balta Group operates a risk management and control framework in accordance with the Belgian Companies Code and the Corporate Governance Code.

Balta Group is exposed to a wide variety of risks within the context of its business operations, possibly resulting in its objectives being affected or potentially not being achieved. Controlling such risks is a core task of the Board of Directors, the Management Committee and all other employees with managerial responsibilities.

The risk management and control system has been set up to achieve the following goals: achieving Balta Group's objectives, achieving operational excellence, ensuring correct and timely financial reporting and ensuring compliance with all applicable laws and regulations.

### **Control environment**

The control environment constitutes the basis of the internal control and risk management system. The control environment is defined by a mix of formal and informal rules and corporate culture on which the operation of the business relies.

### **Three lines of defence**

Balta Group applies the "three lines of defence model" to clarify roles, responsibilities and accountabilities, and to enhance communication within the area of risk and control. Within this model, the lines of defence to respond to risks are:

- First line of defence: line management is the first body responsible for assessing risks on a day-to-day basis and implementing controls in response of these risks;
- Second line of defence: oversight functions like Finance, Controlling, Quality, Compliance and Legal oversee and challenge risk management as executed by the first line of

defence. Those constituting the second line of defence provide guidance and direction and develop a risk management framework;

- Third line of defence: independent assurance providers, like external auditors, challenge the risk management processes as executed by the first and second line of defence.

### **Policies, procedures and processes**

Corporate culture is sustained by the implementation of different company-wide policies, procedures and processes such as the Balta Group compliance charter, the anti-fraud and anti-corruption policy, the gift and entertainment policy, the travel and expense note policy, the non-audit services policy, the reserved matters policy, the antitrust policy, the anti-money laundering policy, the economic sanctions policy, the data protection policy and data breach policy and the quality management system. Both the Board of Directors and the Management Committee fully endorse these initiatives. Employees will be regularly informed and trained on these subjects in order to develop sufficient risk management and control at all levels and in all areas of the organisation.

### **Group-wide ERP system**

The majority of Balta's entities operate the same group-wide ERP system which is managed centrally. This system embeds the roles and responsibilities defined at group level. Through this system, the main flows are standardised, key internal controls are enforced, and regular testing is carried out by the corporate finance department. The system also allows detailed monitoring of activities and direct central access to data.

### **Risk management**

Sound risk management starts with identifying and assessing the risks associated with the business, in order to minimise such risks on the organisation's ability to achieve its objectives and to create value for its stakeholders.

All Balta Group employees are accountable for the timely identification and qualitative assessment of the risks within their area of responsibility.

Balta has identified and analysed its key corporate risks as disclosed under the “Summary of main risks” chapter of this Annual Report.

#### **Control activities**

Control measures are in place to minimise the effect of risk on Balta Group’s ability to achieve its objectives. These control activities are embedded in the Balta Group’s key processes and systems to ensure that the risk responses and the Balta Group’s overall objectives are carried out as designed. Control activities are conducted throughout the organisation, at all levels and within all departments.

The following control measures have been implemented at Balta Group: an authorisation cascade system in the computer system, access and monitoring systems in the buildings, payment authorities, cycle counts of inventories, identification of machinery and equipment, daily monitoring of the cash position, an internal reporting system by means of which both financial data and operational data are reported on a regular basis. Deviations against budgets and previous reference periods are carefully analysed and explained. Great importance is attached to security of all data stored in various computer systems.

#### **Information and communication**

Balta recognises the importance of timely, complete and accurate communication and information both top-down as well as bottom-up. The Company therefore communicates operational and financial information at both divisional and group level. The general principle is to ensure consistent and timely communication to all stakeholders of all information impacting their area of responsibility.

All key business processes in the majority of the subsidiaries are managed through the ERP system. This not only offers extensive functionality with regard to internal reporting and communication, but also the ability to manage and audit access rights and authorisation management on a centralised basis.

The Management Committee also discusses the results on a monthly basis. The corporate finance department directs the information and communication process. For both internal and external reporting and communication, a financial calendar exists in which all reporting dates are set out and which is communicated to all parties involved.

#### **Supervision and monitoring of control mechanisms**

Supervision and monitoring is mainly performed by the Board of Directors through the work of the Audit Committee and the Management Committee. Moreover, the statutory auditor, in the context of reviewing the annual accounts, reports to the Audit Committee on their review of internal controls and risk management systems. In doing so, the statutory auditor focuses on the design and effectiveness of internal controls and systems relevant for the preparation of the financial statements.

#### **Risk management and internal control with regard to financial reporting**

The accurate and consistent application of accounting rules throughout the Company is ensured by means of Finance and Accounting procedures & guidelines.

The accounting teams are responsible for producing the accounting figures, whereas the controlling teams check their validity. These checks include consistency tests, comparing current figures with historical and budget figures, as well as sample checks of transactions according to their materiality.

Specific internal control activities with respect to financial reporting are in place, including the use of a periodic closing and reporting checklist. This checklist ensures clear communication of timelines, the completeness of tasks, and the clear assignment of responsibilities.

Uniform reporting of financial information throughout the organisation ensures a consistent flow of information, in turn allowing potential anomalies to be detected. The group-wide

ERP system and management information tools give the central controlling team direct access to disaggregated financial and non-financial information.

An external financial calendar is planned in consultation with the Board of Directors and the Management Committee, and this calendar is announced to external stakeholders via the investor relations section of our corporate website. The objective of this external financial reporting is to provide Balta stakeholders with the information necessary for making sound business decisions.



# SUMMARY

## of main risks

For Balta, risk management is an inherent part of doing business. The summary below, though not exhaustive, provides an overview of the main risks we have identified<sup>1</sup>. While we take mitigating actions, there can be no guarantee that such risks will not materialise.

### Market Competition

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

Key to our competitiveness is our ability to identify and respond to rapidly changing consumer preferences, requiring us to frequently renew our designs and product mix and to innovate.

### Customer Dependency

Our main customers are large retailers and wholesalers with substantial buying power. Our top three customers accounted for 16.3% of our 2018 revenues. We may not be successful at retaining our key customers, which could have an adverse impact on our sales. In addition, we are dependent on the success of our customers.

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

Demand for our products depends significantly on consumer confidence and factors impacting the residential and commercial renovation and construction markets.

With production and distribution facilities in Belgium, Turkey and the United States and sales to more than 130 countries, we are exposed to geopolitical risk on both the demand and supply side.

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

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

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

Increased import duties or sanctions against the importing of certain goods in certain countries could pose barriers for us to successfully do business. One such example is the risk of possible US sanctions on Turkey, where Balta has a production facility, targeting our product category.

### Legal & Compliance

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

### 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 success 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.

### Raw Materials & Supply Chain

We use large quantities of raw materials for which we depend on a limited number of suppliers. Most of our suppliers are large companies and can exert substantial supplier power. As is common in the industry, we have no formal contracts with the majority of our raw material suppliers.

In 2018, raw materials expenses represented 47.5% of our revenues. The key raw materials used were polypropylene, yarn, latex and polyamide, which together represented approximately 70% of our total raw material expenses.

Raw material prices can be volatile and depend on a number of factors that are often beyond our control including, but 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 materials price indexation mechanisms.

Reference is made to commodity price risk, as described under note 29, financial risk management, of the Financial Statements.

### Production & Logistics

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

Disruptions at our manufacturing or distribution facilities may occur and could result in temporary

shortfalls in production and late or incomplete deliveries or increase 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 the timely delivery of our products to our customers.

### IT

Failure of our IT platform could hamper our ability to process orders in time. We use our IT platform to manage our operations (including sales, customer service, logistics and admin). We have a complex and heterogeneous application landscape that in part consists of certain systems from prior acquisitions that have only been partially integrated, which could trigger operational risks.

We are also contending with an increasing number of cybercrime-related incidents, which require us to maintain adequate cybersecurity. Any failure to do so may adversely affect our operations.

### 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 Euro. Other key currencies include Pound Sterling, US Dollar and Turkish Lira. The fluctuation of these currencies versus the Euro may impact our results. In addition, a devaluation of the currencies versus the Euro of 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 of the credit risk exposure towards our customers is covered by our external credit insurance agreements.

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. More detail can be found in note 29 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.

Reference is made to the risk factors referred to in note 29 of the section financial risk management in the Financial Statements.

## M&A

There is no guarantee of success in acquiring any preferred target companies in line with our acquisition strategy.

We may fail to successfully integrate acquisitions as expeditiously as expected and may not be able to fully realise anticipated cost savings, synergies, future earnings or benefits that we intend to achieve from acquisitions.





# FINANCIAL STATEMENTS

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

| (€ thousands)                                                                                                               | Note    | For the year ended 31 December¹ |           |
|-----------------------------------------------------------------------------------------------------------------------------|---------|---------------------------------|-----------|
|                                                                                                                             |         | 2018                            | 2017      |
| I. CONSOLIDATED INCOME STATEMENT                                                                                            |         |                                 |           |
| Revenue                                                                                                                     | Note 4  | 646,197                         | 661,320   |
| Raw material expenses                                                                                                       |         | (306,640)                       | (310,391) |
| Changes in inventories                                                                                                      | Note 17 | 5,826                           | (3,359)   |
| Employee benefit expenses                                                                                                   | Note 8  | (159,106)                       | (151,334) |
| Other income                                                                                                                | Note 9  | 3,363                           | 7,112     |
| Other expenses                                                                                                              | Note 9  | (117,287)                       | (121,869) |
| Depreciation / amortisation                                                                                                 | Note 10 | (32,430)                        | (32,499)  |
| Adjusted Operating Profit²                                                                                                  |         | 39,922                          | 48,980    |
| Gains on asset disposals                                                                                                    |         | -                               | -         |
| Integration and restructuring expenses                                                                                      | Note 11 | (7,699)                         | (11,368)  |
| Operating profit / (loss)¹                                                                                                  |         | 32,223                          | 37,611    |
| Finance income                                                                                                              |         | 51                              | 41        |
| Finance expenses                                                                                                            | Note 12 | (25,881)                        | (37,327)  |
| Net finance expenses                                                                                                        |         | (25,831)                        | (37,285)  |
|                                                                                                                             |         |                                 |           |
| Profit / (loss) before income taxes                                                                                         |         | 6,393                           | 326       |
|                                                                                                                             |         |                                 |           |
| Income tax benefit / (expense)                                                                                              | Note 13 | 953                             | 2,654     |
| Profit / (loss) for the period from continuing operations                                                                   |         | 7,346                           | 2,980     |
|                                                                                                                             |         |                                 |           |
| Profit / (loss) for the period from discontinued operations                                                                 |         | -                               | -         |
| Profit / (loss) for the period                                                                                              |         | 7,346                           | 2,980     |
|                                                                                                                             |         |                                 |           |
| Attributable to:                                                                                                            |         |                                 |           |
| Equity holders                                                                                                              |         | 7,346                           | 2,946     |
| Non-controlling interest                                                                                                    |         | -                               | 34        |
|                                                                                                                             |         |                                 |           |
| II. CONSOLIDATED OTHER COMPREHENSIVE INCOME                                                                                 |         |                                 |           |
|                                                                                                                             |         |                                 |           |
| Items in other comprehensive income that may be subsequently reclassified to P&L                                            |         |                                 |           |
| Exchange differences on translating foreign operations                                                                      |         | (13,833)                        | (13,522)  |
| Changes in fair value of hedging instruments qualifying for cash flow hedge accounting                                      |         | 87                              | 123       |
| Items in other comprehensive income that will not be reclassified to P&L                                                    |         | -                               | -         |
| Changes in deferred taxes                                                                                                   |         | (107)                           | (457)     |
| Changes in employee defined benefit obligations                                                                             |         | 379                             | 1,005     |
| Other comprehensive income for the period, net of tax                                                                       |         | (13,474)                        | (12,850)  |
|                                                                                                                             |         |                                 |           |
| Total comprehensive income for the period                                                                                   |         | (6,128)                         | (9,870)   |
|                                                                                                                             |         |                                 |           |
| Basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the company³ | Note 36 | 0.20                            | 0.08      |

(1) Predecessor: Balta Group nv was incorporated on 1 March 2017. The financial information relating to the periods before has been extracted from the consolidated figures of LSF9 Balta Issuer S.à r.l.

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

(3) For 2017, the dividend is calculated on a pro rata basis starting from the IPO date.

## I.2. Consolidated statement of financial position as at 31 December

| (€ thousands)                                    | Note    | For the year ended 31 December <sup>1</sup> |                |
|--------------------------------------------------|---------|---------------------------------------------|----------------|
|                                                  |         | 2018                                        | 2017           |
| Property, plant and equipment                    |         |                                             |                |
| Land and buildings                               | Note 15 | 153,752                                     | 162,103        |
| Plant and machinery                              | Note 15 | 132,632                                     | 130,977        |
| Other fixtures and fittings, tools and equipment | Note 15 | 14,875                                      | 18,080         |
| Goodwill                                         | Note 7  | 194,643                                     | 198,814        |
| Other intangible assets                          | Note 14 | 11,399                                      | 12,218         |
| Deferred income tax assets                       | Note 16 | 5,470                                       | 4,747          |
| Trade and other receivables                      | Note 18 | 996                                         | 1,165          |
| <b>Total non-current assets</b>                  |         | <b>513,765</b>                              | <b>528,104</b> |
| Inventory                                        | Note 17 | 153,894                                     | 147,868        |
| Derivative financial instruments                 | Note 28 | 119                                         | -              |
| Trade and other receivables                      | Note 18 | 60,772                                      | 61,539         |
| Current income tax assets                        |         | 278                                         | 3,434          |
| Cash and cash equivalents                        | Note 19 | 26,853                                      | 37,338         |
| <b>Total current assets</b>                      |         | <b>241,916</b>                              | <b>250,179</b> |
| <b>Total assets</b>                              |         | <b>755,681</b>                              | <b>778,283</b> |
| Share capital                                    | Note 20 | 252,950                                     | 252,950        |
| Share premium                                    | Note 20 | 65,660                                      | 65,660         |
| Other comprehensive income                       | Note 21 | (33,388)                                    | (19,913)       |
| Retained earnings                                | Note 22 | 9,457                                       | 6,297          |
| Other reserves                                   |         | (39,876)                                    | (39,878)       |
| <b>Total equity</b>                              |         | <b>254,804</b>                              | <b>265,116</b> |
| Senior Secured Notes                             | Note 23 | 230,065                                     | 228,130        |
| Senior Term Loan Facility                        | Note 24 | 34,908                                      | 34,782         |
| Bank and other Borrowings                        | Note 25 | 12,225                                      | 13,310         |
| Deferred income tax liabilities                  | Note 16 | 47,837                                      | 54,471         |
| Provisions for other liabilities and charges     | Note 32 | 2,458                                       | 2,335          |
| Employee benefit obligations                     | Note 30 | 3,106                                       | 4,127          |
| <b>Total non-current liabilities</b>             |         | <b>330,598</b>                              | <b>337,155</b> |
| Senior Secured Notes                             | Note 23 | 3,425                                       | 3,425          |
| Senior Term Loan Facility                        | Note 24 | (118)                                       | (108)          |
| Bank and other Borrowings                        | Note 25 | 1,261                                       | 2,361          |
| Provisions for other liabilities and charges     | Note 32 | 1,165                                       | 7,316          |
| Derivative financial instruments                 | Note 28 | 55                                          | 2              |
| Other payroll and social related payables        | Note 31 | 36,714                                      | 33,373         |
| Trade and other payables                         | Note 33 | 123,599                                     | 126,375        |
| Income tax liabilities                           |         | 4,178                                       | 3,265          |
| <b>Total current liabilities</b>                 |         | <b>170,279</b>                              | <b>176,010</b> |
| <b>Total liabilities</b>                         |         | <b>500,877</b>                              | <b>513,165</b> |
| <b>Total equity and liabilities</b>              |         | <b>755,681</b>                              | <b>778,283</b> |

(1) Predecessor: Balta Group nv was incorporated on 1 March 2017. The financial information relating to the periods before has been extracted from the consolidated figures of LSF9 Balta Issuer S.à r.l.

