

LSF9 Balta Issuer S.à r.l.

2019

ANNUAL report

Senior Secured Notes
due 2022

Annual Report
ended 31 December, 2019



LSF9 Balta Issuer S.à r.l.

Registered office:

15, Boulevard Friedrich Wilhelm Raiffeisen,
L-2411 Luxembourg

R.C.S. Luxembourg: B 198084

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Balta is a leading producer of textile floor coverings. With a consolidated revenue of €671m and 3.926 employees, its products are manufactured in 9 locations and sold to 126 countries globally.

THE GROUP at a glance

REPORTING SEGMENTS

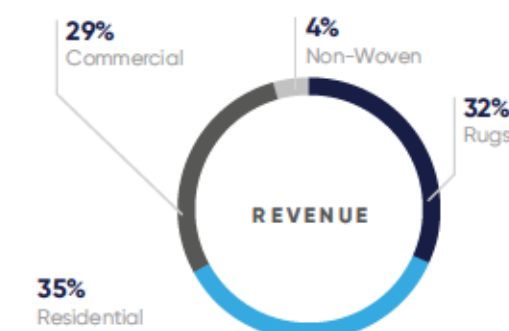


Balta has four reporting segments:

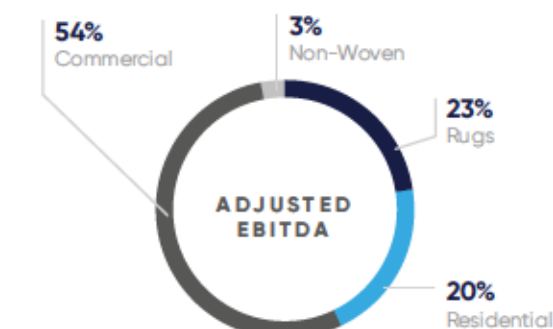
- **Rugs:** woven and tufted area rugs, under the Balta home brand.
- **Residential:** wall-to-wall carpet and carpet tiles for private use, through the brands Balta carpets, ITC and Balta carpet tiles.
- **Commercial:** wall-to-wall carpet and carpet tiles for commercial use under the brands arc edition, 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 2019
per reporting segment



Adjusted EBITDA 2019
per reporting segment





RUGS

Balta home

Segment position¹: 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 and Waregem) and two in Turkey (Uşak).

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

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

Brands: Line A®, Berclon®, Papilio®

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

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

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

¹ Management estimate

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.

We acquired the handmade and natural rugs collection of the Papilio® brand. Internationally known for its innovative, stylish design rugs, we are building Papilio® as 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 handcrafted in different countries around the world such as India and China.

RESIDENTIAL

Balta carpets and ITC

Segment position¹: Leader in Europe with top positions in the UK (Balta carpets), Germany and Central Eastern Europe (ITC).

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

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

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

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

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

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

Websites: www.balta-carpets.com and www.itccarpets.com

Balta carpets is the European leader in the production of tufted and woven polypropylene broadloom carpet. The European market is predominantly renovation-driven and to a lesser extent driven by new-build. The key market is the United Kingdom, 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.

Balta carpet tiles

Production plant and 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 being easy to handle, fit and replace. Unique laying patterns and exciting combinations are also made possible through these carpet tiles.

COMMERCIAL

Modulyss

Segment position: N° 3 in Europe.

Production plant and distribution centre: Zele in Belgium.

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

Brands: Modulyss®, LCT Pro®

Website: www.modulyss.com

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

Bentley

Segment position: a leader in the premium US commercial segment.

Production plant and distribution centre: Los Angeles in the USA.

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

Brand: Bentley®

Website: www.bentleymills.com

2019 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.

For more than 30 years, the Bentley identity – style, service, quality and partnership – has been the driving force behind Bentley. 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 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 collaboration in development between these two elite brands.

arc edition

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

Production plant and distribution centre: Tielt in Belgium.

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

Brand: arc edition®

Website: www.arcedition.com

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

NON-WOVEN

Captiqs

Segment position: European mid-level player.

Production plant and distribution centre: Oudenaarde in Belgium.

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

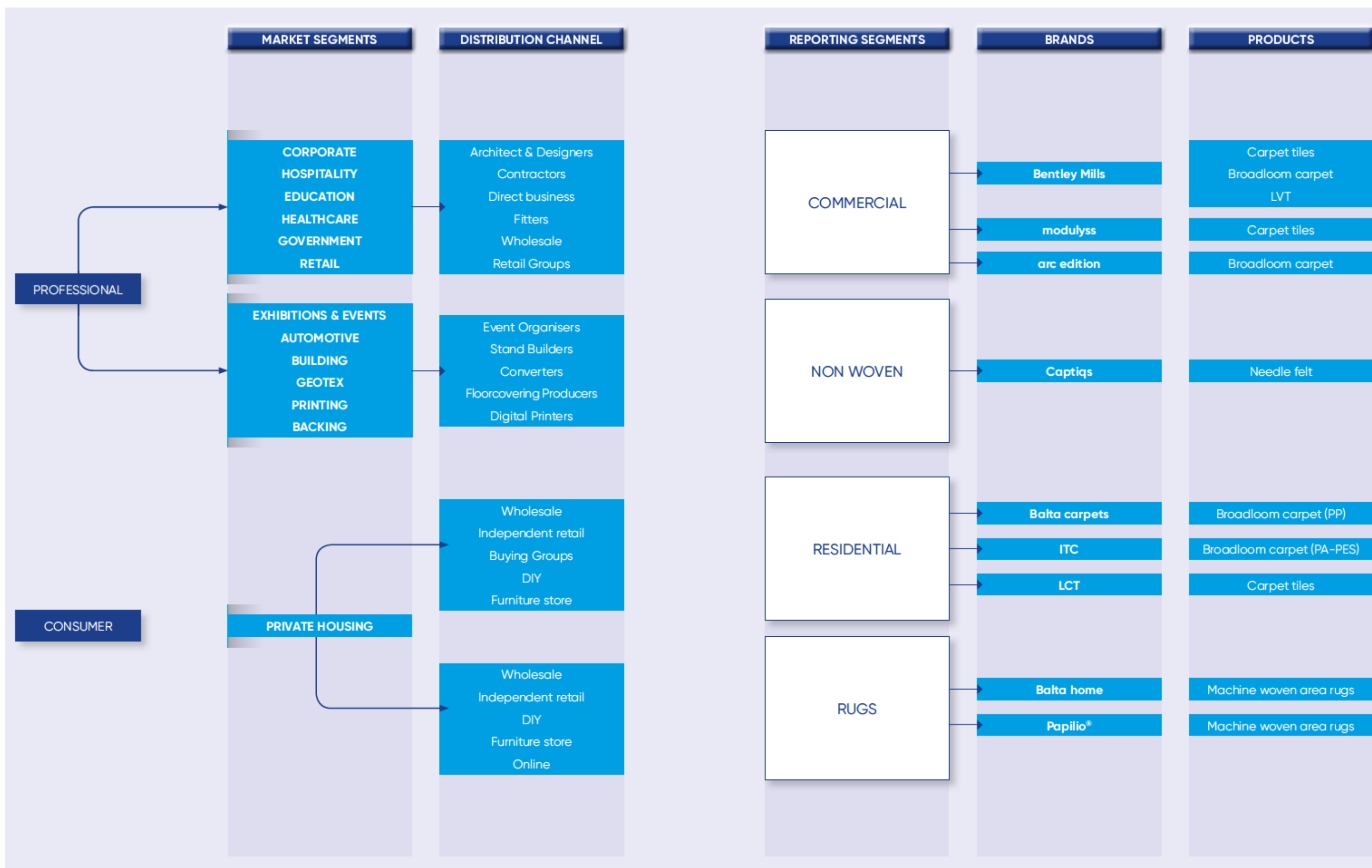
Brand: Captiqs®

Website: www.captiqs.com

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

Our flooring solutions





3,926

Total number of employees (31 December 2019)

47

Number of nationalities



114

Countries we sell into



1,003,100 m²

Total manufacturing footprint = 200 football pitches



€671m

Revenue 2019



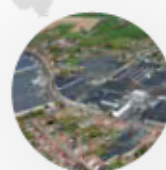
USA
SAVANNAH, GA



USA
LOS ANGELES, CA



USA
ROME, GA



BELGIUM
SINT-BAAFS-VIJVE
(head office)



AVELGEM



OUDENAARDE



TIELT



WAREGEM



ZELE



TURKEY
UŞAK



61,150

Solar panels on 5 factory roofs in Belgium

33.7 ha
Factory roof

67
Football pitches



12.6 million kWh per year

The electricity consumption of 4,600 Belgian families



-5.05 million kg

CO₂ per year

SECTION I: Management Report

We are pleased to report to you on the consolidated operations of LSF9 Balta Issuer S.à r.l. ("The company" or "Balta Issuer" or "Balta") and its subsidiaries ("the Group") with respect to the period ended on 31 December 2019.

I.1. HISTORY OF THE COMPANY

LSF9 Balta Issuer S.à r.l. ("The Company") is a private limited liability company (société à responsabilité limitée) incorporated on June 22 2015 under the laws of Luxembourg as a public limited liability company (société anonyme). The Company has its Registered Office in 15, Boulevard Friedrich Wilhelm Raiffeisen, L-1882 Luxembourg and is registered in the R.C.S. Luxembourg with number B198084. The Company was established for the principal purpose of holding and financing the Balta Group.

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

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

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

and non-woven fabrics for the European and international markets.

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

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

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

I. 2. HIGHLIGHTS AND KEY FIGURES

Balta Issuer delivered full year 2019 consolidated revenue of €671.2m, up 3.9% versus 2018 and Consolidated Adjusted EBITDA of €74.3m, down 5.7% year on year on a like-for-like basis¹. Consolidated Adjusted EBITDA margin of 11.1% was down from 12.2% the year before on a like-for-like basis¹, reflecting the lower margin in our Rugs division, partly the result of negative one-offs, which were not fully offset by the solid Adjusted EBITDA growth in Commercial and Residential.

¹ Excluding impact of IFRS 16

(€ million)	2019	2018	Difference
Revenue	671,2	646,2	25,0
Adjusted EBITDA ¹	74,3	72,1	2,2
Adjusted EBITDA Margin	11,1%	11,2%	(13) bps
Adjusted Operating profit ²	34,7	39,7	(5,0)
Operating profit / (loss)	28,0	32,0	(4,0)
Profit / loss for the period	10,4	7,2	3,2

¹ Non-GAAP measures as defined in Note 1.25

² Adjusted (Operation) profit / (loss): Reported figures excluding integration and restructuring expenses.

The net result for the period in 2019 includes a net €3.9m impact from non-recurring items, comprised of the recognition of previously unrecognized tax losses, offset by the net of tax integration and restructuring expenses of €6.6m. In the absence of such events, the normalized profit for the period would have been €6.5m. Similarly, the profit for the period in 2018 includes a net non-recurring benefit of €6.3m resulting in a normalized net profit of €10.4m.

Reported Net Debt at the end of 2019 of €313.7m includes a €44.7m IFRS16 impact. The reported figure in 2018 was €261.9m without IFRS16 and is not comparable. Leverage has increased from 3.6x at the end of 2018 to 4.0x on a like-for-like basis¹, mainly as the result of the lower Adjusted EBITDA. Our Net Debt (before impact IFRS16) increase of €7.1m is full explained by the non-recurring NEXT advisory fees and capex related to NEXT. Furthermore, we want to stress that Note 25 includes IFRS16 impact.

(€ million)	December 31, 2019			December 31, 2018		
	Non-current	Current	Total	Non-current	Current	Total
Senior Secured Notes	232,0	3,4	235,4	230,1	3,4	233,5
Senior Term Loan Facility	-	34,9	34,9	34,9	(0,1)	34,8
Bank and other borrowings	11,6	1,3	13,0	12,2	1,3	13,5
Less: Cash and Cash equivalents	-	(19,2)	(19,2)	-	(24,9)	(24,9)
Adjusted for capitalized financing fees	2,9	2,0	4,9	4,9	2,1	7,0
Net Debt (excl. IFRS16 impact)	246,5	22,5	269,0	282,1	(20,2)	261,9
Adjusted EBITDA (excl. IFRS16)			66,8			72,1
Leverage			4,0x			3,6x
			0			0
IFRS 16 impact	37,3	7,4	44,7			0
Reported Net Debt	283,9	29,8	313,7	282,1	(20,2)	261,9

I. 3. BUSINESS REVIEW

(€ million, unless otherwise mentioned)	FY 2018	LfI IFRS16 Impact	LfI FY 2018	FY 2019	% Change LfI ¹	o/w organic growth	o/w FX	o/w IFRS 16
Rugs	198.3		198.3	213.0	7.4%			
Commercial	214.8		214.8	235.6	9.7%			
Residential	206.3		206.3	194.4	(5.8)%			
Non-Woven	26.7		26.7	28.1	5.2%			
Consolidated Revenue	646.2		646.2	671.2	3.9%	2.6%	1.3%	
Rugs	279	1.1	290	16.8	(42.2)%			4.0%
Commercial	30.6	5.0	35.6	40.4	13.7%			16.3%
Residential	11.2	0.4	11.8	15.0	275%			3.2%
Non-Woven	2.4	0.0	2.4	2.1	(13.4)%			0.4%
Consolidated Adjusted EBITDA	72.1	6.5	78.8	74.3	(5.7)%	(7.4)%	1.8%	8.9%
Rugs	14.1%		14.6%	79%				
Commercial	14.2%		16.6%	17.2%				
Residential	5.4%		5.7%	7.7%				
Non-Woven	89%		8.9%	7.3%				
Consolidated Adjusted EBITDA Margin	11.2%		12.2%	11.1%				

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

Rugs

In Rugs, full year Revenue of €213.0m was up 7.4% year on year. From a regional perspective, Europe showed double-digit growth, with North America broadly flat and Rest of World below prior year.

In North America, 2018 Revenue had been impacted by the loss in "share of wallet" with two home improvement customers. For the 2019 outdoor season, we regained part of that loss and were able to secure stable share for the 2020 programs. In 2019, we made progress with our US e-commerce business and started shipping from our dedicated state-of-the-art warehouse in Savannah, US. North American sales through the e-commerce channel remained below our initial expectations as we encountered a few operational challenges with the ramp up. In Europe, after a difficult 2018 for retailers in general, our sales across our key European markets grew significantly in 2019.

Full year Adjusted EBITDA declined from €29.0m to €16.8m on a like-for-like basis with an Adjusted EBITDA margin of 7.9%, down from 14.6%. Against the backdrop of higher raw material costs and a competitive trading environment, the lower Adjusted EBITDA included investments in NEXT

initiatives as well as several negative one-offs, such as temporarily higher production costs in H1 2019 due to exceptionally high plant occupancy and exceptional sales discounts in relation to issues with packaging in US e-commerce.

In the fourth quarter, Revenue in Rugs was 8.2% below Q4 2018, as our key US customers pushed the first shipments for next season's US outdoor programs into 2020 and the ramp up of e-commerce sales remained below our initial expectations. In Europe, Revenue grew mid-single digit versus Q4 2018. Fourth quarter Adjusted EBITDA margin of 10.1%, though higher than the full year 2019 average, was down from 18.2% in Q4 2018 on a like-for-like basis². The timing of the US outdoor roll-outs and lower than expected e-commerce sales, in comparison to the cost of the infrastructure already in place in anticipation of future growth in the e-commerce channel, weighed on our Rugs margin.

Commercial

The Commercial division realized full year Revenue growth of 9.7%, posting full year Revenue of €235.6m. In US, our business realized double-digit growth, as we have continued to take share through our investments in sales resources and focus on new segments outside offices. As a result, Revenue

for the US business is now more than 40% higher than when we acquired the business and has improved margins. In Europe, Revenue declined in a competitive market where volume loss was only partly offset by mix and price improvements as we continued to focus on growing our direct route to market with Architects and Designers.

Full year Adjusted EBITDA increased by 13.7% to €40.4m on a like-for-like basis². Adjusted EBITDA margin further improved year on year to 17.2% versus 16.6% in 2018 on a like-for-like basis², in spite of investments into growth initiatives, as a result of price increases, focus on product mix and the first impacts from cost saving initiatives.

In the fourth quarter, Commercial Revenue grew 4.1% driven by the double-digit growth of our US business. Fourth quarter Adjusted EBITDA margin was 17.6% vs. 16.9% in Q4 2018 on a like-for-like basis¹.

Residential

Residential's full year Revenue reduced by 5.8% to €194.4m. The performance reflected both our focus on higher margin collections and the challenging trading environment across our key

markets both in the UK and Continental Europe. While our overall top-line declined, sales of higher margin broadloom products grew mid-single digits in 2019. Higher margin products now represent 37% of Residential sales versus 33% in 2018 and 7% four years ago.

Full year Adjusted EBITDA of €15.0m was up from €11.8m on a like-for-like basis² versus the prior year. Residential Adjusted EBITDA margin of 7.7% improved from 5.7% on a like-for-like basis² driven by our continued focus on growing our share of higher margin products, price increases in Continental Europe and our efforts to increase cost competitiveness. Adjusted EBITDA included a net benefit of €2.0m from the release of accruals in H1 and an additional one-off of €0.6m in Q4.

Fourth quarter Revenue saw a decline of 13.7%, mainly driven by lower sales in the UK, as the pre-Brexit stocking by some of our customers in Q3 reversed in Q4. Despite the lower sales, our fourth quarter Adjusted EBITDA margin of 7.8% was up from the 5.2% realised in Q4 2018 on a like-for-like basis¹, driven by the aforementioned price increases in Continental Europe and our focus on high margin products and cost reductions.

I. 4. FINANCIAL REVIEW

(€ thousands)	2019 Reported	2018 Reported
Revenue	671,151	646,197
Raw material expenses	(317,005)	(306,640)
Changes in inventories	(278)	5,826
Employee benefit expenses	(167,286)	(197,099)
Other income	3,970	3,350
Other expenses	(116,270)	(117,501)
Adjusted EBITDA²	74,282	72,134
Depreciation/amortization	(39,602)	(32,430)
Adjusted Operating Profit²	34,680	39,704
Gains on asset disposals	-	-
Integration and restructuring expenses	(6,641)	(7,699)
Operating profit / (loss)	28,039	32,004
Finance income	205	51
Finance expenses	(25,357)	(25,881)
Net finance expenses	(25,152)	(25,830)
Profit / (loss) before income taxes	2,888	6,174
Income tax benefit / (expense)	7,472	996
Profit / (loss) for the period from continuing operations	10,360	7,171

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

² Adjusted Operating Profit and Adjusted EBITDA are non-GAAP measures as defined in Note 1.25.

Non-Recurring Items

Several non-recurring items had a material impact on our 2019 net income. The impact of these events amounts to a net expense of €6.6m, as compared to €7.7m in 2018. The expense in the current year is mainly driven by advisory fees related to the NEXT program.

Net Financing Costs

The net finance expense amounted to €25.2m, primarily the interest expense on external borrowings. Compared to prior year, the net financing cost decreased as a result of favorable foreign exchange rate differences on intercompany transactions, offset by increased financing expenses as a result of applying IFRS 16.

Taxation

The Group reported income tax income for the year of €7.4m based on profit before tax for the year of €2.9m. The tax income is mainly driven by the recognition of previously unrecognized tax losses as a result of the alignment of the intercompany financing to the enacted tax legislation.

Financial risk management

The Group is exposed to a variety of financial risks, including market risk (mainly foreign exchange rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial and commodity markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group's financial risk management is described in Note 27 of the Consolidated Financial Statements.

I. 5. OTHER REVIEW

Company's likely future development

Strategic priorities

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

- **NEXT:¹**
Our two key growth drivers in the e-commerce channel and a Direct Route-to-Market

approach to Architects and Developers in Commercial Tiles will help us to deliver annual sales from these initiatives of €85m by 2021 versus 2019:

- After overcoming initial pain points in the supply chain process in 2019, we now have a fully operational e-commerce fulfillment center for Rugs in the US and are expecting solid growth in 2020-21
- Our Direct Route-to-Market initiative in Commercial Tiles focuses on high-growth segments (multi-family, education, Government) which already represents 35% of our US sales. This contributed strongly to our top-line performance in 2019 (+€10m) and will represent significant additional sales over the next few years

Three key levers to improve our margins are Lean, Supply Chain and Procurement:

- The Lean program has been rolled out across all our plants, generating a margin improvement of €6m in 2019. We are expecting an additional €7m benefit in 2020 from the Lean program
- In our Supply Chain we were able to reduce our Rugs inventory relative to sales by up to 12% in 2019. On-going complexity reduction has helped us to reduce the number of SKUs (most individualized stock keeping unit with single dimension and quality) in Residential by 10% in 2019 and the approach will be extended to all product lines
- In Procurement, we were able to deliver €4m savings in 2019 and expect another €3m in 2020
- **Environmental, Social and corporate Governance (ESG):**
 - Sustainable and recyclable products are increasingly a key enabler for success with customers. We appointed a Head of Innovation and Sustainability in October 2019, who reports directly to the Executive Committee
 - Our 'Design to Recycle' objective drives the entire product development pipeline. Successful development of mono-polymer polypropylene and polyester rugs with certified recycled content was presented at

Domotex 2020

- Clear objectives for emissions and waste (a 30% reduction in carbon dioxide emission and water consumption versus 2018, all waste fully recycled) have been defined with a quarterly review at the Executive Committee to track and accelerate progress
- Good progress has been made in the last two years on safety awareness at the workplace with the launch of our "5 Golden Safety Rules". Our goal is for zero harm and a mid-term objective to reduce our "Lost-Time" injury rate below 1
- **Digital Transformation:**
Digital transformation encompasses all our product lines and processes, from production, to supply chain, planning and sales.
 - Our Chief Transformation Officer, a member of the Executive Committee, is also appointed as Head of Digital Transformation across the Group
 - In our Commercial business we developed several digital initiatives to enhance the experience of the Architect and Design community, who have high service expectations and need real-time creative solutions such as on-line sample ordering and visualization tools
 - Digital Transformation also includes connecting plants, processes and people. It is a key element of several modules of our Lean Program (maintenance for example).

Environmental and personnel matters

In 2019, the Group employed an average of 3,915 employees (expressed in full-time equivalents) compared to 3,696 employees per 2018. All efforts are undertaken to ensure that all health and safety measures are in compliance with legal requirement, that appropriate training and career development opportunities are identified and that consultation with employees or their representatives continues at all levels when decisions are taken that are likely to affect employee's interest.

Research and development

One of the competitive advantages of our business is our long history of creativity and innovation. We aim to leverage our research and development to continually optimize our production capacity and provide designs that appeal to our customers. We closely monitor trends in product design and innovation through continuous testing and analysis, with a focus on anticipating our customers' preferences and market developments. The Group incurred €8.7m of research and development expenses during the 12 months ended in December 31 2019 compared to the €7.20m of research and development expenses during the 12 months ended in December 31 2018 which are included in the income statement as other expenses.

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

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

Events after reporting date

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

Balta has prepaid all amounts outstanding under the €35m Senior Term Loan facility maturing September 2020.

¹ We refer to the Glossary in Note 1.25 to find the NEXT Key Assumptions and NEXT Impacts

COVID 19 statement

The outbreak of COVID-19 has significantly impacted the Group. We are considering the impact on the financial statements of 2020, and took the necessary measures to preserve the future of the Group. Based on the currently available information and forecasts, although visibility remains limited as the pandemic is still progressing, the Group currently believes that it will be able to meet its liabilities and commitments as they fall due across the applicable forecast period and has determined that the going concern basis remains the appropriate basis of preparation for its financial statements.

Discharge

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

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). These Group Consolidated Financial Statements were authorized for issue by the Board of Managers on April 27 2020. The amounts in this document are presented in thousands of Euro, unless otherwise stated. Rounding adjustments have been made in calculating some of the financial information included in this Financial Statements.

Board of Managers

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

Cyrille Ragoucy

Manager

Start of mandate: August 26 2018

Jan-Christian Werner

Manager

Start of mandate: September 11 2019

Jean-Philippe Kuhn

Manager

Start of mandate: June 16 2017

Sara Speed

Manager

Start of mandate: October 31 2017

Statutory auditors

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

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 identified¹. 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 16.9% of our 2019 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 depend 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 114 countries, we are exposed to geopolitical risk on both the demand and supply side.

As the UK represents 16.4% of our total revenues, mainly related to our Residential business, the Group is exposed to the outcome of the UK's exit from the European Union (Brexit). Management assessed all potential scenarios and has made preparations with regard to logistical flows through local stock keeping and an in depth assessment of the Brexit-readiness of our logistical partners. The Group continues to translate the impact of potential outcomes into practical measures.

In 2019 Balta received an official AEO (Authorised Economic Operator) certificate from the Belgian Customs administration for all the Belgian production sites of both Balta Industries NV and modulyss NV. This AEO certificate will allow the Group to facilitate exports to non-EU countries, with less controls and holds at borders, securing a continuation of our premium delivery service to customers worldwide. The AEO certificate can, in the long term, also help the Group deal with post Brexit export formalities to the UK.

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.

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

¹The order in which the risks are listed is not an indication of the potential impact nor the probability of occurrence

Legal and 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 and 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. We have longstanding relationships with our key suppliers.

In 2019, raw materials expenses represented 47.2% 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 material price indexation mechanisms.

Reference is made to commodity price risk, as described under note 27 of the section financial risk management in the Financial Statements.