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

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

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

| (€ thousands)                                                                      | Note    | For the year ended 31 December <sup>1</sup> |           |
|------------------------------------------------------------------------------------|---------|---------------------------------------------|-----------|
|                                                                                    |         | 2018                                        | 2017      |
| I. CASH FLOW FROM OPERATING ACTIVITIES                                             |         |                                             |           |
| Net profit / (loss) for the period                                                 |         | 7,346                                       | 2,980     |
| Adjustments for:                                                                   |         |                                             |           |
| Reclass of capital increase expenses to cashflow from financing activities (gross) |         | -                                           | 132       |
| Income tax expense / (income)                                                      | Note 13 | (953)                                       | (2,654)   |
| Finance income                                                                     |         | (51)                                        | (41)      |
| Finance expenses                                                                   | Note 12 | 25,881                                      | 37,327    |
| Depreciation / amortisation                                                        | Note 10 | 32,430                                      | 32,499    |
| Movement in provisions                                                             |         | (6,215)                                     | 7,252     |
| (Gain) / loss on disposal of non-current assets                                    |         | 29                                          | (58)      |
| Fair value of derivatives                                                          |         | 21                                          | 8         |
| Expense recognised in respect of equity-settled share-based payments               |         | 7                                           | -         |
| Non-cash impact of purchase price allocation                                       |         | -                                           | 2,902     |
| Cash generated before changes in working capital                                   |         | 58,495                                      | 80,347    |
| Changes in working capital:                                                        |         |                                             |           |
| Inventories                                                                        | Note 17 | (4,447)                                     | (4,280)   |
| Trade receivables                                                                  | Note 18 | (4,497)                                     | 1,913     |
| Trade payables                                                                     | Note 33 | 3,056                                       | (15,460)  |
| Other working capital                                                              |         | (1,436)                                     | (2,248)   |
| Cash generated after changes in working capital                                    |         | 51,170                                      | 60,272    |
| Net income tax (paid)                                                              |         | (4,782)                                     | (5,344)   |
| Net cash generated / (used) by operating activities                                |         | 46,388                                      | 54,928    |
| II. CASH FLOW FROM INVESTING ACTIVITIES                                            |         |                                             |           |
| Acquisition and disposal of property, plant and equipment                          | Note 15 | (30,765)                                    | (38,261)  |
| Acquisition of intangibles                                                         | Note 14 | (930)                                       | (1,673)   |
| Proceeds from non-current assets                                                   |         | 867                                         | 912       |
| Acquisition of subsidiary                                                          |         | -                                           | (68,752)  |
| Net cash used by investing activities                                              |         | (30,828)                                    | (107,775) |
| III. CASH FLOW FROM FINANCING ACTIVITIES                                           |         |                                             |           |
| Interest and other finance charges paid, net                                       |         | (21,032)                                    | (32,388)  |
| Proceeds from borrowings with third parties                                        |         | -                                           | 110,000   |
| IPO Proceeds                                                                       |         | -                                           | 145,000   |
| Incremental costs paid directly attributable to IPO                                |         | -                                           | (7,772)   |
| Repayments of borrowings with third parties                                        | Note 25 | (2,137)                                     | (171,987) |
| Dividends paid                                                                     | Note 37 | (2,875)                                     | -         |
| Proceeds from contribution in kind                                                 |         | -                                           | 1,343     |
| Net cash generated / (used) by financing activities                                |         | (26,044)                                    | 44,196    |
| NET INCREASE/ (DECREASE ) IN CASH AND BANK OVERDRAFTS                              |         |                                             |           |
|                                                                                    |         | (10,485)                                    | (8,650)   |
| Cash, cash equivalents and bank overdrafts at the beginning of the period          |         |                                             |           |
|                                                                                    |         | 37,338                                      | 45,988    |
| Cash, cash equivalents and bank overdrafts at the end of the period                | Note 19 | 26,853                                      | 37,338    |

(1) Predecessor: Balta Group nv was incorporated on 1 March 2017. The financial information relating to the periods before has been extracted from the consolidated figures of LSF9 Balta Issuer S.à r.l.

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

| (€ thousands)                                                                          | Share capital  | Share premium | Preferred Equity Certificates | Other comprehensive income | Retained earnings | Other reserves  | Total          | Non-controlling interest | Total equity   |
|----------------------------------------------------------------------------------------|----------------|---------------|-------------------------------|----------------------------|-------------------|-----------------|----------------|--------------------------|----------------|
| <b>Balance at 1 January 2017<sup>1</sup></b>                                           | <b>171</b>     | <b>1,260</b>  | <b>138,600</b>                | <b>(7,063)</b>             | <b>3,351</b>      | <b>-</b>        | <b>136,319</b> | <b>-</b>                 | <b>136,319</b> |
| Profit / (loss) for the period                                                         | -              | -             | -                             | -                          | 2,946             | -               | 2,946          | 34                       | 2,980          |
| <b>Other comprehensive income</b>                                                      |                |               |                               |                            |                   |                 |                |                          |                |
| Exchange differences on translating foreign operations                                 | -              | -             | -                             | (13,522)                   | -                 | -               | (13,522)       | -                        | (13,522)       |
| Changes in fair value of hedging instruments qualifying for cash flow hedge accounting | -              | -             | -                             | 123                        | -                 | -               | 123            | -                        | 123            |
| Cumulative changes in deferred taxes                                                   | -              | -             | -                             | (457)                      | -                 | -               | (457)          | -                        | (457)          |
| Cumulative changes in employee defined benefit obligations                             | -              | -             | -                             | 1,005                      | -                 | -               | 1,005          | -                        | 1,005          |
| <b>Total comprehensive income for the period</b>                                       | <b>-</b>       | <b>-</b>      | <b>-</b>                      | <b>(12,850)</b>            | <b>2,946</b>      | <b>-</b>        | <b>(9,904)</b> | <b>34</b>                | <b>(9,870)</b> |
| Incorporation of founders' share                                                       | 62             | -             | -                             | -                          | -                 | -               | 62             | -                        | 62             |
| Capital contribution Bentley Management Buy-out                                        | 1,343          | -             | -                             | -                          | -                 | -               | 1,343          | (34)                     | 1,309          |
| Contribution in kind of LSF9 Balta Issuer S.à r.l.                                     | 331,250        | -             | -                             | -                          | -                 | -               | 331,250        | -                        | 331,250        |
| Transfer of share capital to other reserves                                            | (150,000)      | -             | -                             | -                          | -                 | 150,000         | -              | -                        | -              |
| Cancellation of founders' share                                                        | (62)           | -             | -                             | -                          | -                 | -               | (62)           | -                        | (62)           |
| Contribution of net proceeds from the Primary Tranche of the IPO                       | 79,340         | 65,660        | -                             | -                          | -                 | -               | 145,000        | -                        | 145,000        |
| IPO expenses attributed to the Primary tranche of the IPO                              | (7,640)        | -             | -                             | -                          | -                 | -               | (7,640)        | -                        | (7,640)        |
| Capital reorganisation under common control                                            | (1,514)        | (1,260)       | (138,600)                     | -                          | -                 | (189,878)       | (331,252)      | -                        | (331,252)      |
| <b>Total transactions with the owners</b>                                              | <b>252,779</b> | <b>64,400</b> | <b>(138,600)</b>              | <b>-</b>                   | <b>-</b>          | <b>(39,878)</b> | <b>138,701</b> | <b>(34)</b>              | <b>138,667</b> |
| <b>Balance at 31 December 2017</b>                                                     | <b>252,950</b> | <b>65,660</b> | <b>-</b>                      | <b>(19,913)</b>            | <b>6,297</b>      | <b>(39,878)</b> | <b>265,116</b> | <b>-</b>                 | <b>265,116</b> |

(1) Predecessor: Balta Group nv was incorporated on 1 March 2017. The financial information relating to the periods before has been extracted from the consolidated figures of LSF9 Balta Issuer S.à r.l.

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



| (€ thousands)                                                                          | Share capital  | Share premium | Other comprehensive income | Retained earnings | Other reserves  | Total          | Non-controlling interest | Total equity   |
|----------------------------------------------------------------------------------------|----------------|---------------|----------------------------|-------------------|-----------------|----------------|--------------------------|----------------|
| <b>Balance at 31 December 2017</b>                                                     | <b>252,950</b> | <b>65,660</b> | <b>(19,913)</b>            | <b>6,297</b>      | <b>(39,878)</b> | <b>265,116</b> | <b>-</b>                 | <b>265,116</b> |
| Adjustment on initial application of IFRS 9                                            | -              | -             | -                          | (1,308)           | -               | (1,308)        | -                        | (1,308)        |
| <b>Adjusted balance 1 January 2018</b>                                                 | <b>252,950</b> | <b>65,660</b> | <b>(19,913)</b>            | <b>4,990</b>      | <b>(39,878)</b> | <b>263,809</b> | <b>-</b>                 | <b>263,809</b> |
| Profit / (loss) for the period                                                         | -              | -             | -                          | 7,346             | -               | 7,346          | -                        | 7,346          |
| Dividends paid                                                                         | -              | -             | -                          | (2,875)           | -               | (2,875)        | -                        | (2,875)        |
| Equity-settled share-based payment plans                                               | -              | -             | -                          | 7                 | -               | 7              | -                        | 7              |
| <b>Other comprehensive income</b>                                                      |                |               |                            |                   |                 |                |                          |                |
| Exchange differences on translating foreign operations                                 | -              | -             | (13,833)                   | -                 | -               | (13,833)       | -                        | (13,833)       |
| Changes in fair value of hedging instruments qualifying for cash flow hedge accounting | -              | -             | 87                         | -                 | -               | 87             | -                        | 87             |
| Cumulative changes in deferred taxes                                                   | -              | -             | (107)                      | -                 | -               | (107)          | -                        | (107)          |
| Cumulative changes in employee defined benefit obligations                             | -              | -             | 379                        | -                 | -               | 379            | -                        | 379            |
| Total comprehensive income for the period                                              | -              | -             | (13,473)                   | -                 | -               | (13,473)       | -                        | (13,473)       |
| <b>Balance at 31 December 2018</b>                                                     | <b>252,950</b> | <b>65,660</b> | <b>(33,388)</b>            | <b>9,458</b>      | <b>(39,876)</b> | <b>254,804</b> | <b>-</b>                 | <b>254,804</b> |

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

## I.5. Notes to the Consolidated Financial Statements

### Note 1. Accounting policies

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

#### Note 1.1. Basis of preparation

##### Basis of preparation

These Consolidated Financial Statements of Balta Group nv ("the Company" or "Balta"), registered at Wakkensteenweg 2, 8710 Sint-Baafs-Vijve, Belgium (Registration number 0671.974.626) 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 (International Financial Reporting Interpretations Committee) interpretations issued and effective at 31 December 2018.

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

These Consolidated Financial Statements are presented in Euro, which is the Group's reporting currency and the functional currency of the Company. All amounts in these Consolidated Financial Statements are presented in thousands of Euro, unless otherwise stated. Rounding adjustments have been made in calculating some of the financial information included in these Consolidated Financial Statements.

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

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

In 2017, the Group and its shareholders initiated a process to actively explore a new capital struc-

ture to support further growth, which resulted in the IPO. In preparation of the IPO of the Group in 2017, "the Company" was incorporated on 1 March 2017 for the purpose of acquiring LSF9 Balta Issuer S.à r.l. and its subsidiaries, which occurred on 30 May 2017 through a contribution in kind in the share capital of the Company. Balta Group nv was established by the same shareholders as those of LSF9 Balta Issuer S.à r.l. Since the shareholders of LSF9 Balta Issuer S.à r.l. before the reorganisation have the same absolute and relative interest in the net assets of the former group and the Group immediately before and after the reorganisation, the transactions for the IPO constitute a capital reorganisation under common control. Consequently, these transactions are recognised in the Financial Statements using the predecessor value method.

This means:

1. That the assets and liabilities of the Company are recognised and valued in the Consolidated Financial Statements at their book value in the Consolidated Financial Statements of LSF9 Balta Issuer S.à r.l., as established in accordance with IFRS. LSF9 Balta Issuer S.à r.l. has, since its creation, always prepared Consolidated Financial Statements in accordance with IFRS, and therefore IFRS 1 is not applicable;
2. That the other comprehensive income, retained earnings and other reserves recognised in the Consolidated Financial Statements are the other comprehensive income, retained earnings and other reserves of LSF9 Balta Issuer S.à r.l. and the difference between the consideration for the contribution in kind of the shares of LSF9 Balta Issuer S.à r.l. and the eliminated share capital of LSF9 Balta Issuer S.à r.l. is recognised in "Other reserves";
3. That the income statement and statement of cash flows for the twelve months ended 31 December 2017 spans twelve months, notwithstanding the fact that the financial year of the Company as a legal entity is shorter (1 March to 31 December 2017);
4. That the comparative information presented in the Consolidated Financial Statements is the information of LSF9 Balta Issuer S.à r.l. Management has taken this decision in or-

der to ensure the continuity of the financial information.