Production and logistics

The ability to produce and deliver products

on time is key to 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 administration). 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 increasing cybercrime-related incidents, which require us to maintain adequate cyber security. 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 currencies versus the Euro for countries where our competitors manufacture or source raw materials, such as Turkey or Egypt, may have an impact on our competitiveness.

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

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

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

Our external financing agreements include obligations, restrictions and covenants, which may have an adverse effect on our business, financial situation and results of operations if we are unable to meet these. More detail can be found in note 27 of the section financial risk management in the Financial Statements.

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

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

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

NEXT

As a result of the strategic and operational review, As a result of the strategic and operational review, we launched the transformational program NEXT, designed to deliver a significant improvement in earnings over a three year period. The key initiatives focus on delivering sustainable growth, improving commercial excellence and increasing cost competitiveness through Lean initiatives and procurement savings. Anticipated improvements in earnings may be delayed or fall below our expectations.

Sustainability

The expectations on corporate responsibility, including recyclability of products and in general greener footprints, is increasing. Consequently,

it has become essential to develop a solid sustainability roadmap with clear milestones and quantified targets, as launched by Balta in 2019. Even with such a roadmap, several risks can be identified, for example:

- A negative perception of our products by our customers
- A negative perception of our activity and our production processes by our stakeholders (shareholders or local communities)
- A competitive gap with competitors or with other flooring solutions

COVID-19 statement

In response to the outbreak of the novel coronavirus (COVID-19), which first appeared in China in December 2019 and has since early 2020 been declared a pandemic and spread to every region of the world, governments globally and in the markets in which we operate have implemented strict social distancing measures, including varying degrees of lockdowns and the closure of non-essential businesses, including the businesses of a number of our customers. These measures have resulted in a significant disruption of daily life, and in a significant deterioration of global, regional and national macroeconomic conditions, with each of the markets in which we operate now expected to see negative economic growth for the year. Since the pandemic is an event of 2020, it is a subsequent event of the 2019 closing and has no impact on the 2019 financial statements.

To protect the health and safety of our workforce and customers and to mitigate the effect of COVID-19 on our operations, we have formed an internal COVID-19 taskforce which participates in daily calls and coordinates our response to the situation across the Balta group. In addition, we have implemented a number of measures to reduce our operating costs and manage our cash flows, including the temporary closure of plants as well as a reduction of employee costs, procurement costs and capital expenditures.

Following a strong start to the year, which saw an almost 16% increase in EBITDA in the two

months ended 29 February 2020 compared to the same period in 2019, revenues decreased by more than 29% during March 2020 compared to the same period in 2019, mainly as a result of a decrease in orders from customers.

As a result of this reduced demand for our products and to reduce costs and preserve cash, we have temporarily shut down 6 of our 8 plants, which we estimate has reduced our operating costs by approximately 37% in April. Other than these voluntary closures, our plants are fully operational and have not yet been ordered to close by any government or other authority. Additionally, we have put our product launches on hold and we have reviewed all purchases of raw materials and are in negotiations with our suppliers to delay or, where possible cancel, our raw material orders. We estimate that these measures will result in a further reduction of our operating costs by 12% in Q2.

To reduce our employee costs, we have accessed available government unemployment support programmes in Belgium, UK, France and Germany for the vast majority of our workforce in those countries. Additionally, we have implemented a hiring freeze across the entire Balta group, postponed our annual merit-based salary reviews and reduced the monthly compensation of our CEO and the members of our Management Committee and group-wide leadership team by 50%, 40% and 30%, respectively. Our paid directors have also agreed to reduce their director fees by 50%. We believe that these measures will allow us to reduce employee costs by up to 25%. The reduced compensations will not be recaptured.

The current crisis has and will continue to impact our working capital. We are closely monitoring our daily cash flows. To further protect our liquidity position, we have also significantly reduced our marketing costs as well as samples and other capital expenditures by approximately €20m, which we believe is the minimum amount necessary to continue operating our business. Additionally, we are closely monitoring our

accounts receivable and accounts payable to manage our cash outflows. As a precautionary measure, to address our short-term liquidity and working capital needs, on 11 March 2020, we drew €72.7m revolving credit facility. As of 31 March 2020, we held cash and cash equivalents in the amount of €80.4m.

As of the date of this report, it is too early to accurately predict the effect of COVID-19. We believe that the COVID-19 situation represents an unprecedented short-term disruption to our business and the wide variations in potential outcomes present a material challenge to our business and industry. We are in regular contact with the governments in our key markets to determine the availability of, and our eligibility for, state aid and other government support measures, including the availability of additional financing.

We are currently forecasting a ramp-up in production beginning in early June 2020, and under this scenario we are estimating that we would be producing at approximately 85% of capacity in the fourth quarter of 2020. We anticipate additional working capital requirements as we begin our production ramp-up. We have assumed that our customers will continue to pay according to invoice terms, and we plan to continue to manage our cash flow conservatively for the duration of the COVID-19 crisis. Based on these assumptions, we are currently forecasting our existing cash on hand and cash flow to be sufficient for our business through our expected production ramp-up, but as a result of the decreasing EBITDA levels we were facing the possibility of breaching our leverage covenant on our €61m RCF financing in Q2 of 2020 and in subsequent quarters where the twelve month period being tested includes months that are impacted by the COVID-19 pandemic. We have proactively reached an agreement with the relevant banks to adjust the covenant calculation for the impact of COVID-19 through Q2 of 2021. We are confident that with this amended calculation of the covenant, a breach will be avoided. Based on the currently

available information and forecasts, although visibility remains limited as the pandemic is still progressing, the Group currently believes that it will be able to meet its liabilities and commitments as they fall due across the applicable forecast period and has determined that the going concern basis remains the appropriate basis of preparation for its financial statements. To further strengthen our position, we will likely look at government and other options to raise funds given the uncertainty as to when the COVID-19 crisis will end, and markets will return to normal.

SECTION II: Consolidated Financial Statements

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

(€ thousands)	Note	For the year ended 31 December	
		2019	2018
I. CONSOLIDATED INCOME STATEMENT			
Revenue	Note 4	671,151	646,197
Raw material expenses		(317,005)	(306,640)
Changes in inventories	Note 15	(278)	5,826
Employee benefit expenses	Note 6	(167,286)	(159,099)
Other income	Note 7	3,970	3,350
Other expenses	Note 7	(116,270)	(117,501)
Depreciation / amortization	Note 8	(39,602)	(32,430)
Adjusted Operating Profit 1		34,680	39,704
Gains on asset disposals		-	-
Integration and restructuring expenses	Note 9	(6,641)	(7,699)
Operating profit / (loss)		28,039	32,004
Finance income		205	51
Finance expenses	Note 10	(25,357)	(25,881)
Net finance expenses		(25,152)	(25,830)
Profit / (loss) before income taxes		2,888	6,174
Income tax benefit / (expense)	Note 11	7,472	996
Profit / (loss) for the period from continuing operations		10,360	7,171
Profit / (loss) for the period from discontinued operations		-	-
Profit / (loss) for the period		10,360	7,171
Attributable to:			
Equity holders		10,360	7,171
Non-controlling interest		-	-
II. CONSOLIDATED OTHER COMPREHENSIVE INCOME			
Items in other comprehensive income that may be subsequently reclassified to P&L			
Exchange differences on translating foreign operations		(2,133)	(13,833)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting		(245)	87
Items in other comprehensive income that will not be reclassified to P&L			-
Changes in deferred taxes		393	(107)
Changes in employee defined benefit obligations		(1,740)	379
Other comprehensive income for the period, net of tax		(3,725)	(13,473)
Total comprehensive income for the period		6,634	(6,303)
Basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the company	Note 33	0.08	0.05

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

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

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

(€ thousands)	Note	For the year ended 31 December	
		2019	2018
Property, plant and equipment		337,594	301,259
(Of which IFRS 16 related right-of-use assets)		42,072	0
Land and buildings	Note 13	186,173	153,752
Plant and machinery	Note 13	138,807	132,632
Other fixtures and fittings, tools and equipment	Note 13	12,614	14,875
Goodwill	Note 5	195,991	194,643
Other intangible assets	Note 12	10,357	11,399
Deferred income tax assets	Note 14	10,680	4,927
Trade and other receivables	Note 16	1,121	996
Total non-current assets		555,742	513,222
Inventory	Note 15	152,948	153,894
Derivative financial instruments	Note 25	3	119
Trade and other receivables	Note 16	58,966	60,745
Current income tax assets		259	278
Cash and cash equivalents	Note 17	19,241	26,853
Total current assets		231,417	241,889
Total assets		787,159	755,111
Share capital	Note 18	137,848	137,848
Share premium	Note 18	155,486	155,486
Other comprehensive income	Note 19	(37,112)	(33,386)
Retained earnings	Note 20	15,115	6,286
Other reserves		(14,283)	(14,283)
Total equity		257,055	251,951
Senior Secured Notes	Note 21	232,001	230,065
Senior Term Loan Facility	Note 22	-	34,908
Bank and Other Borrowings	Note 23	48,963	12,225
(Of which IFRS 16 related lease liabilities)		37,318	-
Deferred income tax liabilities	Note 14	41,004	47,837
Provisions for other liabilities and charges	Note 30	2,729	2,458
Employee benefit obligations	Note 28	4,106	3,106
Total non-current liabilities		328,802	330,598
Senior Secured Notes	Note 21	3,425	3,425
Senior Term Loan Facility	Note 22	34,927	(118)
Bank and Other Borrowings	Note 23	8,680	1,261
(Of which IFRS 16 related lease liabilities)		7,357	-
Provisions for other liabilities and charges	Note 30	164	1,165
Derivative financial instruments	Note 26	413	55
Other payroll and social related payables	Note 29	36,928	36,655
Trade and other payables	Note 31	112,072	125,940
Income tax liabilities		4,694	4,178
Total current liabilities		201,302	172,561
Total liabilities		530,104	503,160
Total equity and liabilities		787,159	755,111

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

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

(€ thousands)	Note	For the year ended 31 December	
		2019	2018
I. CASH FLOW FROM OPERATING ACTIVITIES			
Net profit / (loss) for the period		10,360	7,171
Adjustments for:			
Income tax expense / (income)	Note 11	(7,472)	(996)
Finance income		(205)	(51)
Financial expenses	Note 10	25,357	25,881
Depreciation / amortisation (incl. depreciation of IFRS 16 right-of-use assets - as from 2019)	Note 8	39,602	32,430
(Gain) / loss on disposal of non-current assets		(1)	29
Movement in provisions		(1,001)	(6,215)
Fair value of derivatives		229	21
Expense recognised in respect of equity-settled share-based payments		-	7
Cash generated before changes in working capital		66,869	58,276
Changes in working capital:			
Inventories	Note 15	156	(4,447)
Trade receivables	Note 16	416	(4,497)
Trade payables	Note 30	(9,524)	3,056
Other working capital		(818)	(3,940)
Cash generated after changes in working capital		57,100	48,448
Net income tax (paid)		(7,848)	(4,782)
Net cash generated / (used) by operating activities		49,252	43,667
II. CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition and disposal of property, plant and equipment	Note 13	(28,704)	(30,765)
Acquisition of intangibles	Note 12	(1,034)	(930)
Proceeds from non-current assets		2,342	867
Acquisition of subsidiary		-	-
Net cash used by investing activities		(27,396)	(30,828)
III. CASH FLOW FROM FINANCING ACTIVITIES			
Interest and other finance charges paid, net		(20,845)	(21,031)
Proceeds from borrowings with third parties		-	-
Proceeds from capital contributions		-	-
Repayments of Senior Secured Notes		-	-
Repayments of borrowings with third parties (incl. IFRS 16 lease liabilities - as from 2019)	Note 22	(8,624)	(2,137)
Dividends paid	Note 34	-	-
Net cash generated / (used) by financing activities		(29,469)	(23,168)
NET INCREASE/ (DECREASE) IN CASH AND BANK OVERDRAFTS			
Cash, cash equivalents and bank overdrafts at the beginning of the period		26,853	37,182
Cash, cash equivalents and bank overdrafts at the end of the period	Note 17	19,241	26,853

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

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

(€ thousands)	Share capital	Share premium	Other comprehensive income	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance 31 December 2017	137,848	155,486	(19,913)	433	(14,283)	259,571	-	259,571
Adoption of accounting policies				(1,308)	-	(1,308)	-	(1,308)
Balance 1 January 2018	137,848	155,486	(19,913)	(875)	(14,283)	258,263	-	258,263
Profit / (loss) for the period	-	-	-	7,171	-	7,171	-	7,171
Equity-settled share-based payment plans				7		7		7
Other comprehensive income								
Exchange differences on translating foreign operations	-	-	(13,833)	-	-	(13,833)	-	(13,833)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	-	-	87	-	-	87	-	87
Cumulative changes in deferred taxes	-	-	(107)	-	-	(107)	-	(107)
Cumulative changes in employee defined benefit obligations	-	-	379	-	-	379	-	379
Total comprehensive income for the period	-	-	(13,474)	7,178	-	(6,296)	-	(6,296)
Balance at 31 December 2018	137,848	155,486	(33,386)	6,286	(14,283)	251,951	-	251,951
Balance 31 December 2018	137,848	155,486	(33,386)	6,286	(14,283)	251,951	-	251,951
Adoption of accounting policies				(1,530)		(1,530)		(1,530)
Balance 1 January 2019	137,848	155,486	(33,386)	4,756	(14,283)	250,421	-	250,421
Profit / (loss) for the period	-	-	-	10,360	-	10,360	-	10,360
Equity-settled share-based payment plans	-	-	-	-	-	-	-	-
Other comprehensive income								
Exchange differences on translating foreign operations	-	-	(2,133)	-	-	(2,133)	-	(2,133)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	-	-	(245)	-	-	(245)	-	(245)
Cumulative changes in deferred taxes	-	-	393	-	-	393	-	393
Cumulative changes in employee defined benefit obligations	-	-	(1,740)	-	-	(1,740)	-	(1,740)
Total comprehensive income for the period	-	-	(3,725)	10,360	-	6,634	-	6,634
Balance at 31 December 2019	137,848	155,486	(37,111)	15,116	(14,283)	257,056	-	257,056

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

II.5. Notes to the Consolidated Financial Statements

Note 1. Accounting policies

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

Note 1.1. Basis of preparation

Basis of preparation

These Consolidated Financial Statements of LSF9 Balta Issuer S.à r.l. ("the Company" or "Balta Issuer" or "Balta"), registered at 15, Boulevard Friedrich Wilhelm Raiffeisen, L-2411 Luxembourg (R.C.S. Luxembourg: B198084) and its subsidiaries ("the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. These include all IFRS standards and IFRIC interpretations issued and effective at 31 December 2019.

The Financial Statements of the Company for the period 1 January 2019 to 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

These Consolidated Financial Statements are presented in Euro, which is the Group's presentation currency and the functional currency of the Company. All amounts in these Consolidated Financial Statements are presented in thousands of 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 2018 have been included in these notes to the Consolidated Financial Statements.

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

Impact new standards

The following interpretations and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2019 and have been endorsed by the European Union.

- IFRS 16 "Leases" (effective 1 January 2019). As of 1 January 2019, the Group changed its accounting policies to adopt IFRS 16. IFRS 16 has replaced IAS 17 Leases, and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a 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 consideration.

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

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

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

- Financial liabilities are higher by €43.6m due to the recognition of lease liabilities. .

These contracts are in nature mainly related to renting of building and warehouses.

Operating lease commitments at 31 December 2018	50,954
Discounted using the lessee's incremental borrowing rate at date of initial application	(7,346)
Finance lease liabilities recognised as at 31 December 2018	13,391
Lease liability recognised as at 1 January 2019	56,999
Current lease liability as at 1 January 2019	6,821
Non-current lease liability as at 1 January 2019	50,178
Lease liability recognised as at 1 January 2019	56,999

At the end of 2019, the year-over-year impact of IFRS 16 on balance sheet results in €42.1m right-of-use assets and €44.7m additional lease liability. From a P&L perspective, the following schedule makes the 2018 results comparable to the 2019 results:

(€ m)	FY 2018	LFL IFRS16 Impact	Lf FY 2018	FY 2019	% change
Revenue	646,2	-	646,2	671,2	3,9 %
Adjusted EBITDA	72,4	6,5	78,8	74,4	(5,7%)
Adjusted EBITDA Margin	11,2 %	-	12,2 %	11,1 %	(112) bps
Adjusted Operating Profit	39,9	0,7	40,6	34,8	(14,4 %)
Operating Profit	32,2	0,7	32,9	28,1	(14,5 %)
Profit for the period	7,3	(1,0)	6,3	10,4	64,6 %

The consolidated cash flow statement is amended by moving the payment of leases (€7.6m) within financing activities. As a result, the adoption of IFRS 16 has a positive impact on the operating cash flow of €7.5m.

From a P&L perspective, the impact of applying IFRS 16 results in a decrease of operating expenses (€7.6m), compensated by an increase of depreciation charges (€6.9m) and an increased financing cost (€2.1m).

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

relate to the applied discount rates and the lease term.

- IFRIC 23 'Uncertainty over income tax treatments' (effective 1 January 2019). This interpretation clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over whether tax taken by a Group will be accepted by the tax authority. It is applied to both current and deferred tax where there is uncertainty over a Group's tax position. Balta made a detailed assessment of all tax uncertainties within the Group having the following implications on the accounting policies:

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

The Group applied this Interpretation retrospectively with the cumulative effect of initially applying the Interpretation recognised on 1 January 2019. In accordance with the transitional provisions of IFRIC 23 it has opted not to restate comparative information. Instead, the cumulative effect of initially applying the Interpretation as an adjustment (€1.5m) has been recognised to the opening balance of the reserves, see Note 20.

The following new standards, amendments and interpretations to standards have been issued, but are not mandatory for the financial year beginning 1 January 2019 and have not been endorsed by the European Union or are considered to have a limited impact on the financial statements of 2020. The Group intends to adopt these standards and interpretations if applicable, when they become effective.

- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020).
- Amendments to the guidance of IFRS 3 Business Combinations, that revises the definition of a business (effective 1 January 2020).
- Amendments to the definition of material in IAS 1 and IAS 8 (effective 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7 (effective 1 January 2020).
- IFRS 17 insurance contracts, (effective 1 January 2022).

Note 1.2. Consolidation

Subsidiaries

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

The Group applies the acquisition method to account for business combinations. The consideration paid reflects the fair value of the assets transferred, the liabilities assumed and the equity instruments issued. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration

agreement (for example, variable consideration contingent on future events such as achievement of post-acquisition earnings targets or success of a significant project).

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

Acquisition related costs are expensed in the income statement.

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

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

Segment reporting

Note 4 provides the Group's segment information, in line with IFRS 8. The Group operates its business through four segments, which are organised by

product and sales channel. The Rugs segment designs, manufactures and distributes a broad range of machine-made rugs to major retailers (such as home improvement, furniture, specialist, discount and DIY-stores), e-commerce players and wholesalers. The Residential segment designs, manufactures and distributes branded broadloom carpets (Balta Broadloom and ITC brands) and tiles to major retailers and wholesalers. The Commercial segment designs, manufactures and distributes modular carpet tiles mainly for offices and public projects through the Group's modulyss brand in Europe (Commercial Europe), the Bentley brand in the US (Commercial US) and broadloom carpets mainly for the hospitality sector through its arc edition brand to architects, designers, contractors and distributors. Finally, the Non-Woven segment designs, manufactures and distributes soft flooring for events such as fairs and expositions and specialised fabrics for insulation, lining, cars, carpet backing and banners through its Captiqs brand.

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

Note 1.3. Foreign currency translation

Functional and presentation currency

Items included in the Financial Statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Consolidated Financial Statements are presented in 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 entities 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 2019		31 December 2018	
	Closing	Average	Closing	Average
USD	1.1234	1.1195	1.145	1.181
TRY	6.6506	6.3481	6.028	5.6789
GBP	0.8508	0.8778	0.8945	0.8847

Group entities

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

- assets and liabilities for each statement of financial position presented are translated at the closing or year-end rate;
- income and expenses for each 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 of borrowings and other currency instruments designated as hedges of such investments (if any), are taken to "Other comprehensive income". When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Foreign exchange gains and losses that relate to borrowings and transactions between Group entities in a different currency compared to the functional currency, are presented in the 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 trading nature, are presented in the income statement within "Finance income" and "Finance expenses".

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

Note 1.4. Property, plant and equipment

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

Subsequent costs are included in the asset's

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

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

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

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

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

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

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

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

Note 1.5. Goodwill

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

Note 1.6. Other intangible assets

Trademarks

Trademarks acquired in a business combination are 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 labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Based on a quantified methodology, provisions against the carrying value of inventories are recorded taking qualitative aspects into account including 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 (Expected Credit Loss) based on lifetime expected credit losses. The Group has established a provision matrix. Trade receivables have been categorised by common characteristics that are representative of the customer's abilities to pay (based on geographical region and type of customers such as retail, wholesale or construction & building, and delinquency status). The provision matrix is based on 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 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.

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 Group entities operate and generate taxable income. In line with paragraph 46 of IAS 12 'income taxes', management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate 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 substantively enacted by the "Statement of financial position" date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

foreseeable future.

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

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 entities operate one defined benefit plan for a group of managers and various pension schemes funded through payments to insurance companies. Because of the Belgian legislation applicable to 2nd pillar pension plans (so-called "Law Vandenbroucke"), all Belgian defined contribution plans have to be considered under IFRS as defined benefit plans. Law Vandenbroucke states that in the context of defined contribution plans, the employers must guarantee a minimum return of 3.75% on employee contributions and 3.25% on employer contributions. However, shortly before year-end 2015, a change in the Belgian Law was enacted resulting in a decrease of the guaranteed return from 3.25 % to a minimum interest rate defined based upon the Belgian 10-year interest rate but within the range 1.75% - 3.25%. The new rate (1.75% per 31 December 2019 and per 31 December 2018) 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 2019 this gap was 40 basis points.

Other post-employment obligations

The Group does not have other post-employment obligations.

Termination benefits

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

In Belgium, the system of early retirement pensions ensures that elderly people who are dismissed by their employer or who are encouraged to terminate their employment and who fulfil certain conditions, are eligible to receive supplementary unemployment allowance 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 Labour Agreements (CLAs) in place for the sector (*textielnijverheid en breiwerk/industrie textile et de la bonneterie*) or specifically for the Group. These CLAs describe the different possibilities for employees in the sector to benefit from "early

retirement fee or pension", the creation of a sector fund (*fonds voor bestaanszekerheid/fonds de sécurité d'existence*), part-time work, education and training etc. Certain CLAs exist for blue collar workers and others for white collar workers.

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

Bonus plans

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

Share Based payments

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

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

Note 1.21. Revenue recognition

Revenue from contracts

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

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

Recognition of revenue from distinct performance obligations

The Group has analysed its contracts with customers to determine all its performance obligations. Performance obligations arising from the Group's sales contracts are mainly order-driven customer deliveries related to the sale of goods. Services mostly have an ancillary role in the Group's business operations, or they complement deliveries of goods. The Group did not identify any distinct performance obligations that should be accounted for in accordance with IFRS 15.

Variable considerations

Some contracts with customers provide volume rebates, financial discounts, price concessions or a right of return for quality claims. Revenue from these sales are recognised based on the price specified in the contract, net of returns and

allowances, trade discounts and volume rebates. During a financial year, the presentation of the effect of a variable price component can be based on management's judgement of discount drivers, for example the sales quantity reached with a given customer during the year. IFRS 15 does not change the principles applied by the Group to the determination or allocation of the transaction price.

Recognising revenue as each performance obligation is satisfied

According to IFRS 15, revenue is recognised in the period during which the customer assumes control of the delivered goods. The Group delivers goods under contractual terms based on internationally accepted delivery conditions (Incoterms) and has concluded that the transfer of risks and rewards generally coincides with the transfer of control at a point in time under Incoterms. Consequently, the timing of revenue recognised for the sales of its products does not change under IFRS 15.

Warranty obligations

The Group provides assurance-type warranties that the products sold comply with agreed-upon specifications. These warranties do not qualify as a separate service (performance obligations) and hence will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with past practice.

Interest income

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

Dividend income

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

Impairment losses on trade receivables or contract assets

The Group 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.

IFRS 16 is effective for annual reporting since 1 January 2019. Balta has opted for the modified retrospective method, not restating comparatives for 2018.

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

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

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

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

and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

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

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

The application of IFRS 16 results in the recognition of a right-of-use asset and liability of €43.6m at 1 January 2019. We refer to note 13 and note 24.

The liability was measured at the present value of the remaining lease payments, discounted at a predetermined discount rate. Balta applied several discount rates, depending on the type of asset (buildings or machines), lease term, geographical area, risk premium (from 1,80% to 3%) and the variability of the base rate (based on the market swap rates of 31 December 2018). The applied incremental borrowing rate depends on the geographical environment and the remaining duration of the agreement. For contracts in Europe, this is between 0 and 1.4%. While in the US, the incremental borrowing rate is 2.7%.

The leasing agreements under IFRS 16 have a remaining term between 1 and 12 years. We relied on previous assessments on whether leases

are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019.

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.

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

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

Leverage is defined as the ratio of Net Debt to Adjusted EBITDA (excluding IFRS 16 as per financing documentation).