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

#### **New standards and amendments to standards**

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

- IFRS 15, "Revenue from contracts with customers" (effective 1 January 2018). The IASB and FASB have jointly published a standard regarding revenue from contracts with customers. The standard will result in better financial reporting and will improve the comparability of the top line in Financial Statements globally. Companies using IFRS will be required to apply the revenue standard for annual periods beginning on or after 1 January 2018. The Group has adopted the standard on the required effective date. The standard did not have a significant impact on revenues.
- Amendments to IFRS 15, "Revenue from contracts with customers" – Clarifications (effective 1 January 2018). These amendments comprise clarification guidance on identifying performance obligations, accounting for licences of intellectual property and the principle versus agent assessment. The amendment also includes more illustrative examples.
- IFRIC 22, "Foreign currency transactions and advance consideration" (effective 1 January 2018): IFRIC addresses foreign currency transactions or parts of transactions where there is an advance consideration that is denominated or priced in a foreign currency. The interpretation

provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

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

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

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

- IFRS 16 "Leases" (effective 1 January 2019). This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases. At the reporting date, the Group has non-cancellable operating lease commitments of €50.9m. We refer to Note 26. For these commitments the Group expects to recognise right-of-use assets and lease liabilities of approximately €45m on 1 January 2019. Impact on deferred taxes will be immaterial. The Group expects that net profit after tax will not decrease materially for 2019 as a result of adopting the new rules. Adjusted EBITDA is expected to increase between approximately €6m and €8m, as the operating lease payments were included in Adjusted EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

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

- Amendments to IFRS 9, "Prepayment features with negative compensation" (effective 1 January 2019 within the EU). An amendment to allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met – instead of at fair value through profit or loss, because they would otherwise fail the Solely Payments of Principle Interest (SPPI)-test. In addition, this amendment clarifies an aspect of the accounting for financial liabilities following a modification. We do not expect a significant impact on the financials.
- Amendments to IAS 19, "Plan Amendment, Curtailment or Settlement" (effective 1 January 2019). The amendments require an entity to use updated assumptions to determine current ser-

vice cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. In addition, an entity will have to recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling. The amendments will affect any entity that changes the terms or the membership of a defined benefit plan such that there is past service cost or a gain or loss on settlement.

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

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

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

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



prudence and measurement uncertainty in financial reporting.

- Amendments to the guidance of IFRS 3 Business Combinations, that revises the definition of a business (effective 1 January 2020). The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce. The changes to the definition of a business will likely result in more acquisitions being accounted for as asset acquisition across all industries, particularly real estate, pharmaceutical, and oil and gas. Application of the changes would also affect the accounting for disposal transactions.
- Amendments to the definition of material in IAS 1 and IAS 8 (effective 1 January 2020). The amendments clarify the definition of material and make IFRS more consistent. The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the Financial Statement as a whole. The amendment also clarifies the meaning of primary users of general purpose Financial Statements as a whole. The amendment also clarifies the meaning of primary users of general purpose Financial Statements to whom those Financial Statements are directed, by defining them as existing and potential investors, lenders and other creditors' that must 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.
- Annual improvements to IFRS 2015–2017 cycle, applicable as of 1 January 2019 and containing the following amendments to IFRS:
  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements, the amendments to IFRS 3 clarify that when an entity obtains

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

- IAS 12 Income Taxes, the amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises;
- IAS 23 Borrowing costs, the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

#### Note 1.2. Consolidation

##### Subsidiaries

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

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

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

Acquisition related costs are expensed in the income statement.

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

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

#### Segment reporting

Note 4 provides the Group's segment information, in line with IFRS 8. The Group operates its business through four segments, which are organised by product and sales channel. The Rugs segment designs, manufactures and distributes a broad range of machine-made rugs to major retailers (such as home improvement, furniture, specialist, discount and DIY stores), e-com-

merce players and wholesalers. The Residential segment designs, manufactures and distributes branded broadloom carpets (*Balta carpets* and *ITC* brands) and tiles to major retailers and wholesalers. The Commercial segment designs, manufactures and distributes modular carpet tiles and wall-to-wall carpets, in the US mainly through our *Bentley* brand, in Europe mainly through our *modulys* and *arc edition* brands. Finally, the Non-Woven segment designs, manufactures and distributes soft flooring for events such as fairs and expositions and specialised fabrics for insulation, lining, cars, carpet backing and banners through its *Captiqs* brand.

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

#### Note 1.3. Foreign currency translation

##### Functional and presentation currency

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

##### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or date of valuation, in case of items that are

re-measured at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

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

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

Group companies

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

- assets and liabilities for each statement of financial position presented are translated at the closing or year-end rate;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in "Other comprehensive income".

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

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

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

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

Note 1.4. Property, plant and equipment

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

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

to the income statement during the financial period in which they are incurred.

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

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

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

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

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

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

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

Note 1.5. Goodwill

Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is tested annually for impairment and carried at cost in the underlying currency less accumu-

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

Internally generated software and other development cost

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

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software 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 is equal to 4 years.

#### **Note 1.7. Impairment of assets**

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

#### **Note 1.8. Derivative financial instruments**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The Group records all gains or losses resulting from changes in fair value of derivatives in the income statement within "Other income" or "Other expenses" to the extent that they 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 income statement in the same period or periods during which the hedged forecast transaction affects the income statement. In case of the hedge of a forecast sales transaction, this coincides with the date upon which the revenue and trade receivable is recognised.

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

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

#### **Note 1.9. Inventories**

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

operating capacity). Net 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 the 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 continuing basis, if collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

The Group has applied IFRS 9 by applying the modified retrospective approach, by using the standard's simplified approach and calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix. Trade receivables have been categorised by common characteristics that are representative of the customer's abilities to pay (based on geographical region, type of customers such as retail, wholesale or construction & building, and delinquency status). The provision matrix is based on historical observed default rates, whereby historical credit loss experience is adjusted by scalar factors to reflect differences in the Group's view of current and expected economic conditions and historical conditions. This has resulted in an increase to the provision at 1 January 2018 of €1.9m (€1.3m net of tax). This adjustment is recognised in the opening balance sheet on 1 January 2018, resulting in a decrease of the Trade and Other receivables of €1.9m, an increase in deferred tax assets of €0.6m and a corresponding decrease in retained earnings of €1.3m.

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

#### **Note 1.11. Cash and cash equivalents**

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

#### **Note 1.12. Share capital**

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

#### **Note 1.13. Government grants**

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

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

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

#### **Note 1.14. Trade payables**

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

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

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

**Note 1.15. Classification liability or equity**

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

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

**Note 1.16. Senior Secured Notes, Bank and other borrowings**

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

**Note 1.17. De-recognition of financial assets and liabilities**

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

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

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

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

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

**Note 1.18. Current and deferred income tax**

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing

of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

**Note 1.19. Provisions**

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

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

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

**Note 1.20. Employee benefits**

**Pension obligations**

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

- Defined contribution plans (DC plans) are



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

- Defined benefit plans (DB plans) are post-employment benefit plans other than defined contribution plans.

Group companies operate one defined benefit plan for a group of managers and various pension schemes funded through payments to insurance companies. Because of the Belgian legislation applicable to 2nd pillar pension plans (so-called "Law 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% per 31 December 2018 and per 31 December 2017) applies for the years after 2015 on future contributions and also on the accumulated past contributions as from 31 December 2015 if the financing organisation does not guarantee a certain result on contributions until retirement age. If the organisation does guarantee such a result, the historical rates still apply.

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

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

#### Other post-employment obligations

The Group does not have other post-employment obligations.

#### Termination benefits

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

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

Within the Group, several former employees benefit from the system of "early retirement fee or pension", based on several Belgian Collective

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

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

#### Bonus plans

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

#### Share Based payments

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

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

with any changes in fair value recognised in profit and loss for the period.

#### Note 1.21. Revenue recognition

##### Revenue from contracts

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

The Group has assessed each of the revenue streams from an IFRS 15 revenue recognition perspective (as disclosed in Note 4) and has concluded that IFRS 15 does not have an impact on the amount and timing of revenue recognition. In adopting IFRS 15 the Group has considered the following.

##### • Recognition of revenue from distinct performance obligations

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

#### Note 1.22. Leases

The Group leases certain property, plant and equipment.

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

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

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

ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

#### Note 1.23. Dividend distribution

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

#### Note 1.24. Cash flow statement

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

#### Note 1.25. Non-GAAP measures

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

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

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

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

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

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

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

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

**Leverage** is defined as the ratio of Net Debt to Adjusted EBITDA.

#### Note 2. Critical accounting estimates and judgments

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; and
- the selection of discount rates to reflect the risks involved.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results. The Group's review includes the key assumptions related to sensitivity in the cash flow projections. Further details are provided in Note 7.

### Income taxes

The Group operates in various tax jurisdictions and

therefore has to determine tax positions under respective local tax laws and tax authorities' views which can be complex and subject to different interpretations of tax payers and local tax 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.

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

### Trade receivables

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

To measure the lifetime expected credit losses, the Group has established a provision matrix based on the categorisation by common characteristics. The Group included the following parameters: probability of default, exposure at default (including estimated coverage by credit insurance). In order to 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 historical observed default rates, whereby historical credit loss experience is adjusted by scalar factors to reflect differences in the Group's view of current and expected economic conditions and historical conditions.

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

### Customer rebates

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

### Note 3. Reconciliation of non GAAP measures

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

|                                                                  | 2018<br>Reported | Reported        | 2017<br>Non-recurring | PPA            | Reported figures<br>before impact of PPA<br>and non-recurring |
|------------------------------------------------------------------|------------------|-----------------|-----------------------|----------------|---------------------------------------------------------------|
| <b>(€ thousands)</b>                                             |                  |                 |                       |                |                                                               |
| Revenue                                                          | 646,197          | 661,320         | -                     | -              | 661,320                                                       |
| Raw material expenses                                            | (306,640)        | (310,391)       | -                     | -              | (310,391)                                                     |
| Changes in inventories                                           | 5,826            | (3,359)         | -                     | (3,008)        | (351)                                                         |
| Employee benefit expenses                                        | (159,106)        | (151,334)       | -                     | 10             | (151,343)                                                     |
| Other income                                                     | 3,363            | 7,112           | -                     | -              | 7,112                                                         |
| Other expenses                                                   | (117,287)        | (121,869)       | -                     | 96             | (121,965)                                                     |
| <b>Adjusted EBITDA<sup>1</sup></b>                               | <b>72,352</b>    | <b>81,479</b>   | <b>-</b>              | <b>(2,902)</b> | <b>84,381</b>                                                 |
| Depreciation/amortisation                                        | (32,430)         | (32,499)        | -                     | (30)           | (32,469)                                                      |
| <b>Adjusted Operating Profit<sup>1</sup></b>                     | <b>39,922</b>    | <b>48,980</b>   | <b>-</b>              | <b>(2,933)</b> | <b>51,912</b>                                                 |
| Integration and restructuring expenses                           | (7,699)          | (11,368)        | (11,368)              | -              | -                                                             |
| <b>Operating profit / (loss)</b>                                 | <b>32,223</b>    | <b>37,611</b>   | <b>(11,368)</b>       | <b>(2,933)</b> | <b>51,912</b>                                                 |
| Finance income                                                   | 51               | 41              | -                     | -              | 41                                                            |
| Finance expenses                                                 | (25,881)         | (37,327)        | (9,307)               | -              | (28,019)                                                      |
| <b>Net finance expenses</b>                                      | <b>(25,831)</b>  | <b>(37,285)</b> | <b>(9,307)</b>        | <b>-</b>       | <b>(27,978)</b>                                               |
| <b>Profit / (loss) before income taxes</b>                       | <b>6,393</b>     | <b>326</b>      | <b>(20,676)</b>       | <b>(2,933)</b> | <b>23,934</b>                                                 |
| Income tax benefit / (expense)                                   | 953              | 2,654           | 8,615                 | 1,149          | (7,110)                                                       |
| <b>Profit / (loss) for the period from continuing operations</b> | <b>7,346</b>     | <b>2,980</b>    | <b>(12,060)</b>       | <b>(1,784)</b> | <b>16,825</b>                                                 |

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

### Brexit

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

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

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

The non-recurring events of 2018 mainly relate to:

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

expectations;

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

#### Note 4. Segment Reporting

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

| (€ thousands)                                   | 2018           | 2017           |
|-------------------------------------------------|----------------|----------------|
| <b>Revenue by segment</b>                       | <b>646,197</b> | <b>661,320</b> |
| Rugs                                            | 198,301        | 228,331        |
| Commercial                                      | 214,818        | 171,683        |
| Residential                                     | 206,331        | 234,818        |
| Non-Woven                                       | 26,746         | 26,488         |
| <b>Revenue by geography</b>                     | <b>646,197</b> | <b>661,320</b> |
| Europe                                          | 401,638        | 431,899        |
| North America                                   | 197,669        | 170,506        |
| Rest of World                                   | 46,891         | 58,915         |
| <b>Adjusted EBITDA by segment<sup>(1)</sup></b> | <b>72,352</b>  | <b>84,381</b>  |
| Rugs                                            | 27,943         | 37,590         |
| Commercial                                      | 30,585         | 23,941         |
| Residential                                     | 11,443         | 20,219         |
| Non-Woven                                       | 2,381          | 2,632          |
| <b>Net Capital expenditure by segment</b>       | <b>30,828</b>  | <b>39,023</b>  |
| Rugs                                            | 9,589          | 14,566         |
| Commercial                                      | 10,500         | 10,455         |
| Residential                                     | 9,949          | 13,050         |
| Non-Woven                                       | 791            | 952            |
| <b>Inventories by segment</b>                   | <b>153,894</b> | <b>147,868</b> |
| Rugs                                            | 72,940         | 65,898         |
| Commercial                                      | 33,170         | 31,162         |
| Residential                                     | 43,622         | 46,818         |
| Non-Woven                                       | 4,162          | 3,989          |
| <b>Trade receivables by segment</b>             | <b>51,558</b>  | <b>49,612</b>  |
| Rugs                                            | 11,895         | 11,934         |
| Commercial                                      | 23,774         | 20,397         |
| Residential                                     | 14,665         | 16,031         |
| Non-Woven                                       | 1,223          | 1,250          |

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

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

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

#### Note 5. Initial Public Offering and listing on Euronext Brussels

In 2017, the Group and its shareholders initiated a process to actively explore a new capital structure to support future growth, which resulted in an IPO and listing on Euronext Brussels on 14 June 2017. During the IPO, the total number of shares sold was 15,365,802 of which 10,943,396 new shares and 4,422,406 existing shares. At a final offer price of €13.25 per share, this represents a total offering size of €203.6m. The gross proceeds for the company resulting from the new shares sold were approximately €145m and the net proceeds were approximately €136.8m. These net proceeds have been used to repay gross debt.

The IPO of the company impacted the Financial Statements of the Group in the following manner:

- increase of equity;
- decrease of financial debt;
- incurrence of transaction expenses.