Note 2. Critical accounting estimates and judgements

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

Goodwill

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

Impairment testing

IFRS requires management to undertake an annual test for impairment of indefinite life assets and, for finite life assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- growth in Adjusted EBITDA, calculated as adjusted operating profit before depreciation

- and amortisation;
- timing and quantum of future capital expenditure;
- long-term growth rates; 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, in line with IFRIC 23.

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

in the period in which such determination is made.

Trade receivables

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

To measure the lifetime expected credit losses, the Group has established a provision matrix based on the categorization 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 generalized approach, the Group included individually managed exposures on a case by case basis, if not covered by the ECL model.

Customer rebates

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

Brexit

Although the impact of a Brexit is still considered to be significant, we believe the impact on 2020 is limited given the on-going negotiations and the related uncertainty will not impact the 2020 financial results.

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.

(€ thousands)	2019 Reported	2018 Reported
Revenue	671,151	646,197
Raw material expenses	(317,005)	(306,640)
Changes in inventories	(278)	5,826
Employee benefit expenses	(167,286)	(159,099)
Other income	3,970	3,350
Other expenses	(116,270)	(117,501)
Adjusted EBITDA¹	74,282	72,134
Depreciation/amortisation	(39,602)	(32,430)
Adjusted Operating Profit¹	34,680	39,704
Gains on asset disposals	-	-
Integration and restructuring expenses	(6,641)	(7,699)
Operating profit / (loss)	28,039	32,004
Finance income	205	51
Finance expenses	(25,357)	(25,881)
Net finance expenses	(25,152)	(25,830)
Profit / (loss) before income taxes	2,888	6,174
Income tax benefit / (expense)	7,472	996
Profit / (loss) for the period from continuing operations	10,360	7,171

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

Several non-recurring items had a material impact on our 2019 net income. The impact of these events amounts to a net expense of €6.6m,

as compared to €7.7m in 2018. The expenses in the current year are mainly driven by advisory fees related to the NEXT program.

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)	2019	2018
Revenue by segment	671,151	646,197
Rugs	213,029	198,301
Commercial	235,593	214,818
Residential	194,394	206,331
Non Woven	28,136	26,746
Revenue by geography	671,151	646,197
Europe	414,211	401,638
North America	215,288	197,669
Rest of World	41,653	46,891
Adjusted EBITDA by segment⁽¹⁾	74,282	72,134
Rugs	16,758	27,943
Commercial	40,413	30,585
Residential	15,043	11,225
Non Woven	2,068	2,381
Net Capital expenditure by segment	27,396	30,828
Rugs	9,820	9,589
Commercial	7,746	10,500
Residential	9,227	9,949
Non Woven	604	791
Net inventory by segment	152,948	153,894
Rugs	70,301	72,940
Commercial	37,144	33,170
Residential	41,473	43,622
Non-Woven	4,030	4,162
Trade receivables by segment	50,192	51,607
Rugs	15,011	11,895
Commercial	22,826	23,774
Residential	11,594	14,714
Non-Woven	760	1,223

(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 €12.5m in 2019 (2018: €14.0m).

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. 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 (€71.2m). 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 2019. 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 2019, 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 (2018: 2%), 1% for Commercial Europe and Commercial US (2018: 1%) and an after-tax discount rate of 7.8% (2018: 8.3%).

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%	9.2%
Commercial Europe	(2.3%)	10.0%
Commercial US	(31.1%)	18.9%

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

Note 6. Employee benefit expenses

The following table sets forth employee benefit expenses for the years ended 31 December 2019 and 2018:

(€ thousands)	2019	2018
Total employee benefit expenses	167,286	159,099
Wages and salaries	119,746	111,954
Social security costs	31,495	31,423
Pension costs	4,108	3,460
Other employee benefit expenses	11,937	12,263

Employee benefit expenses increased due to an overall increase in the workforce. The total amounts to €167.3m, compared to €159.1m as per 31 December 2018.

The average number of employees in 2019 and 2018 was 3,915 (in full time equivalents) and 3,696 (in full time equivalents). Part-time employees are included on a proportionate basis.

	2019	2018
Average number of total employees	3,915	3,696
Average number of employees - blue collar	3,105	2,977
Average number of employees - white collar	811	719

Note 7. Other income and expenses

(€ thousands)	2019	2018
Other income	3,970	3,350
Foreign exchange gains	687	714
Foreign exchange forward contracts	-	-
Rental income from solar rooftop installations	1,342	1,356
Sales of energy certificates	88	261
Grants	488	411
Recharge of costs	-	30
Gain on sale of fixed assets	-	-
Other	1,365	578
Other expenses	116,270	117,501
Services and other goods	70,007	74,184
Selling expenses	41,264	39,581
Foreign exchange losses	1,693	803
Foreign exchange forward contracts	-	-
Real estate tax	3,209	2,904
Loss on sale of fixed assets	-	29
Other	98	-

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

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

Other expenses decreased by €1.3m to €116.3m for the year ended 31 December 2019 from €117.5m for the year ended 31 December 2018. 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 €8.7m of research and development expenses during the 12 months ended in 31 December 2019 (2018: €7.2m). One of the competitive advantages of our business is our long history of creativity and innovation. The Group aims to leverage research and development to continually optimize the production capacity and provide designs that appeal to our customers. Trends in product design and innovation are closely monitored through continuous testing and analysis, with a focus on anticipating customers' preferences and market developments.

Note 8. Depreciation / amortisation

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

(€ thousands)	2019	2018
Depreciation/amortisation	39,602	32,430
Amortisation of intangible assets	2,248	2,176
Depreciation property, plant and equipment	38,749	31,648
Release deferred revenue sale & lease back	(1,395)	(1,395)

Depreciation / amortisation amounts to €39.6m, an increase of €7.2m compared to 31 December 2018 mainly driven by the application of IFRS 16.

The release of deferred revenue sale and leaseback relates to the gradual recognition of the capital gain realised on the sale and leaseback of one of the Group's manufacturing facilities in 2014. This deferred revenue is recognised on a straight line basis over a 12-year period as partial offset to depreciation charges over the period of the lease. The annual amount recognised in the income statement is €1.4m, with the balance of deferred income equal to €8.8m as at 31 December 2019 (€10.4m at the end of 2018).

Note 9. Integration and restructuring expenses

The total integration and restructuring expenses incurred in 2019 amount to €6.6m (2018: €7.7m). This comprises various items which are considered by management as non-recurring or unusual by nature.

(€ thousands)	2019	2018
Integration and restructuring expenses	6,641	7,699
Corporate restructuring	60	1,197
Business restructuring	-	4,207
Strategic advisory services	6,778	2,612
Other	(197)	(317)

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

In 2018, the optimisation of the Residential operational footprint was concluded with a total cost of €12.4m (of which €4.2m in 2018). The €2.6m expenditure under strategic advisory services was related to NEXT which was initiated in 2018. The €1.2m one-off expense for corporate restructuring was related to the changes in executive leadership.

Note 10. Finance expenses

(€ thousands)	2019	2018
Total finance expenses	25,357	25,881
Interest expense on Senior Secured Notes	20,140	20,140
Interest expense on Senior Term Loan Facility (€35m)	635	635
Interest expense on Bank borrowings (including leasing)	2,728	354
Foreign exchange result on interco transactions	140	2,050
Other finance costs	1,713	2,702

The net finance expense amount to €25.2m in 2019, 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 21, 22 and 24 for a description of these facilities. The net finance cost decreased due to less negative foreign exchange differences on intercompany

transactions but was offset by the increase in finance expenses from the application of IFRS 16.

Other finance costs mainly relate to factoring, commitment fees and other bank related charges. The effective interest expense of the

Senior Secured Notes comprises a cash interest of €18.2m and the amortisation of capitalised financing fees of €1.9m which are in line with previous year.

Note 11. Income tax benefit / expense

(€ thousands)	2019	2018
Income tax benefit / (expense)	7,472	996
Current tax	6,088	(5,260)
Deferred tax	13,560	6,256

(€ thousands)	2019	2018
Income tax benefit / (expense)	7,472	996
Income tax calculated at Luxembourg tax rate (24.94%)	(720)	(1,672)
Rate differential due to transactions with foreign entities	43	(153)
Disallowed expenses	(660)	(1,034)
Tax-exempted revenues	518	426
Tax losses for which no deferred tax asset is recognized	(3,648)	273
Deferred tax asset derecognized	-	-
Utilization and recognition of previously not recognized tax assets	12,485	2,593
Other	(546)	563

Income taxes represent a 'benefit' in both 2019 and 2018, driven by the net positive deferred tax income.

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

Management considers the expected reversal of deferred tax liabilities and projected future taxable income in making the assessment. The Group reported income tax income for the year of €7.4m based on profit before tax for the year of €3.0m.

The tax income is mainly driven by the recognition of previously unrecognised tax losses as a result of the alignment of the intercompany financing to the enacted tax legislation.

Note 12. Other intangible assets

(€ thousands)	Trademarks	Software and licences	Internally generated intangible assets	Total
Opening net book value	8,999	1,688	1,532	12,219
Business combinations	-	-	-	-
Additions	-	-	468	468
Disposals	-	-	-	-
Transfers	-	-	-	-
Amortisation charge	(1,019)	(490)	(667)	(2,176)
Impairment charge	-	-	(7)	(7)
Exchange differences	427	469	-	896
Closing net book value	8,407	1,666	1,326	11,399
At 31 December 2018				
Cost or valuation	10,190	6,631	9,067	25,888
Accumulated amortisation, impairment and other adjustments	(1,783)	(4,965)	(7,741)	(14,489)
Closing net book value	8,407	1,666	1,326	11,399
Opening net book value	8,407	1,666	1,326	11,399
Additions	-	254	780	1,034
Disposals	-	-	-	-
Transfers	-	-	-	-
Amortisation charge	(1,039)	(539)	(670)	(2,248)
Impairment charge	-	-	-	-
Exchange differences	162	3	8	172
Closing net book value	7,530	1,384	1,443	10,357
At 31 December 2019				
Cost or valuation	10,386	6,907	9,847	27,139
Accumulated amortisation, impairment and other adjustments	(2,856)	(5,523)	(8,403)	(16,782)
Closing net book value	7,530	1,384	1,443	10,357

The trademark of €7.5m 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 (2018: €2.2m) is included in the line "Depreciation, amortisation and impairment" in the income statement.

Note 13. Property, plant and equipment

(€ thousands)	Land and buildings	Plant and machinery	Other Equipment	Total
Opening net book value at 1 January 2018	162,103	130,977	18,080	311,160
Business combinations	-	-	-	-
Additions	365	17,822	13,573	31,760
Revaluation surplus	-	-	-	-
Disposals	-	(931)	(387)	(1,318)
Transfers	43	4,455	(4,498)	0
Depreciation charge	(5,934)	(13,819)	(11,895)	(31,648)
Impairment charge	189	(1,013)	(136)	(960)
Exchange differences	(3,014)	(4,858)	138	(7,734)
Closing net book value at 31 December 2018	153,752	132,632	14,875	301,259
Cost or valuation	228,189	518,370	53,585	800,144
Accumulated depreciation, impairment and other adjustments	(74,437)	(385,738)	(38,710)	(498,885)
Closing net book value at 31 December 2018	153,752	132,632	14,875	301,259
Opening net book value at 31 December 2018	153,752	132,632	14,875	301,259
Adoption of new accounting principle	42,717	891	-	43,608
Opening net book value at 1 January 2019	196,469	133,523	14,875	344,867
Additions	3,087	21,759	11,809	36,655
Disposals	(470)	(384)	(2,550)	(3,404)
Transfers	11	707	(718)	-
Depreciation charge	(11,949)	(15,841)	(10,959)	(38,749)
Impairment charge	-	-	-	-
Exchange differences	(975)	(957)	157	(1,775)
Closing net book value at 31 December 2019	186,173	138,807	12,614	337,594
Cost or valuation	272,118	527,211	38,578	837,908
Accumulated depreciation, impairment and other adjustments	(85,946)	(388,405)	(25,964)	(500,314)
Closing net book value at 31 December 2019	186,173	138,807	12,614	337,594

In 2019, a total of €80.4m (2018: €31.8m) has been added of which €43.6m relating to the application of a new accounting standard (IFRS 16). We refer to Note 1.1 for the impact of new standards and Note 1.22 for the accounting treatment of leases.

Main investments in 2019 were in particular in plant, machinery and other equipment.

The total depreciation expense of €38.8m (2018: €32.6m) has been charged in the line "Depreciation and amortisation" in the income statement.