#### Increase of equity in 2017

Equity of the Group has increased from €136.3m at 31 December 2016 to €265.1m at 31 December 2017. This increase of €129.0m is driven by (i) capital increase of €145.0m, from which €7.6m transaction expenses net of taxes have been deducted, (ii) capital increase of €1.3m by means of a contribution in kind, and (iii) (€9.9m) impact of net comprehensive result for the period.

Further details on the breakdown of movement within equity as a result of the IPO can be found in Note 20.

#### Decrease of financial debt in 2017

The net proceeds of the IPO have been used to reduce gross debt. The debt that has been repaid includes (i) repayment in full of a Senior Term Loan Facility at the level of Bentley Mills, INC for an amount of \$33.0m capital plus accrued interest

(€29.4m when converted at a rate of \$1.1222 per Euro), (ii) partial repayment of a revolving credit facility at the level of Bentley Mills, INC for an amount of \$11.1m plus accrued interest (€9.9m when converted at a rate of \$1.1222 per Euro), (iii) repayment in full of the Senior Term Loan Facility for an amount of €75.0m plus accrued interest, and (iv) partial repayment of €21.2m of the Senior Secured Notes plus accrued interest and redemption premium of 3%.

#### Incurrence of transaction expenses in 2017

All fees and expenses related to the IPO have been divided pro rata between the Group and the Selling Shareholder based on the respective sizes of the Primary Tranche and Secondary Tranche. The total expense for the Group is equal to €7.8m. Transaction costs that are incremental and directly attributable to the issue of new shares as a result of the IPO have been recognised as a deduction of share capital (€7.6m net of taxes).

#### Note 6. Business combinations

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

#### Details of the business combination

On 1 December 2016, Lone Star Fund IX agreed to acquire Bentley, a leader in premium commercial tiles and wall-to-wall carpets for commercial interiors in the US market, from Dominus Capital, L.P. The acquisition was completed on 1 Feb-



ruary 2017. Lone Star Fund IX acquired 98.39% of the class A unit voting rights whilst Bentley management acquired the remaining 1.61% of the class A unit voting rights. On 22 March LSF9 Balta Issuer S.à r.l. acquired 98.39% from Lone Star Fund IX.

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

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

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

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

On 31 May 2017, Balta nv acquired the remaining class A unit voting shares of the Bentley Group of companies from LSF9 Balta Holdco S.à r.l. which indirectly acquired the minority stake from Bentley's management. The related party debt which resulted from this transaction was

subsequently contributed in the capital of LSF9 Balta Issuer S.à r.l. As a result of this transaction, Balta nv gained a 100% control over Bentley.

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

#### *Transaction overview and allocation of purchase price paid*

The acquisition made by LSF9 Balta Issuer S.à r.l. is a transaction under a common control, and the accounting policy election was made to account for such a transaction in accordance with IFRS 3, Business Combinations. As a result, previous goodwill was reversed in order to calculate the net assets, and the final goodwill was recognised as the difference between the consideration paid and such net assets.

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

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

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

The initial purchase price paid in cash was equal to €68.3m, as compared to a net asset value of Bentley of €12.5m at 22 March 2017 (the "Acquisition Date"), of which €13.3m attributable to

LSF9 Balta Issuer S.à r.l. and €1.0m attributable to the non-controlling interest held by Bentley management. Consequently, the provisional goodwill – before purchase price allocation – was equal to €82.0m on 22 March 2017.

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

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

#### *Purchase price allocation*

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

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

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

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

The main fair value adjustments can be summarised as follows:

The fair value adjustment of property, plant and equipment of €1.8m is mainly driven by a reval-

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

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

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

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

The carrying amount of the current trade receivables was reduced by €0.3m in order to reflect

the probability that certain trade receivables may not be fully collected in later periods.

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

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

The excess of the purchase price over the amounts allocated to identifiable assets and liabilities is equal to €74.3m and has been included in goodwill. Goodwill will be tested for impairment on an annual basis, as described in Note 7.

Throughout 2018, the PPA related to the Bentley acquisition remained unchanged.

#### Details of acquired receivables

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

#### Details of non-controlling interests

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

The non-controlling interest disappeared as a result of the acquisition of the remaining share

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

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

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

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

#### Note 7. 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 (€70.1m). Whilst no goodwill has been allocated to Residential, the assets of this CGU have been tested for impairment using the same approach as the impairment testing for goodwill.

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

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

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

The “value in use” is mainly driven by the terminal value which is particularly sensitive to changes in the assumptions on the terminal value growth rate and discount rate. Discount rates are based on the weighted average cost of capital. This average cost of capital is benchmarked with comparable competitors. Terminal value



growth rates take into consideration external macroeconomic sources of data and industry specific trends. The table below includes the CGUs to which goodwill has been allocated and presents the extent in which these two assumptions would need to change in absolute

terms in order to reduce the “value in use” to the carrying amount.

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

#### Note 8. Employee benefit expenses

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

| (€ thousands)                          | 2018           | 2017           |
|----------------------------------------|----------------|----------------|
| <b>Total employee benefit expenses</b> | <b>159,106</b> | <b>151,334</b> |
| Wages and salaries                     | 111,961        | 105,682        |
| Social security costs                  | 31,423         | 32,180         |
| Pension costs                          | 3,460          | 4,026          |
| Other employee benefit expenses        | 12,263         | 9,445          |

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

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

|                                            | 2018         | 2017         |
|--------------------------------------------|--------------|--------------|
| <b>Average number of total employees</b>   | <b>3,696</b> | <b>3,714</b> |
| Average number of employees – blue collar  | 2,977        | 3,045        |
| Average number of employees – white collar | 719          | 669          |

#### Note 9. Other income and expenses

| (€ thousands)                                  | 2018           | 2017           |
|------------------------------------------------|----------------|----------------|
| <b>Other income</b>                            | <b>3,363</b>   | <b>7,112</b>   |
| Foreign exchange gains                         | 722            | 1,087          |
| Foreign exchange forward contracts             | -              | 1,295          |
| Rental income from solar rooftop installations | 1,356          | 1,383          |
| Sales of energy certificates                   | 261            | 961            |
| Grants                                         | 411            | 454            |
| Recharge of costs                              | 30             | 328            |
| Other                                          | 583            | 1,604          |
| <b>Other expenses</b>                          | <b>117,287</b> | <b>121,869</b> |
| Services and other goods                       | 73,931         | 78,990         |
| Selling expenses                               | 39,614         | 39,591         |
| Foreign exchange losses                        | 776            | 712            |
| Foreign exchange forward contracts             | 33             | -              |
| Real estate tax                                | 2,904          | 2,524          |
| Loss on sale of fixed assets                   | 29             | -              |
| Other                                          | -              | 52             |

Other income comprises a gain in relation to foreign exchange movements, rental payments

received from third parties who lease the space to install solar panels, grants and the sales of

green energy certificates to which we are eligible thanks to the combined generation of heat and power.

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

Other expenses decreased by €4.6m to €117.3m for the year ended 31 December 2018 from €121.9m for the year ended 31 December 2017. The main component of other expenses is services and other goods which mainly includes electricity and gas, maintenance and repair and interim blue collars. Selling expenses mainly include freight and commissions.

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

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

#### Note 10. Depreciation/amortisation

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

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

Depreciation / amortisation amounts to €32.4m for 2018.

The release of deferred revenue sale and lease back relates to the gradual recognition of the

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

#### Note 11. Integration and restructuring expenses

The total integration and restructuring expenses incurred in 2018 amount to €7.7m (2017: €11.4m). This comprises of various items which are considered by management as non-recurring or unusual by nature.

| (€ thousands)                                 | 2018         | 2017          |
|-----------------------------------------------|--------------|---------------|
| <b>Integration and restructuring expenses</b> | <b>7,699</b> | <b>11,368</b> |
| Corporate restructuring                       | 1,197        | -             |
| Business restructuring                        | 4,207        | 8,248         |
| Acquisition related expenses                  | -            | 1,334         |
| Idle IT costs                                 | -            | 776           |
| Strategic advisory services                   | 2,612        | 595           |
| Other                                         | (317)        | 414           |

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

In 2017, in addition to the €8.2m mentioned above, acquisition-related expenses of €1.3m have been incurred in relation to the acquisition of Bentley in March 2017. Incremental (idle) IT costs in relation to a legacy IT system amounted to €0.8m. The replacement of the legacy system was completed in the course of 2017 and therefore these costs will no longer

be incurred. The strategic advisory services amount to €0.6m and are driven by the portion of the IPO expenses that are not considered to be directly attributable to the issue of new shares and therefore not eligible for deduction from equity. The other expenses mainly relate to accrued expenses in connection with the phantom share bonus scheme. The bonus is only payable if the managers still provide services to the Group on the second anniversary of the completion of the IPO. If services cease to be provided for any reason prior to the second anniversary, the bonus arrangement for that manager is forfeited.

### Note 12. Finance expenses

| (€ thousands)                                                 | 2018          | 2017          |
|---------------------------------------------------------------|---------------|---------------|
| <b>Total finance expenses</b>                                 | <b>25,881</b> | <b>37,327</b> |
| Interest expense on Senior Secured Notes                      | 20,140        | 26,783        |
| Interest expense on Senior Term Loan Facility (€35m)          | 635           | 204           |
| Interest expense on Senior Term Loan Facility (€75m)          | -             | 3,289         |
| Interest expense on Senior Term Loan Facility Bentley (\$44m) | -             | 2,025         |

### Note 13. Income tax benefit / expense

| (€ thousands)                         | 2018       | 2017         |
|---------------------------------------|------------|--------------|
| <b>Income tax benefit / (expense)</b> | <b>953</b> | <b>2,654</b> |
| Current tax                           | (5,260)    | (2,615)      |
| Deferred tax                          | 6,213      | 5,269        |

| (€ thousands)                                               | 2018       | 2017         |
|-------------------------------------------------------------|------------|--------------|
| <b>Income tax benefit / (expense)</b>                       | <b>953</b> | <b>2,654</b> |
| Income tax calculated at Belgian tax rate <sup>1</sup>      | (1,891)    | (111)        |
| Rate differential due to transactions with foreign entities | 24         | 702          |
| Disallowed expenses                                         | (1,034)    | (1,945)      |
| Tax-exempted revenues                                       | 426        | 738          |
| Tax losses for which no deferred tax asset is recognised    | 273        | (398)        |
| Deferred tax asset derecognised                             | -          | (10,671)     |
| Impact tax reforms                                          | -          | 10,255       |
| Utilisation of previously not recognised tax assets         | 2,593      | -            |
| Impact intercompany financing                               | -          | 3,234        |
| Other                                                       | 563        | 851          |

<sup>1</sup> Belgian tax rate in 2017 was 33.99% where in 2018 it was 29.58%

|                                                         |       |       |
|---------------------------------------------------------|-------|-------|
| Interest expense on bank borrowings (including leasing) | 354   | 425   |
| Foreign exchange result on interco transactions         | 2,050 | 2,080 |
| Foreign exchange forward contracts                      | 746   | -     |
| Other finance costs                                     | 1,957 | 2,521 |

The net finance expense amount to €25.9m in 2018, and primarily contains the interest related to the external borrowings (Senior Secured Notes, Senior Term Loan Facility and finance leasing obligations). We refer to Notes 23, 24 and 26 for a description of these facilities.

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

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

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

In assessing whether deferred tax assets should be recognised, management considers the extent to which it is probable that the deferred tax assets will be realised. The ultimate 3 of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax

losses carried forward become deductible. Management considers the expected reversal of deferred tax liabilities and projected future taxable income in making the assessment.

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

### Note 14. Other intangible assets

| (€ thousands)                 | Trademarks   | Software and licences | Internally generated intangible assets | Total         |
|-------------------------------|--------------|-----------------------|----------------------------------------|---------------|
| <b>Opening net book value</b> | <b>-</b>     | <b>1,121</b>          | <b>1,255</b>                           | <b>2,376</b>  |
| Business combinations         | 10,913       | 266                   | -                                      | 11,179        |
| Additions                     | -            | 799                   | 875                                    | 1,673         |
| Disposals                     | -            | -                     | -                                      | -             |
| Transfers                     | -            | -                     | -                                      | -             |
| Amortisation charge           | (730)        | (619)                 | (598)                                  | (1,923)       |
| Exchange differences          | (1,184)      | 97                    | -                                      | (1,087)       |
| <b>Closing net book value</b> | <b>8,999</b> | <b>1,668</b>          | <b>1,532</b>                           | <b>12,218</b> |

|                                                            |              |              |              |               |
|------------------------------------------------------------|--------------|--------------|--------------|---------------|
| <b>At 31 December 2017</b>                                 |              |              |              |               |
| Cost or valuation                                          | 9,728        | 9,292        | 8,955        | 29,922        |
| Accumulated amortisation, impairment and other adjustments | (730)        | (7,604)      | (7,423)      | (17,704)      |
| <b>Closing net book value</b>                              | <b>8,999</b> | <b>1,688</b> | <b>1,532</b> | <b>12,218</b> |

|                               |              |              |              |               |
|-------------------------------|--------------|--------------|--------------|---------------|
| <b>Opening net book value</b> | <b>8,999</b> | <b>1,688</b> | <b>1,532</b> | <b>12,218</b> |
| Additions                     | -            | -            | 468          | 468           |
| Disposals                     | -            | -            | -            | -             |
| Transfers                     | -            | -            | -            | -             |
| Amortisation charge           | (1,019)      | (490)        | (667)        | (2,176)       |
| Impairment charge             | -            | -            | (7)          | (7)           |
| Exchange differences          | 427          | 469          | -            | 896           |
| <b>Closing net book value</b> | <b>8,407</b> | <b>1,666</b> | <b>1,326</b> | <b>11,399</b> |

|                                                            |              |              |              |               |
|------------------------------------------------------------|--------------|--------------|--------------|---------------|
| <b>At 31 December 2018</b>                                 |              |              |              |               |
| Cost or valuation                                          | 10,190       | 6,631        | 9,067        | 25,888        |
| Accumulated amortisation, impairment and other adjustments | (1,783)      | (4,965)      | (7,741)      | (14,489)      |
| <b>Closing net book value</b>                              | <b>8,407</b> | <b>1,666</b> | <b>1,326</b> | <b>11,399</b> |

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

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

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



**Note 15. Property, plant and equipment**

| (€ thousands)                                              | Land and buildings | Plant and machinery | Other Equipment | Total          |
|------------------------------------------------------------|--------------------|---------------------|-----------------|----------------|
| <b>Opening net book value</b>                              | <b>169,203</b>     | <b>115,016</b>      | <b>15,019</b>   | <b>299,237</b> |
| Business combinations                                      | 700                | 10,740              | 4,634           | 16,074         |
| Additions                                                  | 665                | 23,138              | 14,458          | 38,261         |
| Disposals                                                  | -                  | (463)               | (391)           | (854)          |
| Transfers                                                  | 284                | 2,375               | (2,659)         | 0              |
| Depreciation charge                                        | (5,977)            | (13,736)            | (12,258)        | (31,972)       |
| Exchange differences                                       | (2,771)            | (6,093)             | (724)           | (9,587)        |
| <b>Closing net book value</b>                              | <b>162,103</b>     | <b>130,977</b>      | <b>18,080</b>   | <b>311,160</b> |
| <b>At 31 December 2017</b>                                 |                    |                     |                 |                |
| Cost or valuation                                          | 231,256            | 516,930             | 47,446          | 795,633        |
| Accumulated depreciation, impairment and other adjustments | (69,153)           | (385,953)           | (29,367)        | (484,474)      |
| <b>Closing net book value</b>                              | <b>162,103</b>     | <b>130,977</b>      | <b>18,080</b>   | <b>311,160</b> |
| <b>Opening net book value</b>                              | <b>162,103</b>     | <b>130,977</b>      | <b>18,080</b>   | <b>311,160</b> |
| Additions                                                  | 365                | 17,822              | 13,573          | 31,760         |
| Disposals                                                  | -                  | (931)               | (387)           | (1,318)        |
| Transfers                                                  | 43                 | 4,455               | (4,498)         | 0              |
| Depreciation charge                                        | (5,745)            | (14,832)            | (12,03)         | (32,602)       |
| Exchange differences                                       | (3,014)            | (4,858)             | 138             | (7,734)        |
| <b>Closing net book value</b>                              | <b>153,752</b>     | <b>132,632</b>      | <b>14,875</b>   | <b>301,259</b> |
| <b>At 31 December 2018</b>                                 |                    |                     |                 |                |
| Cost or valuation                                          | 228,189            | 518,370             | 53,585          | 800,144        |
| Accumulated depreciation, impairment and other adjustments | (74,437)           | (385,738)           | (38,710)        | (498,885)      |
| <b>Closing net book value</b>                              | <b>153,752</b>     | <b>132,632</b>      | <b>14,875</b>   | <b>301,259</b> |

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

The total depreciation expense of €32.6m (2017: €32.0m) has been charged in the line "Depreciation and amortisation" in the income statement.

The Group's assets which are pledged as security for the borrowings are described in Note 25.

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

**Note 16. Deferred income tax assets and liabilities**

IFRS requires the deferred taxes for each jurisdiction to be presented as a net asset or liability. Offsetting of deferred tax liabilities from

one jurisdiction against deferred tax assets of another jurisdiction is not allowed. The table below presents the net deferred tax position in accordance with these presentation principles.

| (€ thousands)                                                     | 2018            | 2017            |
|-------------------------------------------------------------------|-----------------|-----------------|
| <b>Deferred tax assets:</b>                                       | <b>5,470</b>    | <b>4,747</b>    |
| Deferred tax assets to be reversed after more than 12 months      | 4,079           | 4,215           |
| Deferred tax assets to be reversed within 12 months               | 1,390           | 532             |
| <b>Deferred tax liabilities:</b>                                  | <b>(47,837)</b> | <b>(54,471)</b> |
| Deferred tax liabilities to be reversed after more than 12 months | (45,057)        | (51,048)        |
| Deferred tax liabilities to be reversed within 12 months          | (2,780)         | (3,423)         |
| <b>Net deferred tax liabilities</b>                               | <b>(42,367)</b> | <b>(49,724)</b> |

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

| (€ thousands)              | 2018            | 2017            |
|----------------------------|-----------------|-----------------|
| <b>Beginning of period</b> | <b>(49,724)</b> | <b>(50,825)</b> |
| Exchange differences       | 1,278           | 1,037           |
| Business combination       | -               | (6,302)         |
| Other comprehensive income | (134)           | (457)           |
| Movement to share capital  | -               | 1,553           |
| Income statement charge    | 6,213           | 5,269           |
| <b>At 31 December</b>      | <b>(42,367)</b> | <b>(49,724)</b> |

In contrast to the table above, the table below shows the movement in deferred taxes on a gross basis, i.e. without netting deferred tax

liabilities and deferred tax assets within the same jurisdiction.

**Deferred tax assets**

| (€ thousands)                              | Tax losses carried forward and other tax credits | Deferred income sale and leaseback | Intangible assets | Borrowings   | Employee benefits | Inventory    | Provisions   | Other      | Total         |
|--------------------------------------------|--------------------------------------------------|------------------------------------|-------------------|--------------|-------------------|--------------|--------------|------------|---------------|
| <b>1 January 2017</b>                      | <b>18,879</b>                                    | <b>4,385</b>                       | <b>1,911</b>      | <b>1,903</b> | <b>1,875</b>      | <b>1,007</b> | -            | <b>57</b>  | <b>30,017</b> |
| Business combinations                      | 193                                              | -                                  | -                 | -            | 248               | -            | -            | 1,098      | 1,539         |
| Charged/(credited) to the income statement | (10,781)                                         | (1,381)                            | (1,080)           | (515)        | (232)             | 52           | -            | (433)      | (14,370)      |
| Movement to share capital                  | 1,553                                            | -                                  | -                 | -            | -                 | -            | -            | -          | 1,553         |
| Exchange differences                       | (166)                                            | -                                  | -                 | -            | -                 | -            | -            | -          | (166)         |
| Other comprehensive income                 | -                                                | -                                  | -                 | -            | (457)             | -            | -            | -          | (457)         |
| <b>31 December 2017</b>                    | <b>9,678</b>                                     | <b>3,004</b>                       | <b>832</b>        | <b>1,388</b> | <b>1,434</b>      | <b>1,059</b> | -            | <b>722</b> | <b>18,117</b> |
| <b>1 January 2018</b>                      | <b>9,678</b>                                     | <b>3,004</b>                       | <b>832</b>        | <b>1,388</b> | <b>1,434</b>      | <b>1,059</b> | <b>22</b>    | <b>700</b> | <b>18,117</b> |
| Charged/(credited) to the income statement | 7,063                                            | (412)                              | (747)             | (28)         | (376)             | 118          | 853          | 184        | 6,655         |
| Exchange differences                       | 3                                                | -                                  | -                 | -            | -                 | 313          | 344          | 14         | 673           |
| Other comprehensive income                 | -                                                | -                                  | -                 | -            | (107)             | -            | -            | -          | (107)         |
| <b>31 December 2018</b>                    | <b>16,744</b>                                    | <b>2,592</b>                       | <b>85</b>         | <b>1,360</b> | <b>951</b>        | <b>1,490</b> | <b>1,219</b> | <b>898</b> | <b>25,338</b> |

In assessing the realisability of deferred tax assets, management considers the extent to which it is probable that the deferred tax asset will be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax loss carryforwards become deductible. Management considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is probable the Group will realise the benefits of these deductible differences. As of 31 December 2018, the Group has certain tax losses subject to significant limitations. For those losses, deferred tax

#### Deferred tax liabilities

| (€ thousands)                              | Property, plant and equipment | Intangible assets | Inventory      | Other        | Total           |
|--------------------------------------------|-------------------------------|-------------------|----------------|--------------|-----------------|
| <b>At 1 January 2017</b>                   | <b>(77,610)</b>               | <b>(451)</b>      | <b>(2,782)</b> | <b>1</b>     | <b>(80,843)</b> |
| Business combinations                      | (4,664)                       | (2,628)           | (549)          | -            | (7,841)         |
| Charged/(credited) to the income statement | 17,652                        | 1,123             | 870            | (3)          | 19,642          |
| Exchange differences                       | 1,201                         | -                 | -              | -            | 1,201           |
| <b>At 31 December 2017</b>                 | <b>(63,420)</b>               | <b>(1,956)</b>    | <b>(2,461)</b> | <b>(2)</b>   | <b>(67,841)</b> |
| <b>At 1 January 2018</b>                   | <b>(63,420)</b>               | <b>(1,956)</b>    | <b>(2,461)</b> | <b>(2)</b>   | <b>(67,841)</b> |
| Charged/(credited) to the income statement | 73                            | 165               | 121            | (801)        | (442)           |
| Exchange differences                       | 500                           | (53)              | 117            | 14           | 576             |
| <b>At 31 December 2018</b>                 | <b>(62,848)</b>               | <b>(1,844)</b>    | <b>(2,223)</b> | <b>(789)</b> | <b>(67,705)</b> |

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

When we add up the gross amounts of deferred tax assets (€25.3m) and gross amount of deferred tax liabilities (€67.7m) we arrive at a net deferred tax

assets are not recognised, as it is not probable that gains will be generated to offset those losses. Uncertain tax positions, as described in Note 2, are taken into account when recognising deferred tax assets and liabilities.

As of 31 December 2018 total tax credits amounted to €522.3m, resulting in a potential deferred tax asset of €153.6m of which the Group only recognised €16.7m at the end of 2018. As of 31 December 2017 total tax credits amounted to €497.1m, resulting in a potential deferred tax asset of €123.7m of which the Group only recognised €9.7m.

The majority of the tax credits in 2017 and 2018 are incurred at the level of the Belgian legal entities where - with the exception of the tax credits in relation to the Notional Interest Deduction - there is no expiry date regarding the tax credits.

liability position per 31 December 2018 of €42.4m.

#### Note 17. Inventories

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

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

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

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

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

The Group decreased the provision for obsolete inventory in 2018 by €0.2m compared to a decrease of €1.4m in 2017 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" respectively related to raw materials and finished goods (including work in progress).

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

The Group's assets which are pledged as security for the Senior Secured Notes and borrowings are described in Notes 23 to 25.

#### Note 18. Trade and other receivables

| (€ thousands)                                    | 31 December 2018 | 31 December 2017 |
|--------------------------------------------------|------------------|------------------|
| <b>Total trade and other receivables</b>         | <b>61,767</b>    | <b>62,704</b>    |
| <b>Trade and other receivables (non-current)</b> | <b>996</b>       | <b>1,165</b>     |
| Other amounts receivable                         | 996              | 1,165            |
| <b>Trade and other receivables (current)</b>     | <b>60,772</b>    | <b>61,539</b>    |
| Net trade receivables                            | 51,558           | 49,612           |
| Trade receivables                                | 54,433           | 50,577           |
| Less: Bad debt allowance                         | (2,875)          | (965)            |
| Prepayments and accrued income                   | 1,551            | 1,026            |
| Other amounts receivable                         | 7,663            | 10,901           |

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

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

Current trade and other receivables amount to €61.8m as of 31 December 2018 (and are in line with previous year).

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

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

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

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

| (€ thousands)                            | 31 December 2018 | 31 December 2017 |
|------------------------------------------|------------------|------------------|
| <b>Total trade and other receivables</b> | <b>61,767</b>    | <b>62,704</b>    |
| EUR                                      | 20,208           | 28,465           |
| USD                                      | 24,753           | 19,306           |
| GBP                                      | 8,523            | 5,697            |
| TRY                                      | 8,283            | 9,236            |

The Group is monitoring the recoverability of the trade and other receivables on a case by case assessment. In addition, the Group has applied IFRS 9, by using the standard's simplified approach and calculated ECLs based on lifetime expected credit losses. This has resulted in an increase to the provision at 1 January 2018 of



€1.9m. The main part of the movements have been booked against equity. We refer to Note

1.10 for more detail on the initial application of IFRS 9.

|                                           | Not due or less than 15 days past due | More than 15 days past due | Total        |
|-------------------------------------------|---------------------------------------|----------------------------|--------------|
| <b>1 January 2018</b>                     |                                       |                            |              |
| Expected loss rate                        | 1.0%                                  | 81.0%                      |              |
| Gross carrying amount - trade receivables | 47,692                                | 2,885                      | 50,577       |
| <b>Loss allowance</b>                     | <b>0,485</b>                          | <b>2,337</b>               | <b>2,822</b> |
| <b>31 December 2018</b>                   |                                       |                            |              |
| Expected loss rate                        | 1,4%                                  | 59,3%                      |              |
| Gross carrying amount - trade receivables | 50,797                                | 3,636                      | 54,433       |
| <b>Loss allowance</b>                     | <b>0,718</b>                          | <b>2,157</b>               | <b>2,875</b> |

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

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

The creation and release of allowances for impaired receivables has been included in "Other income/expenses" in the income statement expect for the restatement as a result of the implementation of IFRS 9 which is included in the opening retained earnings. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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

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

## Note 19. Cash and cash equivalents

| (€ thousands)                                 | 31 December 2018 | 31 December 2017 |
|-----------------------------------------------|------------------|------------------|
| <b>Total cash and cash equivalents</b>        | <b>26,853</b>    | <b>37,338</b>    |
| Cash at bank and on hands                     | 14,201           | 26,876           |
| Short-term bank deposits                      | -                | 3,127            |
| Cash from local financing                     | 12,652           | 7,335            |
| Of which in countries with legal restrictions | 2,679            | 4,489            |

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. At the end of 2018, the cash from local financing is influenced by the fact that e.g. current accounts are not settled.

The credit quality of the banks and financial institutions is disclosed in Note 29. The Group's assets which are pledged as security for the Senior Secured Notes and borrowings are de-

scribed in Notes 23 to 25.

## Note 20. Share capital and share premium

The legal issued share capital of the Group is set at €252.9m divided into 35,943,396 ordinary shares without a nominal value. All shares issued by the Group were fully paid, together with a share premium of €65.7m. Within 2017, the following movements within share capital occurred:

- Capital increase in cash resulting from the subscription of the sale of primary shares in the IPO. The shareholders of the Company have issued 10,943,396 new shares at a price of €13.25 per share for a total amount of €145.0m. This has been allocated to capital (€7.25 per share, i.e. €79.3m) and share premium (€6.0 per share, i.e. €65.7m). Transaction costs that are directly attributable to the issue of new shares as a result of the IPO have been recognised as a deduction of share capital (€7.6m net of taxes).

- Capital increase by means of a contribution in kind. LSF9 Balta Holdco S.à r.l. contributed all the shares it held in LSF9 Balta Issuer S.à r.l. to the share capital of the Company by means of a contribution in kind, in exchange for 25m shares. As a result of this contribution in kind, and prior to the IPO, the Company held all equity interests in LSF9 Balta Issuer S.à r.l. The shares have been contributed at €13.25 per share and hence represent a value of €331.3m.

- Capital reduction to create distributable reserves. Immediately following the capital increase as described above, the capital of the Company has been decreased by €150.0m to create distributable reserves. Accordingly, the Company will be entitled to make distributions to shareholders out of these distributable reserves even in the absence of Belgian GAAP annual net profit for the relevant year.