(€ thousands)	Right-of-use assets	Owned PP&E	Total PP&E
As at 31 December 2018	12,004	289,255	301,259
Adoption of accounting policies	43,608	-	43,608
As at 1 January 2019	55,612	289,255	344,867
Additions	7,763	28,892	36,655
Disposals	(460)	(2,944)	(3,404)
Depreciations	(8,719)	(30,030)	(38,749)
Transfer	(871)	871	-
FX impact	-	(1,775)	(1,775)
As at 31 December 2019	53,325	284,269	337,594

Right-of-use asset value (€ thousands)	31 December 2019	31 December 2018
Right-of-use assets - Land and Buildings	47,897	11,125
Cost - Capitalised leases	62,605	18,412
Accumulated depreciation	(14,708)	(7,288)
Right-of-use assets - Plant and machinery	5,428	881
Cost - Capitalised leases	6,525	1,155
Accumulated depreciation	(1,096)	(274)
Right-of-used assets - Total leased Property, Plant & Equipment	53,325	12,004
Cost - Capitalised leases	69,130	19,567
Accumulated depreciation	(15,804)	(7,562)

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

Exchange differences (2019: €1.8m and 2018: €7.7m) relate to fluctuations in the closing exchange rate of our Turkish entities and US entities which have a significant amount of property plant and equipment recorded on the statement of financial position.

Note 14. Deferred income tax assets and liabilities

IFRS requires the deferred taxes for each jurisdiction to be presented as a net asset or liability. Offsetting 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)	2019	2018
Deferred tax assets:	10,680	4,927
Deferred tax assets to be reversed after more than 12 months	8,309	3,603
Deferred tax asset to be reversed within 12 months	2,371	1,324
Deferred tax liabilities:	(41,004)	(47,837)
Deferred tax liability to be reversed after more than 12 months	(37,074)	(45,057)
Deferred tax liability to be reversed within 12 months	(3,930)	(2,780)
Net deferred tax liabilities	(30,324)	(42,910)

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

(€ thousands)	2019	2018
At 1 January	(42,910)	(50,311)
Adoption of accounting policies	(1,530)	-
Exchange differences	163	1,278
Business combination	-	-
Other comprehensive income	393	(134)
Movement to share capital	-	-
Income statement charge	13,560	6,256
At 31 December	(30,324)	(42,910)

In contrast to the table above, the table below shows the movement in deferred taxes on a gross basis, i.e. without netting deferred tax

liabilities and deferred tax assets within the same jurisdiction.

Deferred tax assets

(€ thousands)	Tax losses carried forward	Deferred income tax and leaseback	Intangible assets	Borrowings	Employee benefits	Inventory	Provisions	Other	Total
1 January 2018	9,091	3,004	832	1,388	1,434	1,059	22	700	17,530
(Charged)/credited to the income statement	7,063	(412)	(747)	(28)	(376)	118	853	184	6,655
Exchange differences	3	-	-	-	-	313	344	14	673
Other comprehensive income	-	-	-	-	(107)	-	-	-	(107)
31 December 2018	16,157	2,592	85	1,360	951	1,490	1,219	898	24,752
1 January 2019	16,157	2,592	85	1,360	951	1,490	1,219	898	24,752
(Charged)/credited to the income statement	12,902	(1,116)	(57)	(10)	(478)	1,007	494	555	13,297
Exchange differences	115	-	-	-	329	(35)	(28)	(1)	379
Other comprehensive income	-	-	-	-	393	-	-	-	393
Adoption of accounting policy	(1,530)	-	-	-	-	-	-	-	(1,530)
31 December 2019	27,644	1,476	28	1,350	1,195	2,462	1,684	1,452	37,291

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 2019, the Group has certain tax losses subject to significant

limitations. For those losses, deferred tax assets are not recognised, as it is not probable that gains will be generated to offset those losses. Uncertain tax positions, as described in Note 2, are taken into account when recognising deferred tax assets and liabilities.

As of 31 December 2019 total tax credits amounted to €538.8m, resulting in a potential deferred tax asset of €133.9m of which the Group only recognised €28.2m at the end of 2019. 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 €16.8m.

The majority of the tax credits in 2018 and 2019 are incurred at the level of the Group entities in Belgium, where there is no expiry date regarding the tax credits.

Deferred tax liabilities

(€ thousands)	Property, plant and equipment	Intangible assets	Inventory	Other	Total
At 1 January 2018	(63,420)	(1,956)	(2,461)	(2)	(67,841)
Charged/(credited) to the income statement	73	165	225	(801)	(338)
Exchange differences	500	(53)	13	14	474
At 31 December 2018	(62,847)	(1,844)	(2,223)	(789)	(67,705)
At 1 January 2019	(62,847)	(1,844)	(2,223)	(789)	(67,705)
Charged/(credited) to the income statement	745	61	(170)	(329)	306
Exchange differences	(241)	21	(11)	14	(217)
At 31 December 2019	(62,344)	(1,762)	(2,404)	(1,104)	(67,614)

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 €261.4m as of 31 December 2019 (as compared to €146.3m as of 31 December 2018).

When we add up the gross amounts of deferred tax assets (€37.8m) and gross amount of deferred tax liabilities (€67.6m) we arrive at a net deferred tax liability position per 31 December 2019 of €29.8m.

Note 15. Inventories

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

(€ thousands)	31 December 2019	31 December 2018
Total inventories	152,948	153,894
Raw materials and consumables	64,564	65,147
Work in progress	20,775	21,660
Finished goods	67,609	67,087

Inventories were relatively stable compared to 31 December 2018, showing an overall decrease of €1m. Raw materials and work in progress both declined with €1m, offset by an increase of €1m in finished goods. The movement in 'Work in progress' and 'finished goods' is detailed as follows:

(€ thousands)	31 December 2019	31 December 2018
Beginning of period	88,747	82,921
Business combinations	-	-
Income statement	(364)	5,826
Of which: impact purchase price allocation	-	-
Of which: actual movements in inventory	(364)	5,826
December 31	88,384	88,747

The Group increased the provision for obsolete inventory in 2019 by €0.2m compared to a decrease of €0.2m in 2018 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 2019 amounts to €317.3m as compared to €300.8m in 2018.

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

Note 16. Trade and other receivables

(€ thousands)	31 December 2019	31 December 2018
Total trade and other receivables	60,086	61,740
Trade and other receivables (non-current)	1,121	996
Other amounts receivable	1,121	996
Trade and other receivables (current)	58,966	60,745
Net trade receivables	50,800	51,607
Trade receivables	53,538	54,482
Less: Bad debt allowance	(2,738)	(2,875)
Prepayments and accrued income	1,967	1,551
Other amounts receivable	6,199	7,587

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 amounts to €59.0m as of 31 December 2019 (and are in line with previous year).

As of 31 December 2019, the net trade receivables that were past due amounted to €3.3m (2018: €3.6m).

In 2019, the Group has one 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 2019	31 December 2018
Total trade and other receivables	60,086	61,740
EUR	24,835	20,181
USD	22,810	24,753
GBP	8,068	8,523
TRY	4,372	8,283

	Not due or less than 15 days past due	More than 15 days past due	Total
31 December 2018			
Expected loss rate	1.4%	59.3%	
Gross carrying amount - trade receivables	50,843	3,639	54,482
Loss allowance	718	2,157	2,875
31 December 2019			
Expected loss rate	2.9%	37.7%	
Gross carrying amount - trade receivables	50,200	3,338	53,538
Loss allowance	1,480	1,258	2,738

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

(€ thousands)	2019	2018
As at 31 December - calculated under IAS 39	(2,875)	(965)
Amounts restated through opening retained earnings	-	(1,857)
Opening loss allowance as at 1 January - calculated under IFRS 9	(2,875)	(2,822)
Business combination	-	-
Increase in loan loss allowance recognised in profit or loss during the year	(55)	(137)
Receivables written off during the year as uncollectible	182	80
Unused amounts reversed	13	28
Assets held for sales	-	-
FX difference	(4)	(23)
As at 31 December	(2,738)	(2,875)

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 of 2018. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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.

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 2019 the Group holds collateral (letters of credit and corporate or bank guarantees) for an amount of €0.2m (2018: €0.5m).

Note 17. Cash and cash equivalents

(€ thousands)	31 December 2019	31 December 2018
Total cash and cash equivalents	19,241	26,853
Cash at bank and on hands	11,734	14,201
Short-term bank deposits	–	–
Cash from local financing	7,507	12,652
Of which in countries with legal restrictions	837	2,679

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

The credit quality of the banks and financial institutions is disclosed in Note 27. The Group's assets which are pledged as security for the Senior Secured Notes and borrowings are described in Notes 23 to 25.

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

(€ thousands)	2019	2018
Items in OCI that may be subsequently reclassified to P&L	(36,931)	(34,553)
Cumulative translation reserves as of 31 December	(36,780)	(34,647)
Cumulative translation reserves at beginning of the period	(34,647)	(20,814)
Exchange differences on translating foreign operations	(2,133)	(13,833)
Cumulative changes in fair value of hedging instruments as of 31 December	(151)	94
Cumulative changes in fair value of hedging instruments at beginning of the period	94	7
Changes in fair value of hedging instruments during the period	(245)	87
Items in OCI that will not be reclassified to P&L	(180)	1,167
Changes in deferred tax at 31 December	(318)	(711)
Changes in deferred taxes at beginning of the period	(711)	(604)
Changes in deferred taxes during the period	393	(107)
Changes in employee defined benefit obligations at 31 December	137	1,877
Changes in employee defined benefit obligations at beginning of the period	1,877	1,498
Changes in employee defined benefit obligations during the period	(1,740)	379
Total other comprehensive income at 31 December	(37,111)	(33,386)

Cash flow hedge accounting

The movement schedule below summarizes the amounts recorded into the cash flow hedge reserve and the portion that was recognised in

Note 18. Share capital and share premium

Share capital and share premium have not changed compared to 2018. The legal issued share capital of the Group is set at €137.8m divided into 137,677,446 ordinary shares without a nominal value. All shares issued were fully paid, together with a share premium of €155.5m.

Note 19. Other comprehensive income

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 IFRSs. 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 income statement in relation to contracts that were settled in December 2019. The amounts recognised in the income statement have been presented as "other income" – see Note 9.

(€ thousands)	31 December 2019	31 December 2018
Cash flow hedge reserve, ending balance	(151)	94
Opening balance	94	7
Amounts recorded in the cash flow hedge reserve	(527)	71
Amounts recognised in the income statement	281	17

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 0.5% for 2019 and 1.57% for 2018.

Note 21. Senior Secured Notes

(€ thousands)	31 December 2019	31 December 2018
Total Senior Secured Notes	235,426	233,490
Non-current portion	232,001	230,065
Of which: gross debt	234,900	234,900
Of which: capitalised financing fees	(2,899)	(4,835)
Current portion	3,425	3,425
Of which: accrued interest	5,360	5,360
Of which: capitalised financing fees	(1,935)	(1,935)

On 3 August 2015, LSF9 Balta Issuer S.à r.l. issued €290.0m aggregate principal amount of Senior Secured Notes with an interest rate of 7.75% as part of the financing of the acquisition of Balta Finance S.à r.l. and its subsidiaries. The maturity date of the Senior Secured Notes is 15 September

Deferred Taxes

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

Note 20. Retained earnings

(€ thousands)	2019	2018
Beginning of period	6,286	433
Adoption of accounting policies	(1,530)	(1,308)
Dividends paid	–	–
Equity-settled share-based payment plans	–	–
Profit / (loss) for the year allocated to equity owners	10,360	7,171
At 31 December	15,115	6,286

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 1.1 for more detail on the initial adoption of accounting policies. Five percent of the net profit of the year of the Company is allocated to an undistributable legal reserve. This deduction ceases to be compulsory when such reserves amount ten percent of the issued share capital of the Company.

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 2019 is equal to €1.9m.

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

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

The collateral also secures the Super Senior Revolving Credit Facility (see Note 25) and Senior Term Loan Facility (see Note 21) 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 22. Senior Term Loan Facility

(€ thousands)	31 December 2019	31 December 2018
Total Senior Term Loan Facility	34,927	34,790
Non-Current portion	-	34,908
Of which: gross debt	-	35,000
Of which: capitalised financing fees	-	(92)
Current portion	34,927	(118)
Of which: gross debt	35,000	-
Of which: accrued interests	19	20
Of which: capitalised financing fees	(92)	(138)

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. As the maturity date of this loan is 15 September 2020, the principle amount is classified as current liability.

On 21 January 2020, the Group announced the early redemption of the €35.0m Senior Term Loan Facility. We refer to Note 39.

Note 23. Bank and other borrowings

The table below provides an overview of the bank and other borrowings that continue to exist on 31 December 2019 and 2018:

(€ thousands)	31 December 2019	31 December 2018
Total Bank and other borrowings	57,643	13,486
Non-Current portion	48,963	12,225
Finance lease liabilities	48,963	12,225
Current portion	8,680	1,261
Super Senior RCF	-	-
Bentley RCF	-	-
Finance lease liabilities	8,594	1,166
Commitment fees	86	95

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 Super Senior 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 2018 and 2019.

On 18 July 2017, Balta 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 (as defined in the contract), operational restructurings or permitted reorganisations of the Group.