- Bentley management buy-out: Prior to the IPO, Bentley management owned a minority equity stake (of less than 2% of the total interest) in the Bentley Group of companies. This minority equity stake has been acquired by LSF9 Balta Midco S.à r.l., who in turn has rolled-down the

stake into Balta nv in a cash-less manner, such that the full ownership in Bentley is centralised in Balta nv. This integration of the Bentley management equity stake has resulted in an equity increase at the level of the Group of €1.3m.

Capital reduction to cancel the founders' shares. Capital of the Company has been reduced by €61,500 by (i) cancellation of the 61,500 shares of the Company subscribed to by its founders at incorporation on 1 March 2017 and (ii) repayment of the contributions made at the Company's incorporation by these founders. The new shareholders do not benefit from this distribution.

## Note 21. Other comprehensive income

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

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

| (€ thousands)                                                                      | 2018            | 2017            |
|------------------------------------------------------------------------------------|-----------------|-----------------|
| Items in OCI that may be subsequently reclassified to P&L                          | (34,553)        | (20,807)        |
| <b>Cumulative translation reserves as of 31 December</b>                           | <b>(34,647)</b> | <b>(20,814)</b> |
| Cumulative translation reserves at beginning of the period                         | (20,814)        | (7,293)         |
| Exchange differences on translating foreign operations                             | (13,833)        | (13,522)        |
| <b>Cumulative changes in fair value of hedging instruments as of 31 December</b>   | <b>94</b>       | <b>7</b>        |
| Cumulative changes in fair value of hedging instruments at beginning of the period | 7               | (116)           |
| Changes in fair value of hedging instruments during the period                     | 87              | 123             |
| <b>Items in OCI that will not be reclassified to P&amp;L</b>                       | <b>1,167</b>    | <b>895</b>      |
| <b>Changes in deferred tax at 31 December</b>                                      | <b>(711)</b>    | <b>(604)</b>    |
| Changes in deferred taxes at beginning of the period                               | (604)           | (147)           |
| Changes in deferred taxes during the period                                        | (107)           | (457)           |
| <b>Changes in employee defined benefit obligations at 31 December</b>              | <b>1,877</b>    | <b>1,498</b>    |
| Changes in employee defined benefit obligations at beginning of the period         | 1,498           | 493             |
| Changes in employee defined benefit obligations during the period                  | 379             | 1,005           |
| <b>Total other comprehensive income at 31 December</b>                             | <b>(33,388)</b> | <b>(19,913)</b> |

Cash flow hedge accounting

The movement schedule below summarises the amounts recorded into the cash flow hedge reserve and the portion that was recognised in the income statement in relation to contracts that were settled in December 2018. The amounts recognised in the income statement have been presented as “Other income” – see Note 9.

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

Employee defined benefit obligations

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

In the recent past, several insurance companies have decided to reduce the technical interest rate on group insurance contracts to a level

below the minimum return guaranteed by law for Belgian defined contribution pension plans. Because the employer has to guarantee the statutory minimum return on these plans, not all actuarial and investment risks relating to these plans are transferred to the insurance company or pension fund managing the plans. Therefore these plans do not meet the definition of defined contribution plans under IFRS and should by default be classified as defined benefit plans. Refer to Note 30 for further details.

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

Deferred Taxes

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

Note 22. Retained earnings

| (€ thousands)                                           | 2018         | 2017         |
|---------------------------------------------------------|--------------|--------------|
| <b>Beginning of period</b>                              | <b>6,297</b> | <b>3,351</b> |
| Adjustment on initial application of IFRS 9             | (1,308)      | -            |
| Dividends paid                                          | (2,875)      | -            |
| Profit / (loss) for the year allocated to equity owners | 7,346        | 2,946        |
| <b>At 31 December</b>                                   | <b>9,458</b> | <b>6,297</b> |

Note 23. Senior Secured Notes

| (€ thousands)                        | 31 December 2018 | 31 December 2017 |
|--------------------------------------|------------------|------------------|
| <b>Total Senior Secured Notes</b>    | <b>233,490</b>   | <b>231,555</b>   |
| <b>Non-current portion</b>           | <b>230,065</b>   | <b>228,130</b>   |
| Of which: gross debt                 | 234,900          | 234,900          |
| Of which: capitalised financing fees | (4,835)          | (6,770)          |
| <b>Current portion</b>               | <b>3,425</b>     | <b>3,425</b>     |
| 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.

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

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

The current portion of the debt associated with the Senior Secured Notes relates to accrued interest payable at the next interest payment date and the portion of the capitalised financing

The retained earnings may be distributed to shareholders upon the decision of a General Meeting of Shareholders, taking into account the restrictions as defined in the Senior Term Loan Facilities agreement and the senior term loan facilities and the restrictions which are imposed by law. We refer to Note 1.10 for more detail on the initial application of IFRS 9.

fee that will be amortised into profit or loss over the next 12 months.

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

The collateral also secures the Super Senior Revolving Credit Facility (see Note 25) and Senior Term Loan Facility (see Note 24) and certain hedging obligations. Under the terms of the Intercreditor Agreement, in the event of enforcement of the security over the collateral, holders of the Senior Secured Notes will receive



proceeds from the enforcement of the collateral only after indebtedness in respect of the Super Senior Revolving Credit Facility and certain hedging obligations have been repaid in full. Any such proceeds will, after all obligations under the Super Senior Revolving Credit Facility and such hedging obligations have been repaid from such recoveries, be applied pro rata in repayment of all obligations under the Indenture and any other obligations that are permitted to be secured over the collateral under the Indenture on an equal and ratable basis.

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

#### Note 24. Senior Term Loan Facility

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

#### Senior Term Loan facility of €35m

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

Similar to for the Super Senior Revolving Credit Facility (Note 25), the Group is subject to quarterly reporting requirements and an annual guarantor coverage test.

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

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

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

#### Note 25. Bank and other borrowings

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

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

#### Bank borrowings

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

On 18 July 2017, Balta nv has also renegotiated and obtained more favorable commercial terms in respect of its European Super Senior Revolving Credit Facility, including a reduction of the margin from the original 3.75% p.a. in August 2015 to an average margin below 2.00% p.a. at current leverage.

The Super Senior Revolving Credit Facility is secured by first-ranking security interests over the collateral, which also secures the Senior Secured Notes and the guarantees. Under the

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

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

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

#### Bentley financing arrangements

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

The Fifth Third Credit Agreement contains affirmative and negative covenants with respect to BPS Parent Inc. and its subsidiaries and other payment restrictions. Certain of the covenants limit indebtedness and investments of BPS Parent Inc. and its subsidiaries and require the maintenance of certain financial ratios defined in the Fifth Third Credit Agreement. This credit facility was fully undrawn at the end of 2017 and 2018.

#### Factoring

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

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

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

The Group is also party to an Accounts Receivables Purchase Agreement with a financial institution, in the framework of a supply chain

## Note 26. Leases

### Finance lease liabilities

The table below shows the net book amount of the “land and buildings” and “plant and ma-

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

The finance lease liabilities have decreased from €15.5m as of 31 December 2017 to €13.3m as of 31 December 2018. No new financial lease contracts have been signed during the period and most of the lease contracts relating to

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

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

### Operating leases

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

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

financing program offered by a large customer. Under this agreement, the Group offers to sell some or all of its accounts receivable due from this customer to the financial institution. Given the non-recourse nature of the agreement, the accounts receivables are derecognised on the moment the cash is received.

chinery” which are subject to a finance lease agreement:

plant and machinery expired at the end of 2017.

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

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

The operating lease commitments increased by €4.1m as at 31 December 2018, mainly due to the commitment of €13.0m of operating leases

which mainly relate to new leases of buildings in the Rugs and Commercial Segments.

## Note 27. Net debt reconciliations

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

| (€ thousands)                               | Liabilities from financing activities |                                        |                                            |                                             |                                            |                                             |                            | Cash and Cash equivalents |                          |
|---------------------------------------------|---------------------------------------|----------------------------------------|--------------------------------------------|---------------------------------------------|--------------------------------------------|---------------------------------------------|----------------------------|---------------------------|--------------------------|
|                                             | Senior Secured Notes due after 1 year | Senior Secured Notes due within 1 year | Senior Term Loan Facility due after 1 year | Senior Term Loan Facility due within 1 year | Finance lease liabilities due after 1 year | Finance lease liabilities due within 1 year | Total gross financial debt | Cash and Cash equivalents | Total net financial debt |
| <b>Net debt as at 1 January 2018</b>        | <b>(234,900)</b>                      | <b>(5,360)</b>                         | <b>(35,000)</b>                            | <b>(23)</b>                                 | <b>(13,310)</b>                            | <b>(2,225)</b>                              | <b>(290,818)</b>           | <b>37,338</b>             | <b>(253,480)</b>         |
| Cashflows                                   | -                                     | -                                      | -                                          | 3                                           | -                                          | 7                                           | 10                         | (10,483)                  | (10,473)                 |
| Proceeds of borrowings with third parties   | -                                     | -                                      | -                                          | -                                           | -                                          | -                                           | -                          | -                         | -                        |
| Business combinations                       | -                                     | -                                      | -                                          | -                                           | -                                          | -                                           | -                          | -                         | -                        |
| Foreign exchange adjustments                | -                                     | -                                      | -                                          | -                                           | -                                          | -                                           | -                          | -                         | -                        |
| Repayments of borrowings with third parties | -                                     | -                                      | -                                          | -                                           | -                                          | 2,137                                       | 2,137                      | -                         | 2,137                    |
| Other non-cash movements                    | -                                     | -                                      | -                                          | -                                           | 1,085                                      | (1,085)                                     | -                          | -                         | -                        |
| <b>Net debt as at 31 December 2018</b>      | <b>(234,900)</b>                      | <b>(5,360)</b>                         | <b>(35,000)</b>                            | <b>(20)</b>                                 | <b>(12,225)</b>                            | <b>(1,166)</b>                              | <b>(288,671)</b>           | <b>26,855</b>             | <b>(261,816)</b>         |

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

## Note 28. Additional disclosures on financial instruments

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

| (€ thousands)                                              | Fair value hierarchy | 31 December 2018 | 31 December 2018 | 31 December 2017 | 31 December 2017 |
|------------------------------------------------------------|----------------------|------------------|------------------|------------------|------------------|
|                                                            |                      | Carrying amount  | Fair value       | Carrying amount  | Fair value       |
| <b>Assets as per statement of financial positions</b>      |                      | <b>88,739</b>    | <b>88,739</b>    | <b>100,041</b>   | <b>100,041</b>   |
| <b>Loans and receivables</b>                               |                      | <b>88,620</b>    | <b>88,620</b>    | <b>100,041</b>   | <b>100,041</b>   |
| Trade and other receivables                                |                      | 61,767           | 61,767           | 62,704           | 62,704           |
| Cash and cash equivalents                                  | Level 1              | 26,853           | 26,853           | 37,338           | 37,338           |
| <b>Assets at fair value through OCI</b>                    |                      | <b>119</b>       | <b>119</b>       | <b>-</b>         | <b>-</b>         |
| Foreign exchange derivative financial instruments          | Level 2              | 119              | 119              | -                | -                |
| <b>Liabilities as per statement of financial positions</b> |                      | <b>405,420</b>   | <b>391,509</b>   | <b>408,277</b>   | <b>428,587</b>   |
| <b>Financial liabilities measured at amortised cost</b>    |                      | <b>405,365</b>   | <b>391,454</b>   | <b>408,275</b>   | <b>428,585</b>   |
| Senior Secured Notes                                       | Level 1              | 233,490          | 219,580          | 231,555          | 251,864          |
| Senior Term Loan Facility                                  | Level 1              | 34,790           | 34,790           | 34,674           | 34,674           |
| Bank and other borrowings                                  | Level 2              | 13,486           | 13,486           | 15,671           | 15,671           |



| (€ thousands)                                                   | Fair value hierarchy | 31 December 2018 | 31 December 2018 | 31 December 2017 | 31 December 2017 |
|-----------------------------------------------------------------|----------------------|------------------|------------------|------------------|------------------|
|                                                                 |                      | Carrying amount  | Fair value       | Carrying amount  | Fair value       |
| Trade and other payables                                        |                      | 123,599          | 123,599          | 126,375          | 126,375          |
| <b>Financial liabilities measured at fair value through OCI</b> |                      | <b>55</b>        | <b>55</b>        | <b>2</b>         | <b>2</b>         |
| Foreign exchange derivative financial instruments               | Level 2              | 55               | 55               | 2                | 2                |

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

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

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

There were no changes in valuation techniques during the period.

#### Note 29. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the un-

predictability 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 Euro.

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

operations, which are reported in Euro, are affected by currency exchange rate fluctuations.

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

| (€ thousands)                        | EUR             | GBP          | USD           | TRY          | TOTAL           |
|--------------------------------------|-----------------|--------------|---------------|--------------|-----------------|
| <b>31 December 2018 Net exposure</b> | <b>(63,933)</b> | <b>6,135</b> | <b>14,488</b> | <b>8,331</b> | <b>(34,979)</b> |

|                             |          |         |          |       |           |
|-----------------------------|----------|---------|----------|-------|-----------|
| Trade and other receivables | 20,208   | 8,523   | 24,753   | 8,283 | 61,767    |
| Cash and cash equivalents   | 7,458    | 2,944   | 16,251   | 200   | 26,853    |
| Trade and other payables    | (91,599) | (5,332) | (26,516) | (153) | (123,599) |

| (€ thousands)                        | EUR             | GBP          | USD          | TRY           | TOTAL           |
|--------------------------------------|-----------------|--------------|--------------|---------------|-----------------|
| <b>31 December 2017 Net exposure</b> | <b>(48,160)</b> | <b>4,180</b> | <b>6,198</b> | <b>11,448</b> | <b>(26,334)</b> |

|                             |          |         |          |       |           |
|-----------------------------|----------|---------|----------|-------|-----------|
| Trade and other receivables | 28,465   | 5,697   | 19,306   | 9,236 | 62,704    |
| Cash and cash equivalents   | 20,649   | 4,409   | 10,043   | 2,236 | 37,338    |
| Trade and other payables    | (97,274) | (5,926) | (23,151) | (24)  | (126,375) |

The following table presents the sensitivity analysis of the year-end statement of financial

position in GBP, USD and TRY in case the Euro would weaken by 10%:

| (€ thousands)                                                 | 2018           | 2017           |
|---------------------------------------------------------------|----------------|----------------|
| <b>GBP denominated</b>                                        | <b>(1,455)</b> | <b>(1,092)</b> |
| Changes in fair value derivative financial instruments        | (2,136)        | (1,556)        |
| Changes in carrying amount of monetary assets and liabilities | 682            | 464            |

|                                                               |              |            |
|---------------------------------------------------------------|--------------|------------|
| <b>USD denominated</b>                                        | <b>1,542</b> | <b>689</b> |
| Changes in fair value derivative financial instruments        | (68)         | -          |
| Changes in carrying amount of monetary assets and liabilities | 1,610        | 689        |

|                                                               |            |              |
|---------------------------------------------------------------|------------|--------------|
| <b>TRY denominated</b>                                        | <b>926</b> | <b>1,272</b> |
| Changes in fair value derivative financial instruments        | -          | -            |
| Changes in carrying amount of monetary assets and liabilities | 926        | 1,272        |

The following table presents the sensitivity analysis of the year-end statement of financial

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

### Commodity price risk

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

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

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

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

position in GBP, USD and TRY in case the Euro would strengthen by 10%:

### Interest rate risk

Our interest rate risk principally relates to external indebtedness that bears interest at variable rates. Only the amounts that we borrow under the (Super Senior) Revolving Credit Facilities, our capital leases of buildings, our Senior Term Loan and use under our factoring 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 Euro yield curve.

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

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

### Qualitative and quantitative disclosures about credit risk

Our credit risk is managed on a Group-wide basis. We assess the credit quality of the customer, taking into account its financial position, past

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

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

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

| (€ thousands)                          | 31 December 2018 | 31 December 2017 |
|----------------------------------------|------------------|------------------|
| <b>Total cash and bank equivalents</b> | <b>26,853</b>    | <b>37,338</b>    |
| A rating                               | 25,079           | 32,860           |
| BBB Rating                             | 1                | 1,199            |
| BB Rating                              | 1,774            | 3,278            |

### Qualitative and quantitative disclosures about liquidity risk

We monitor cash flow forecasts and liquidity requirements centrally, ensuring that we have

sufficient cash to meet operational needs while maintaining sufficient headroom on our undrawn committed borrowing facilities at all times so that we do not breach borrowing limits or covenants on any of our borrowing facilities.

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

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

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

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

| (€ thousands)                                             | Less than 6 months | Between 6 months and 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years   |
|-----------------------------------------------------------|--------------------|-----------------------------|-----------------------|-----------------------|----------------|
| <b>Total as of 31 December 2018</b>                       | <b>(135,586)</b>   | <b>(10,030)</b>             | <b>(54,918)</b>       | <b>(274,769)</b>      | <b>(7,512)</b> |
| Senior Secured Notes                                      | (9,102)            | (9,102)                     | (18,205)              | (271,310)             | -              |
| Senior Term Loan Facility                                 | (248)              | (249)                       | (35,374)              | -                     | -              |
| Finance lease liabilities                                 | (684)              | (679)                       | (1,339)               | (3,460)               | (7,512)        |
| Trade and other payables                                  | (123,599)          | -                           | -                     | -                     | -              |
| Gross settled derivative financial instruments - outflows | (25,115)           | -                           | -                     | -                     | -              |
| Gross settled derivative financial instruments - inflows  | 20,345             | -                           | -                     | -                     | -              |



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

In particular, the Super Senior Revolving Credit Facility includes a springing Leverage covenant at 6.5x, however only to be tested at the end of a quarter, and provided more than 30% of the Super Senior Revolving Credit Facility is used at that time. To date, we have never used the Super Senior Revolving Credit Facility at the end of a quarter, hence have never been required to test

| (€ thousands)                                             | Less than 6 months | Between 6 months and 1 year | Between 1 year and 2 years | Between 2 and 5 years | Over 5 years   |
|-----------------------------------------------------------|--------------------|-----------------------------|----------------------------|-----------------------|----------------|
| <b>Total as of 31 December 2017</b>                       | <b>(137,109)</b>   | <b>(10,421)</b>             | <b>(20,100)</b>            | <b>(328,826)</b>      | <b>(9,703)</b> |
| Senior Secured Notes                                      | (9,102)            | (9,102)                     | (18,205)                   | (289,514)             | -              |
| Senior Term Loan Facility                                 | (248)              | (249)                       | (497)                      | (35,374)              | -              |
| Finance lease liabilities                                 | (1,360)            | (1,069)                     | (1,398)                    | (3,938)               | (9,703)        |
| Trade and other payables                                  | (126,375)          | -                           | -                          | -                     | -              |
| Gross settled derivative financial instruments - outflows | (14,004)           | -                           | -                          | -                     | -              |
| Gross settled derivative financial instruments - inflows  | 13,981             | -                           | -                          | -                     | -              |

A key factor in maintaining a strong financial profile is our credit rating which is affected by, among other factors, our capital structure, profitability, ability to generate cash flows, geographic and customer diversification and our

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

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

On 14 September 2015, S&P assigned its 'B' long-term

the covenant. Moreover, Leverage at the end of the year was 3.6x at maximum during 2018. The \$18m revolving credit facility at the level of BPS Parent Inc. includes a local leverage and fixed charge coverage covenant, providing ample headroom.

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

competitive position. Our current corporate credit ratings from Moody's Investor Service (Moody's) and Standard & Poor's Ratings Services (S&P) are noted as follows:

corporate credit rating to LSF9 Balta Investments S.à r.l. At the same time, S&P assigned its 'B' long-term issue rating to LSF9 Balta Issuer S.à r.l.'s €290m Senior Secured Notes and its 'BB-' long-term issue rating to the €68m Super Senior Revolving Credit Facility. In July 2017, the corporate rating was increased to 'B+' 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 the more recent financial performance, the corporate rating was reduced again to 'B' and the long-term issue rating on the Super Senior Revolving Credit Facility to 'BB-'.

### Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. The Group is closely monitoring its financial performance to comply with financial covenants. Refer to Notes 23 to 25 for further details.

### Note 30. Employee benefit obligations

The Group operates a pension plan and provides for pension liabilities. These benefits have been measured in compliance with IAS 19 revised and in accordance with the Group accounting policies described in Note 1.20. The liability was measured using a discount rate of 1.57% and 1.35% in 2018 and 2017, respectively. The annual pension cost, relating to the pension plan is disclosed in Note 8.

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

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

| (€ thousands)                             | 31 December 2018 | 31 December 2017 |
|-------------------------------------------|------------------|------------------|
| <b>Total employee benefit obligations</b> | <b>3,713</b>     | <b>4,127</b>     |
| Pension plans                             | 1,700            | 2,418            |
| Provisions early retirement pension       | 2,013            | 1,710            |

| (€ thousands)                             | 31 December 2018 |
|-------------------------------------------|------------------|
| <b>Total employee benefit obligations</b> | <b>3,713</b>     |
| Non current                               | 3,106            |
| Current                                   | 607              |

### Pension plans: overview

Pension plans have been put in place for senior management and is financed through employer contributions which increase depending on seniority (base contribution of 3.75% of pensionable salary, increasing by 0.5% for every 5 years of ser-

vice rendered within the Group up to a maximum contribution rate of 5.75%). This plan also includes a "death in service" benefit amounting to twice the pensionable salary. Several pension plans are in place for white collar workers and are financed through fixed employer contributions. In addition, as part of the bonus policy for members of management, a portion of the bonus is awarded via employer contributions to a pension plan scheme.

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

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

### Pension plans: valuation methodology

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

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

### Pension plans: main valuation assumptions

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

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

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

**Note 31. Other payroll and social related payables**

| (€ thousands)                                          | 31 December 2018 | 31 December 2017 |
|--------------------------------------------------------|------------------|------------------|
| <b>Total other payroll and social related payables</b> | <b>36,714</b>    | <b>33,373</b>    |
| Holiday pay                                            | 15,244           | 15,302           |
| Social security taxes                                  | 6,923            | 7,499            |
| Salaries and wages payable                             | 9,145            | 5,430            |
| Early retirement provision                             | 607              | 636              |
| Group insurance                                        | 68               | 586              |
| Withholding taxes                                      | 1,578            | 874              |
| Other                                                  | 3,150            | 3,046            |

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

**Note 32. Provisions for other liabilities and charges**

| (€ thousands)                                                   | Asset retirement obligation | Restructuring | Warranty     | Other     | Total          |
|-----------------------------------------------------------------|-----------------------------|---------------|--------------|-----------|----------------|
| <b>As at 1 January 2018</b>                                     | <b>834</b>                  | <b>7,252</b>  | <b>1,502</b> | <b>64</b> | <b>9,652</b>   |
| Additional provisions made and increases to existing provisions | -                           |               | 12           | -         | <b>12</b>      |
| Exchange differences                                            | 29                          | -             | 81           | -         | <b>110</b>     |
| Amounts used                                                    | -                           | (6,087)       | -            | (64)      | <b>(6,151)</b> |
| <b>At 31 December 2018</b>                                      | <b>863</b>                  | <b>1,165</b>  | <b>1,595</b> | <b>0</b>  | <b>3,623</b>   |
| <b>Analysis of total provisions:</b>                            |                             |               |              |           |                |
| <b>31 December 2018</b>                                         |                             |               |              |           |                |
| Non-current                                                     | 2,458                       |               |              |           |                |
| Current                                                         | 1,165                       |               |              |           |                |
|                                                                 | <b>3,623</b>                |               |              |           |                |

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

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

**Note 33. Trade and other payables**

| (€ thousands)                       | 31 December 2018 | 31 December 2017 |
|-------------------------------------|------------------|------------------|
| <b>Trade and other payables</b>     | <b>123,599</b>   | <b>126,375</b>   |
| Trade payables                      | 90,610           | 88,979           |
| Accrued charges and deferred income | 29,521           | 31,776           |
| Other payables                      | 3,468            | 5,620            |

Trade payables as of 31 December 2018 of €90.6m include the amounts for outstanding invoices (€75.3m, as compared to €71.3m as of 31 December 2017) and invoices to be received in relation to goods and services received during the current period (€15.3m, as compared to €17.6m as of 31 December 2017). The outstanding trade and other payables are in line with last year.

Accrued charges and deferred income mainly relate to:

- deferred revenue relating to the sale and lease back of one of the facilities which is recognised

in profit over the leasing period of the facilities (€10.1m, as compared to €11.5m as of 31 December 2017);

- deferred revenue relating to advance payments on rental agreements (€2.8m, as compared to €3.2m as of 31 December 2017);
- accrued charges for customer discounts (€12.4m as of 31 December 2018 and €14.0m as of 31 December 2017).

**Note 34. Share based payments**

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

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

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

In the context of the IPO, certain managers re-

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

**Note 35. Government grants**

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

The main incentives received comprise of:

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

**Note 36. Earnings per share***Basic and diluted earnings per share*

|                                                                                                            | 31 December 2018 | 31 December 2017 |
|------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Basic and diluted earnings per share</b>                                                                |                  |                  |
| <b>Net result from continuing operations</b>                                                               | <b>7,346</b>     | <b>2,980</b>     |
| 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               | 7,346            | 2,980            |
| Weighted average number of ordinary and diluted shares outstanding (in thousands)                          | 35,943           | 35,943           |
| Net result per share attributable to holders of ordinary and diluted shares (in Euro)                      | 0.20             | 0.08             |

In accordance with IAS 33, the basic earnings per share amounts are calculated by dividing net

profit for the year attributable to ordinary equity holders of the parent by the weighted average



number of ordinary shares outstanding during the year. The earnings per share for the periods prior to the IPO were computed as if the shares issued for the contribution of the Group and upon the IPO were outstanding for all periods presented. The number of shares used for the year 2018 and 2017 was 35,943,396 which is the number of shares issued in connection with the IPO.

|                                                                                                            | 31 December 2018 | 31 December 2017 |
|------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Adjusted earnings per share<sup>1</sup></b>                                                             |                  |                  |
| <b>Net result from continuing operations</b>                                                               | <b>7,346</b>     | <b>2,980</b>     |
| Normalisation adjustments:                                                                                 | 3,230            | 13,844           |
| <b>Adjusted Net Result from continuing operations</b>                                                      | <b>10,576</b>    | <b>16,825</b>    |
| 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               | 10,576           | 16,825           |
| Weighted average number of ordinary and diluted shares outstanding (in thousands)                          | 35,943           | 35,943           |
| Net result per share attributable to holders of ordinary and diluted shares (in Euro)                      | 0.29             | 0.47             |

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

The profit for the period in 2018 includes a €7.7m impact from non-recurring integration and re-structuring expenses (Note 11), partially offset by the tax effect (€1.9m) and the non-recurring tax effect of utilisation of priorly unrecognised fiscal losses (€2.6m) (Note 13). In the absence of such events, the normalised profit for the period would have been €10.6m. Similarly, the profit for the period in 2017 includes a net non-recurring expense of €13.8m (as in Note 3), resulting in a normalised net profit of €16.8m.

The Group or a direct subsidiary or a person, acting in its own name but on behalf of the Company, has not acquired shares of the Company. We refer to Note 11 for more details.

### Note 37. Dividends per share

In light of our investments in the various growth

### Note 39. List of consolidated companies

The subsidiaries and jointly controlled entities of Balta Group nv, the Group's percentage of

|                       | 31 December 2018 |              | 31 December 2017 |              |
|-----------------------|------------------|--------------|------------------|--------------|
|                       | % of interest    | % of control | % of interest    | % of control |
| <b>Belgium</b>        |                  |              |                  |              |
| Balta nv              | 100%             | 100%         | 100%             | 100%         |
| Balta Industries nv   | 100%             | 100%         | 100%             | 100%         |
| Balta Trading Comm. v | 100%             | 100%         | 100%             | 100%         |
| Modulyss nv           | 100%             | 100%         | 100%             | 100%         |

### Adjusted earnings per share

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

and cost saving initiatives resulting from the strategic and operational review, combined with our leverage exceeding 3.0x at year-end, the Board does not propose to pay a dividend for the year. In 2018, a net dividend of €0.08 per share was paid out on the results of 2017.

### Note 38. Commitments

#### Energy

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

#### Capital expenditures

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

interest and the Group's percentage of control of the active companies are presented below.

|                                                      |      |      |      |      |
|------------------------------------------------------|------|------|------|------|
| Balta Oudenaarde nv                                  | 95%  | 100% | 95%  | 100% |
| Balta M bvba (liquidated on 13 December 2017)        | -    | -    | 100% | 100% |
| Balfid bvba                                          | 100% | 100% | 100% | 100% |
| <b>Luxembourg</b>                                    |      |      |      |      |
| LSF9 Balta Issuer S.à r.l.                           | 100% | 100% | 100% | 100% |
| 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% |
| <b>Turkey</b>                                        |      |      |      |      |
| 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% |
| <b>USA</b>                                           |      |      |      |      |
| Balta USA, Inc.                                      | 100% | 100% | 100% | 100% |
| LSF9 Renaissance Holdings LLC                        | 100% | 100% | 100% | 100% |
| LSF9 Renaissance Acquisitions LLC                    | 100% | 100% | 100% | 100% |
| BPS Parent, Inc.                                     | 100% | 100% | 100% | 100% |
| Bentley Prince Street Holdings, Inc.                 | 100% | 100% | 100% | 100% |
| Bentley Mills, Inc.                                  | 100% | 100% | 100% | 100% |
| Prince Street, Inc.                                  | 100% | 100% | 100% | 100% |

### Note 40. 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. Throughout 2018, a contract has been signed with a related party of the main shareholder, the impact on the 2018 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 Board of Directors and the Group's Management Committee, which consists of people having authority and responsibility for planning, directing and controlling the activities of the Group. Key management compensation includes all fixed and variable

remuneration and other benefits which are presented in other expenses and long-term employee benefits which are presented in integration and restructuring.