The Super Senior 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 favour of the Lenders. The Fifth Third Credit Agreement contains affirmative and negative covenants with respect to BPS Parent Inc. and its subsidiaries and other payment restrictions. Certain of the covenants limit indebtedness and investments of BPS Parent Inc. and its subsidiaries and require the maintenance of certain financial ratios defined in the Fifth Third Credit Agreement. This credit facility was fully undrawn at the end of 2018 and 2019.

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

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

Note 24. Leases

The lease liabilities have increased from €12.0m as of 31 December 2018 to €57.6m as of 31 December 2019. The application of IFRS 16 results in an additional lease liability at 1 January 2019 of €43.6m. At the end of 2019, the corresponding lease liability related to IFRS 16 amounts to €44.7m.

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

Carrying amounts of lease liabilities and the movements in 2019:

(€ thousands)	Total
As at 31 December 2018	13,310
Change in accounting policies	43,608
As at 1 January 2019	56,918
Additions	8,038
Disposals	-756
Accretion of interest	2,465
Payments	-8,816
FX impact	-250
As at 31 December 2019	57,599
Current lease liability	8,680
Non-current lease liability	48,919
Total lease liability	57,599

(€ thousands)	31 December 2019	31 December 2018
Total present value of finance lease liabilities	57,599	13,310
No later than 1 year	8,680	1,085
Later than 1 year and no later than 5 years	33,611	4,200
Later than 5 years	15,308	8,025

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

Note 25. Net debt reconciliations

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

Liabilities from financing activities										Cash and Cash equivalents	
(€ thousands)	Senior Secured Notes due after 1 year	Senior Secured Notes due within 1 year	Senior Term Loan Facility due after 1 year	Senior Term Loan Facility due within 1 year	Finance Lease liabilities due after 1 year	Finance Lease liabilities due within 1 year	Super Senior RCF	Bentley RCF	Total gross financial debt	Cash and Cash equivalents	Total net financial debt
Net debt as at 31 December 2018	(234,900)	(5,360)	(35,000)	(20)	(12,225)	(1,166)	-	-	(288,671)	26,853	(261,818)
Change in accounting policies					(37,953)	(5,655)	-	-	(43,608)		(43,608)
Net debt as at 1 January 2019	(234,900)	(5,360)	(35,000)	(20)	(50,178)	(6,821)	-	-	(332,279)	26,853	(305,426)
Cashflows	-	-	-	1	-	-	-	-	1	(7,612)	(7,611)
Proceeds of borrowings with third parties	-	-	-	-	-	-	-	-	-	-	-
Business combinations	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-	-	-	-	-	-	-
Repayments of borrowings with third parties	-	-	-	-	-	8,624	-	-	8,624	-	8,624
Other non-cash movements	-	-	35,000	(35,000)	1,215	(10,483)	-	-	(9,268)	-	(9,268)
Net debt as at 31 December 2019	(234,900)	(5,360)	-	(35,019)	(48,963)	(8,680)	-	-	(332,922)	19,241	(313,681)

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

Note 26. Additional disclosures on financial instruments

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

(€ thousands)	Fair value hierarchy	31 December 2019	31 December 2019	31 December 2018	31 December 2018
		Carrying amount	Fair value	Carrying amount	Fair value
Assets as per statement of financial positions		79,330	79,330	88,712	88,712
Loans and receivables		79,327	79,327	88,593	88,593
Trade and other receivables		60,086	60,086	61,740	61,740
Cash and cash equivalents	Level 1	19,241	19,241	26,853	26,853
Assets at fair value through OCI		3	3	119	119
Foreign exchange derivative financial instruments	Level 2	3	3	119	119
Liabilities as per statement of financial positions		440,480	426,518	407,761	393,851
Financial liabilities measured at amortised cost		440,067	426,106	407,706	393,796
Senior Secured Notes	Level 1	235,426	221,464	233,490	219,580
Senior Term Loan Facility	Level 1	34,927	34,927	34,790	34,790
Bank and other borrowings	Level 2	57,643	57,643	13,486	13,486
Trade and other payables		112,072	112,072	125,940	125,940
Financial liabilities measured at fair value through OCI		413	413	55	55
Foreign exchange derivative financial instruments	Level 2	413	413	55	55

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 have been determined using forward exchange rates that are quoted in an active market. The effects of discounting

are generally insignificant for Level 2 derivatives. For trade and other receivables, as well as trade and other payables, the carrying amount is considered to be a good estimate of the fair value, given the short term nature of these items.

There were no changes in valuation techniques during the period.

Note 27. Financial risk management

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

The Group applied hedge accounting on the derivative financial instruments relating to foreign exchange risk for the periods covered in 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 GBP and to hedge our USD exposure on an ad hoc basis. Finally, even with respect to commercial arrangements that do not provide for exchange rate-based price-adjustment mechanisms, our established relationships with our customers allow that both positive and negative currency fluctuations are in general passed on through price revisions over the medium term. Fluctuations in the value of the USD, GBP and TRY relative to the euro typically have an impact on our gross margin.

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

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

(€ thousands)	EUR	GBP	USD	TRY	TOTAL
31 December 2019 Net exposure	(49,387)	3,172	10,174	3,296	(32,745)
Trade and other receivables	24,835	8,068	22,810	4,372	60,086
Cash and cash equivalents	7,286	2,371	8,984	601	19,241
Trade and other payables	(81,508)	(7,267)	(21,621)	(1,677)	(112,073)
(€ thousands)	EUR	GBP	USD	TRY	TOTAL
31 December 2018 Net exposure	(66,300)	6,135	14,488	8,331	(37,346)
Trade and other receivables	20,181	8,523	24,753	8,283	61,740
Cash and cash equivalents	7,458	2,944	16,251	200	26,853
Trade and other payables	(93,939)	(5,332)	(26,516)	(153)	(125,940)

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)	2019	2018
GBP denominated	(3,107)	(1,455)
Changes in fair value derivative financial instruments	(3,459)	(2,136)
Changes in carrying amount of monetary assets and liabilities	352	682
USD denominated	1,130	1,542
Changes in fair value derivative financial instruments	-	(68)
Changes in carrying amount of monetary assets and liabilities	1,130	1,610
TRY denominated	366	926
Changes in fair value derivative financial instruments	-	-
Changes in carrying amount of monetary assets and liabilities	366	926

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

(€ thousands)	2019	2018
GBP denominated	2,542	1,190
Changes in fair value derivative financial instruments	2,830	1,748
Changes in carrying amount of monetary assets and liabilities	(288)	(558)
USD denominated	(925)	(1,261)
Changes in fair value derivative financial instruments	-	56
Changes in carrying amount of monetary assets and liabilities	(925)	(1,317)
TRY denominated	(300)	(757)
Changes in fair value derivative financial instruments	-	-
Changes in carrying amount of monetary assets and liabilities	(300)	(757)

Commodity price risk

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

In 2019, raw materials expenses represented 47.2% of the Group's revenue compared to 47.5% 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 2019, 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 €13.2m 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. The sensitivity calculation takes into account the typical time lag between purchasing polypropylene and polyamide and recognising the raw material expenses against sales.

When we hedge, we might do so by entering into fixed price contracts with our suppliers. No such arrangements were entered into in 2019 or 2018.

Interest rate risk

Our interest rate risk principally relates to external indebtedness that bears interest at variable rates. Excluding IFRS 16, 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 an 25 bps shift in the € yield curve.

(€ thousands)	25 bps downward shift in EUR yield curve	25 bps upward shift in EUR yield curve
Total impact on interest expenses/income	114	(127)
Non-derivative floating rate financial liabilities	114	(127)

The company has initiated into a three year program designed to have a significant impact on our earnings. The several growth & cost saving initiatives will improve the profitability and cash generation profile of the Group. The effects will have an immediate 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 2018 and 2019.

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

(€ thousands)	31 December 2019	31 December 2018
Total cash and bank equivalents	19,241	26,853
A rating	18,404	25,079
BBB Rating	-	1
BB Rating	837	1,774

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 2019 are the Senior Secured Notes, the Senior Term Loan Facility (€35m) and capital lease agreements.

(€ thousands)	Less than 6 months	Between 6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Total as of 31 December 2019	(161,157)	(13,556)	(26,302)	(273,771)	(20,856)
Senior Secured Notes	(9,102)	(9,102)	(18,205)	(253,105)	
Senior Term Loan Facility	(35,046)				
Finance lease liabilities	(4,480)	(4,452)	(8,097)	(20,666)	(20,856)
Trade and other payables	(112,072)				
Gross settled derivative financial instruments - outflows	(14,122)	(970)			
Gross settled derivative financial instruments - inflows	13,666	969			

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

The following table reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognised financial liabilities. The amounts disclosed are undiscounted net cash outflows, based on the market conditions existing at 31 December 2019.

quarter, hence have never been required to test the covenant. Moreover, Leverage at the end of the year was 4.0x at maximum during 2019. 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 2018.

(€ thousands)	Less than 6 months	Between 6 months and 1 year	Between 1 year and 2 years	Between 2 and 5 years	Over 5 years
Total as of 31 December 2019	(140,745)	(10,030)	(54,918)	(274,769)	(7,512)
Senior Secured Notes	(9,102)	(9,102)	(18,205)	(271,310)	-
Senior Term Loan Facility	(248)	(249)	(35,374)	-	-
Finance lease liabilities	(684)	(679)	(1,339)	(3,460)	(7,512)
Trade and other payables	(125,940)				
Gross settled derivative financial instruments - outflows	(25,115)	-	-	-	-
Gross settled derivative financial instruments - inflows	20,345	-	-	-	-

A key factor in maintaining a strong financial profile is our credit rating which is affected by, among other factors, our capital structure, profitability, ability to generate cash flows, geographic and customer diversification and

our competitive position. Our current corporate credit ratings from Moody's Investor Service (Moody's) and Standard & Poor's Ratings Services (S&P) are noted as follows:

	31 December 2019	31 December 2019	31 December 2018	31 December 2018
	Moody's	S&P	Moody's	S&P
Long-term issue rating Senior Secured Notes	B2	BB-	B2	BB-
Corporate rating	B2	B	B2	B

On 10 August 2015, Moody's assigned a 'B2' rating to the €290m Senior Secured Notes issued by LSF9 Balta Issuer S.à r.l., the previous parent holding company of the Group, following a review of the final bond documentation. In June 2017, following the IPO, the ratings were upgraded to 'B1' to reflect the strengthening of the Group's financial profile, increased transparency as a public company, strengthened corporate governance arrangements and enhanced access to equity capital markets. In November 2018, the rating was downgraded to 'B2' with a negative outlook on the back of the financial performance. Throughout 2019, no changes to our credit rating were made.

On 14 September 2015, S&P assigned its 'B' long-term corporate credit rating to LSF9 Balta Investments S.à r.l. At the same time, S&P assigned its 'B' long-term issue rating to LSF9 Balta Issuer S.à r.l.'s €290m Senior Secured Notes and its 'BB-' long-term issue rating to the €68m Super Senior Revolving Credit Facility. In July 2017, the corporate rating was increased to 'B+' 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 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-'. Throughout 2019, no changes to our credit rating were made.

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 21 to 23 for further details.

Note 28. Employee benefit obligations

The Group operates a pension plan and provides for pension liabilities. These benefits have been measured in compliance with IAS 19 revised and in accordance with the Group accounting policies described in Note 1.20. The liability was measured using a discount rate of 0.5% and 1.57% in 2019 and 2018, respectively. The annual pension cost, relating to the pension plan is disclosed in Note 6.

The Group foresees termination benefits (including early retirement) for its working and retired personnel. The liability was measured using a discount rate of 0.15% in 2019 and 0.92% in 2018.

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

(€ thousands)	31 December 2019	31 December 2018
Total employee benefit obligations	4,533	3,713
Pension plans	773	1,405
Provisions early retirement pension	836	1,001
Provisions for pension	2,924	1,307

(€ thousands)	31 December 2019
Total employee benefit obligations	4,533
Non current	4,106
Current	Note 29 427

Pension plans: overview

Pension plans have been put in place for management and is financed through employer contributions which increase depending on seniority (base contribution of 3.75% of pensionable salary, increasing by 0.5% for every 5 years of service rendered within the Group up to a maximum contribution rate of 5.75%). This plan also includes a "death in service" benefit amounting to twice 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.

Note 29. Other payroll and social related payables

(€ thousands)	31 December 2019	31 December 2018
Total other payroll and social related payables	36,928	36,655
Holiday pay	14,834	15,244
Social security taxes	6,233	6,923
Salaries and wages payable	11,048	9,108
Early retirement provision	427	607
Group insurance	68	68
Withholding taxes	1,439	1,556
Other	2,879	3,150

Other payroll and social related payables increased from €36.7m as of 31 December 2018 to €36.9m at 31 December 2019.