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

We also refer to the 'Corporate Governance Chapter' earlier in this 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)                     | 31 December 2018 | 31 December 2017 |
|-----------------------------------|------------------|------------------|
| Other payables to related parties | (294)            | (292)            |

The year-end balances mainly arise from current account positions as a result of payments which have been performed on behalf

of Group entities. These current accounts are respectively reflected in “Trade and other re-

ceivables” and in “Trade and other payables”.

#### Note 41. Fees paid to the Group's auditors

| (€ thousands)                                 | 2018       | 2017         |
|-----------------------------------------------|------------|--------------|
| <b>Audit services</b>                         | <b>351</b> | <b>1,350</b> |
| Audit of the Group pursuant to legislation    | 351        | 344          |
| Other audit-related services                  | -          | 1,007        |
| <b>Non-audit services</b>                     | <b>187</b> | <b>394</b>   |
| Tax services                                  | 147        | 184          |
| Other services                                | 40         | 210          |
| <b>Total fees paid to the Group's auditor</b> | <b>538</b> | <b>1,744</b> |

#### Note 42. Events after the reporting period

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

## I.6. Condensed version of Statutory Financial Statements Balta Group nv

The statutory statement of financial position and the statutory statement of comprehensive income for the period ended 31 December 2018 of Balta Group nv are given below in a condensed form.

The accounting principles used for the Statutory Financial Statements of Balta Group nv differ from the accounting principles used for the Consolidated Financial Statements: the Statutory Financial Statements follow the Belgian legal requirements, while the Consolidated Financial Statements follow the International Financial Reporting Standards.

The management report of the Board to the Annual General Meeting of Shareholders and the Statutory Financial Statements of Balta Group nv, as well as the auditor's report, will be filed with the National Bank of Belgium within the statutory periods. These documents are available on the [www.baltagroup.com](http://www.baltagroup.com) and can be requested free of charge.

The statutory auditor's report is unqualified and certifies that the non-Consolidated Financial Statements of Balta Group nv for the year ended 31 December 2018 gives a true and fair view on the financial position and results of the company in accordance with all legal and regulatory dispositions.

| (€ thousands)                       | 2018           | 2017           |
|-------------------------------------|----------------|----------------|
| Fixed assets                        | 468,927        | 468,927        |
| Financial assets                    | 468,927        | 468,927        |
| <b>Total non-current assets</b>     | <b>468,927</b> | <b>468,927</b> |
| Amounts receivable within one year  | 3,204          | 7,879          |
| Cash and cash equivalents           | 4              | 156            |
| <b>Total current assets</b>         | <b>3,208</b>   | <b>8,035</b>   |
| <b>Total assets</b>                 | <b>472,135</b> | <b>476,962</b> |
| Share capital                       | 260,590        | 260,590        |
| Share premium                       | 65,660         | 65,660         |
| Other reserves                      | 147,125        | 147,125        |
| Retained earnings                   | (2,138)        | (2,363)        |
| <b>Total equity</b>                 | <b>471,237</b> | <b>471,012</b> |
| Trade and other payables            | 898            | 5,950          |
| <b>Total current liabilities</b>    | <b>898</b>     | <b>5,950</b>   |
| <b>Total equity and liabilities</b> | <b>472,135</b> | <b>476,962</b> |

| (€ thousands)                         | Period ended<br>31 December 2018 | Period ended<br>31 December 2017 |
|---------------------------------------|----------------------------------|----------------------------------|
| Other income                          | 3,634                            | 9,831                            |
| Other expenses                        | (3,409)                          | (12,191)                         |
| <b>Operating profit / (loss)</b>      | <b>225</b>                       | <b>(2,360)</b>                   |
| Finance income                        | 8                                | -                                |
| Finance expenses                      | (7)                              | (3)                              |
| <b>Profit / (loss) for the period</b> | <b>225</b>                       | <b>(2,363)</b>                   |



## 1.7. Audit report

Balta Group nv

Statutory auditor's report to the general shareholders' meeting on the consolidated accounts for the year ended 31 December 2018

25 april 2019

### STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF THE COMPANY BALTA GROUP NV ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2018

We present to you our statutory auditor's report in the context of our statutory audit of the consolidated accounts of Balta Group NV (the "Company") and its subsidiaries (jointly "the Group"). This report includes our report on the consolidated accounts, as well as the other legal and regulatory requirements. This forms part of an integrated whole and is indivisible.

We have been appointed as statutory auditor by the general meeting of 1 March 2017, following the proposal formulated by the Board of Directors and following the recommendation by the audit committee. Our mandate will expire on the date of the general shareholders' meeting which will deliberate on the annual accounts for the year ended 31 December 2019. We have performed the statutory audit of the consolidated accounts of Balta Group nv for 2 consecutive years.

### Report on the consolidated accounts

#### Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which

is characterised by a consolidated statement of financial position total of EUR (000) 755,681 and a profit for the year (Group share) of EUR (000) 7,346.

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and with the legal and regulatory requirements applicable in Belgium.

#### Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Belgium. Furthermore, we have applied the International Standards on Auditing (ISAs) as approved by the IAASB for the years ending as from 31 December 2018, which are not yet approved at the national level. Our responsibilities under those standards are further described in the "Statutory auditor's responsibilities for the audit of the consolidated accounts" section of our report. We have fulfilled our ethical responsibilities in accordance with the ethical requirements that are relevant to our audit of the consolidated accounts in Belgium, including the requirements related to independence.

We have obtained from the board of directors and Company officials the explanations and information necessary for performing our audit.

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of our audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Uncertain tax positions

##### Description of the key audit matter

Income tax was of most significance to our audit because the assessment process is complex and the amounts involved are material to the financial statements as a whole. The company went through several capital market transactions over the last years and has operations in different tax and legal jurisdictions where transfer pricing assessments can be challenged by the tax authorities. The accounting for the tax positions comprise significant judgement by the company mainly in the area of the recognition and measurement of uncertain tax positions and deferred taxes. Referring to Note 2, management performed a detailed assessment for uncertain tax positions which resulted in provisions recorded for these uncertainties.

##### How our audit addressed the key audit matter

We have tested the completeness and accuracy of the amounts reported for current and deferred taxes, including the assessment of the uncertain tax positions and deferred taxes, based on the developments in 2018. In addition we have evaluated the tax opinions of the companies' experts on the respective cases. We also involved our local subsidiaries' auditors as well as tax specialists in those subsidiaries determined to be the regions with significant tax risks. In respect of deferred tax assets, we analysed and tested the companies'

assumptions used to determine the probability that deferred tax assets will be recoverable. During our procedures, we use amongst others budgets, forecasts and tax laws.

#### Our findings

We found the Companies' judgements in respect of the Group's position on uncertain tax items to be consistent and in line with our expectations.

#### Valuation of goodwill and other (in)tangible fixed assets

##### Description of the key audit matter

Balta carries a significant amount of goodwill, amounting to EUR (000) 194,643 and detailed in Note 7, and other (in)tangible fixed assets on the consolidated statement of financial position. Under IFRS, the Company is required to test the amount of goodwill for impairment at least annually. The impairment tests were significant to our audit due to the complexity of the assessment process and judgments and assumptions involved which are affected by expected future market and economic developments. The most important assumptions concern the growth rates of revenue and anticipated profit improvements.

##### How our audit addressed the key audit matter

We challenged the cash flow projections used in the impairment tests and the process through which they were prepared. For our audit we furthermore critically assessed and tested the assumptions, methodologies, the weighted average cost of capital and other data used, for example by comparing them to external and historical data, such as external market growth expectations and by analysing sensitivities in Balta's valuation model. We have assessed the historical accuracy of management's estimates and evaluation of business plans by comparing the prior year's forecast with the company's actual performance. We included valuation

specialists in our team to assist us with these procedures. We specifically focused on the sensitivity in the headroom for the cash generating units, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We discussed the likelihood of such change with management. We also assessed the adequacy of the disclosures (Note 7) in the financial statements.

### Our findings

From our sensitivity analysis, we found the likelihood of changes resulting in impairment losses to be low.

### Customer discounts

#### Description of the key audit matter

We focused on volume discounts and other rebates because those areas are subject to judgmental estimates and assessments and are material. Normal incentives related to sales are reported as deduction of company's revenue. Balta applies different incentive programs to increase the sales. Incentives can for example be structured as a percentage on sales with certain thresholds to be realized, also including commercial negotiations at the end of a period. Balta calculates an estimate of final incentives based on the information available at the end of the period. The accrued discounts to customers as of 31 December 2018 amounts to EUR 12.4 million as disclosed in Note 33.

#### How our audit addressed the key audit matter

In our audit we have verified the company's revenue recognition with a focus on such discounts. We have evaluated the company's revenue process and tested the company's controls within the process. We have also audited the accrued discounts to customers as of 31 December 2018. We have agreed the amounts to underlying

customer agreements, recalculated the accrual and performed a retrospective analysis of the accruals per 31 December 2017. Our audit has also included review of credit notes and other adjustments to trade receivables after 31 December 2018. Finally we have audited manual journal entries related to discounts in order to confirm that sufficient documentation and suitable attestations exist for these entries.

### Our findings

Our work did not identify findings that are significant for the financial statements as a whole.

### Responsibilities of the Board of Directors for the preparation of the consolidated accounts

The Board of Directors is responsible for the preparation of consolidated accounts that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the Board of Directors 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 Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### Statutory auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts

as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 ISAs 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 accounts.

In performing our audit, we comply with the legal, regulatory and normative framework applicable to the audit of the consolidated accounts in Belgium.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated accounts, 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 Directors.

- Conclude on the appropriateness of the Board of Directors' 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 statutory auditor's report to the related disclosures in the consolidated accounts 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 statutory auditor's 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 accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or 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 the audit committee regarding, among other matters, the planned scope and timing of the audit and significant



audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Other legal and regulatory requirements

### Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and the content of the directors' report on the consolidated accounts.

### Statutory auditor's responsibilities

In the context of our mandate and in accordance with the Belgian standard (revised in 2018) which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report on the consolidated accounts and to report on these matters.

### Aspects related to the directors' report on the consolidated accounts

In our opinion, after having performed specific procedures in relation to the directors' report on the consolidated accounts, this report is consistent with the consolidated accounts for the year under audit, and it is prepared in accordance with article 119 of the Companies' Code.

In the context of our audit of the consolidated accounts, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors' report is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you.

The non-financial information required by virtue of article 119, §2 of the Companies' Code is included in the directors' report on the consolidated accounts. The Company has prepared the non-financial information, based on seventeen sustainable development goals. However, in accordance with article 148, §1, 5° of the Companies' Code, we do not express an opinion as to whether the non-financial information has been prepared in accordance with the seventeen sustainable development goals as disclosed in the consolidated accounts.

### Statement related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the consolidated accounts, and our registered audit firm remained independent of the Group in the course of our mandate.
- The fees for additional services which are compatible with the statutory audit of the consolidated accounts referred to in article 134 of the Companies' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

### Other statements

- This report is consistent with the additional report to the audit committee referred to article 526 bis §6, 4° of the Companies' Code referring to article 11 of the Regulation (EU) N° 537/2014.

Gent, 25 April 2019

The statutory auditor  
PwC Bedrijfsrevisoren cvba /  
Reviseurs d'Entreprises scrl  
Represented by

Peter Opsomer  
Registered Auditor

## I.8. Statement of the Board

We, the Board, hereby certify that, to the best of our knowledge, the Consolidated Financial Statements as of 31 December 2018, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and with the legal requirements applicable in Belgium, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole, and that the management report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

# GLOSSARY

## Alternative Performance Measures

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

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

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

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

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

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

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

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

**Leverage** is defined as the ratio of Net Debt to Adjusted EBITDA.

# INVESTOR RELATIONS

## OVERVIEW

Our aim is to provide transparent, clear and timely information on Balta’s strategy, business and financial performance to all financial market players.

Since the IPO we have met with investors in roadshows and conferences in several locations across Europe and have hosted a number of site visits both to our head office and production facilities in Belgium and to our US subsidiary, Bentley.

## SHAREHOLDER STRUCTURE

The shareholder structure of Balta Group nv, based on the declarations received in the period up to 31 December 2018, is as follows:

| Shareholder                | Number of Shares | % <sup>1</sup> |
|----------------------------|------------------|----------------|
| LSF9 Balta Holdco S.à r.l. | 19,856,416       | 55.2%          |

<sup>1</sup> at the time of the declaration

## FINANCIAL CALENDAR<sup>2</sup>

2018 Full year Results: **5 March 2019**

First Quarter Results: **3 May 2019**

Annual General Meeting of Shareholders: **28 May 2019**

Half Year Results: **28 August 2019**

Third Quarter Results: **7 November 2019**

<sup>2</sup> dates are provisional

## SHARE PERFORMANCE

Balta shares are listed on Euronext Brussels. The calendar year ended with a share price of €3.32, 62% below the share price of €8.70 at the end of 2017.

## ANALYST COVERAGE

Balta was covered by 4 analysts as of 31 December 2018. Details are available in the Investor Relations section of our corporate website ([www.baltainvestors.com](http://www.baltainvestors.com)).

## INVESTOR CONTACT

Bram Decroix

Corporate Finance Manager

[investor.relations@baltagroup.com](mailto:investor.relations@baltagroup.com)

## PRESS CONTACT

Geert Vanden Bossche

Marketing Director

[geert.vandenbossche@baltagroup.com](mailto:geert.vandenbossche@baltagroup.com)

## GENERAL COUNSEL

Annelies Willemyns

[annelies.willemyns@baltagroup.com](mailto:annelies.willemyns@baltagroup.com)







Indoor & Outdoor Rugs



Commercial carpets & tiles



Residential carpets & tiles



**Balta Group nv**

Wakkensteenweg 2,  
8710 Sint-Baafs-Vijve  
Belgium

Tel +32 (0)56 62 22 11  
[info@baltagroup.com](mailto:info@baltagroup.com)  
[www.baltagroup.com](http://www.baltagroup.com)