Note 30. Provisions for other liabilities and charges

(€ thousands)	Asset retirement obligation	Restructuring	Warranty	Other	Total
At 1 January 2019	863	1,165	1,595	0	3,623
Additional provisions made and increases to existing provisions			224		224
Exchange differences			34		34
Amounts used		(1,001)		13	(988)
At 31 December 2019	863	164	1,853	13	2,893
Analysis of total provisions:	31 December 2019				
Non-current	(2,729)				
Current	(164)				
	(2,893)				

Pension plans: main valuation assumptions

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

	31 December 2019	31 December 2018
Discount rate BE	0.50%	1.57%
Discount rate TR	4.57%	4.23%
Retirement age	65 years	65 years
Mortality	MR/FR-5	MR/FR-5

For the year ended 31 December 2019, the defined benefit obligation, taking into account the tax effect, amounts to €18.6m (2018: €13.6m) and the offset by plan assets of €15.9m (2018: €12.2m).

The provision for other liabilities and charges decreased by €0.7m to €2.9m for the year ended 31 December 2019.

Throughout 2018, the Group concluded the restructuring project in Oudenaarde and the related costs were set off on the existing provision. The remaining provision for restructuring at the end of 2018 relates to the further unwinding of the machinery and onerous contracts. At the end of 2019, the unwinding of machinery is still in progress.

Note 31. Trade and other payables

(€ thousands)	31 December 2019	31 December 2018
Trade and other payables	112,072	125,940
Trade payables	83,741	93,009
Accrued charges and deferred income	27,661	29,521
Other payables	671	3,410

Trade payables as of 31 December 2019 of €112.1m include the amounts for outstanding invoices (€70.8m, as compared to €77.7m as of 31 December 2018) and invoices to be received in relation to goods and services received during the current period (€13.0m, as compared to €15.4m as of 31 December 2018).

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 (€8.7m, as compared to €10.1m as of 31 December 2018);
- Deferred revenue relating to advance payments on rental agreements (€2.5m, as compared to €2.8m as of 31 December 2018);
- Accrued charges for customer discounts (€13.3m as of 31 December 2019 and €12.4m as of 31 December 2018).

Note 32. Share based payments

On 16 June 2017, Balta NV, a member of the Balta, provided a share related bonus payment pursuant to a phantom share bonus scheme with Balta NV 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 have been recognised in integration and restructuring expenses as the installation of the phantom share bonus schemes was directly connected to the IPO.

In the context of the IPO, certain managers received shares and a cash bonus from LSF9 Balta Midco S.à r.l pursuant to existing management incentive schemes with Lone Star entities. After the 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) vested on its second anniversary. A manager who leaves the Balta voluntarily or is dismissed for cause prior to a vesting date will lose his/her entitlement to unvested shares.

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

Note 33. Government grants

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

The main incentives received comprise:

- Environmental grants: The Group receives 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 2019, €0.4m has been received in this framework, identical to previous year.

Note 34. Earnings per share

Basic and diluted earnings per share

	31 December 2019	31 December 2018
Basic and diluted earnings per share		
Net result from continuing operations	10,360	7,171
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	10,360	7,171
Weighted average number of ordinary and diluted shares outstanding (in thousands)	137,848	137,848
Net result per share attributable to holders of ordinary and diluted shares (in Euro)	0.08	0.05

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.

Adjusted earnings per share

The result of 2019 and 2018 included some non-recurring items which affected the earnings per share calculation. From a management perspective we calculated an adjusted earnings per share which excluded the impact of non-recurring items.

	31 December 2019	31 December 2018
Adjusted earnings per share¹		
Net result from continuing operations	10,360	7,171
Normalisation adjustments:	(3,856)	3,230
Adjusted Net Result from continuing operations	6,503	10,401
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	6,503	10,401
Weighted average number of ordinary and diluted shares outstanding (in thousands)	137,848	137,848
Net result per share attributable to holders of ordinary and diluted shares (in Euro)	0.05	0.08

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 2019 includes the one-off tax effect of the utilisation and recognition of previously recognised fiscal losses and the tax losses for which no deferred tax asset is recognised (see Note 11), offset by the net of tax impact of the €6.6m non-recurring expenses for integration and restructuring. In the absence of such events, the normalized profit for the period

- Investment grants: The Group received in 2019 €0.2m for the development of alternative polyolefins for bitumes. At 31 December 2018, €0.02m has been received as part of the development of hybrid structures made with blended (preferential airlaid) technology containing waste streams of polypropylene and of polyurethane.

would have been €6.5m. Similarly, the profit for the period in 2018 includes a net non-recurring expense of €7.7m (as in Note 3), resulting in a normalized net profit of €10.6m.

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

Note 35. Dividends per share

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.

Note 36. Commitments

Energy

Our fixed price purchase commitments for electricity and gas, for deliveries in 2020, are equal to €17.3m as of 31 December 2019 compared to an amount of €16.9m as of 31 December 2018.

Capital expenditures

As of 31 December 2019 €2.1m capital commitments are outstanding compared to €0.5m as of 31 December 2018.

Note 37. List of consolidated companies

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

	31 December 2019		31 December 2018	
	% of interest	% of control	% of interest	% of control
Belgium				
Balta NV	100%	100%	100%	100%
Balta Industries NV	100%	100%	100%	100%
Balta Trading Comm.V	-	-	100%	100%
Modulyss NV	100%	100%	100%	100%
Balta Oudenaarde NV	95%	100%	95%	100%
Balfid BVBA	100%	100%	100%	100%
Luxembourg				
Balfin Services S.à r.l.	100%	100%	100%	100%
LSF9 Balta Luxembourg S.à r.l.	100%	100%	100%	100%
LSF9 Balta Investment S.à r.l.	100%	100%	100%	100%
Turkey				
Balta Orient Tekstil Sanayi Ve Ticaret A.S.	100%	100%	100%	100%
Balta Floorcovering Yer Dös, emeleri San.ve Tic A.S.	100%	100%	100%	100%
USA				
Balta USA, Inc.	100%	100%	100%	100%
LSF9 Renaissance Holdings LLC	100%	100%	100%	100%
LSF9 Renaissance Acquisitions LLC	100%	100%	100%	100%
BPS Parent, Inc.	100%	100%	100%	100%
Bentley Prince Street Holdings, Inc.	100%	100%	100%	100%
Bentley Mills, Inc.	100%	100%	100%	100%
Prince Street, Inc.	100%	100%	100%	100%
United Kingdom				
Balta Floorcovering UK	100%	100%	-	-

Note 38. Related party transactions

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

advisory, consulting and other corporate services. Throughout 2018, a contract has been signed with a related party of the main shareholder, the impact on the 2018 and 2019 financials is limited.

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

Key management compensation

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

(€ thousands)	31 December 2019	31 December 2018
Total key management compensation	3,404	3,012
Short-term employee benefits	3,221	2,130
Long-term employee benefits	10	(182)
Board compensation	163	216
Termination benefits	0	840
Share-based payments	9	8

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 2019	31 December 2018
Other payables to related parties	(3,144)	(3,222)

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

Note 39. Fees paid to the Group's auditors

(€ thousands)	2019	2018
Audit services	324	306
Audit of the Group pursuant to legislation	324	306
Other audit-related services	-	-
Non-audit services	147	187
Tax services	0	147
Other services	147	40
Total fees paid to the Group's auditor	471	493

Note 40. Events after the reporting period

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

Balta Group has prepaid all amounts outstanding under the €35m Senior Term Loan facility maturing September 2020.

COVID-19 statement

In response to the outbreak of the novel coronavirus (COVID-19), which first appeared in China in December 2019 and has since early 2020 been declared a pandemic and spread to every region of the world, governments globally and in the markets in which we operate have implemented strict social distancing measures, including varying degrees of lockdowns and the closure of non-essential businesses, including the businesses of a number of our customers. These measures have resulted in a significant disruption of daily life, and in a significant deterioration of global, regional and national macroeconomic conditions, with each of the markets in which we operate now expected to see negative economic growth for the year. Since the pandemic is an event of 2020, it is a subsequent event of the 2019 closing and has no impact on the 2019 financial statements.

To protect the health and safety of our workforce

and customers and to mitigate the effect of COVID-19 on our operations, we have formed an internal COVID-19 taskforce which participates in daily calls and coordinates our response to the situation across the Balta group. In addition, we have implemented a number of measures to reduce our operating costs and manage our cash flows, including the temporary closure of plants as well as a reduction of employee costs, procurement costs and capital expenditures.

Following a strong start to the year, which saw an almost 16% increase in EBITDA in the two months ended 29 February 2020 compared to the same period in 2019, revenues decreased by more than 29% during March 2020 compared to the same period in 2019, mainly as a result of a decrease in orders from customers.

As a result of this reduced demand for our products and to reduce costs and preserve cash, we have temporarily shut down 6 of our 8 plants, which we estimate has reduced our operating costs by approximately 37% in April. Other than these voluntary closures, our plants are fully operational and have not yet been ordered to close by any government or other authority. Additionally, we have put our product launches on hold and we have reviewed all purchases of raw materials and are in negotiations with our suppliers to delay or, where possible cancel, our raw material orders. We estimate that these measures will result in a further reduction of our operating costs by 12% in Q2.

To reduce our employee costs, we have accessed available government unemployment support programmes in Belgium, UK, France and Germany for the vast majority of our workforce in those countries. Additionally, we have implemented a hiring freeze across the entire Balta group, postponed our annual merit-based salary reviews and reduced the monthly compensation of our CEO and the members of our Management Committee and group-wide leadership team by 50%, 40% and 30%, respectively. Our paid directors have also agreed to reduce their director fees by 50%. We believe that these measures will allow us to reduce employee costs

by up to 25%. The reduced compensations will not be recaptured.

The current crisis has and will continue to impact our working capital. We are closely monitoring our daily cash flows. To further protect our liquidity position, we have also significantly reduced our marketing costs as well as samples and other capital expenditures by approximately €20m, which we believe is the minimum amount necessary to continue operating our business. Additionally, we are closely monitoring our accounts receivable and accounts payable to manage our cash outflows. As a precautionary measure, to address our short-term liquidity and working capital needs, on 11 March 2020, we drew €72.7m revolving credit facility. As of 31 March 2020, we held cash and cash equivalents in the amount of €80.4m.

As of the date of this report, it is too early to accurately predict the effect of COVID-19. We believe that the COVID-19 situation represents an unprecedented short-term disruption to our business and the wide variations in potential outcomes present a material challenge to our business and industry. We are in regular contact with the governments in our key markets to determine the availability of, and our eligibility for, state aid and other government support measures, including the availability of additional financing.

We are currently forecasting a ramp-up in production beginning in early June 2020, and under this scenario we are estimating that we would be producing at approximately 85% of capacity in the fourth quarter of 2020. We anticipate additional working capital requirements as we begin our production ramp-up. We have assumed that our customers will continue to pay according to invoice terms, and we plan to continue to manage our cash flow conservatively for the duration of the COVID-19 crisis. Based on these assumptions, we are currently forecasting our existing cash on hand and cash flow to be sufficient for our business through our expected production ramp-up, but as a result of the decreasing

EBITDA levels we were facing the possibility of breaching our leverage covenant on our €61m RCF financing in Q2 of 2020 and in subsequent quarters where the twelve month period being tested includes months that are impacted by the COVID-19 pandemic. We have proactively reached an agreement with the relevant banks to adjust the covenant calculation for the impact of COVID-19 through Q2 of 2021. We are confident that with this amended calculation of the covenant, a breach will be avoided. Based on the currently available information and forecasts, although visibility remains limited as the pandemic is still progressing, the Group currently believes that it will be able to meet its liabilities and commitments as they fall due across the applicable forecast period and has determined that the going concern basis remains the appropriate basis of preparation for its financial statements. To further strengthen our position, we will likely look at government and other options to raise funds given the uncertainty as to when the COVID-19 crisis will end, and markets will return to normal.

Audit report

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of LSF9 Balta Issuer S.à r.l. (the "Company") and its subsidiaries (the "Group") as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

Emphasis of Matter

As far as the outbreak of COVID 19 is concerned, we draw your attention to Note 40 ("Events after the reporting period") of the consolidated financial statements in which the Board of Managers expresses its view that, although the consequences thereof may have a significant impact on the Group's operations in 2020, such consequences do not have a material impact on the Group's financial position for the year ended 31 December 2019. Our opinion is not modified in respect of this matter.

Other information

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

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

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

Responsibilities of the Board of Managers for the consolidated financial statements

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers;
- conclude on the appropriateness of the Board of Managers' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 27 April 2020

Electronically signed by:
Anne Derouané



Anne Derouané



Indoor and Outdoor Rugs



Residential carpets and tiles



Commercial carpets and tiles



LSF9 Balta Issuer S.à r.l.

15, Boulevard Friedrich Wilhelm
Raiffeisen,
L-2411 Luxembourg
info@baltagroup.com
www.baltagroup.com