Consolidated financial statements

as of December 31, 2019

Tarkett

This document presents the consolidated financial statements of Tarkett as of December 31, 2019.

The statutory auditors' report appears on the page 55.

This document is a non-binding "free" translation from French in English as no legal value other than an informative one.

Should there be any difference between the French and the English version, only the text in French language shall be deemed authentic and considered as expressing the exact information published by Tarkett.

1 Consolidated Financial Statements as of December 31, 2019

Consolidated income statement

(in millions of euros)	Note	2019	2018
Net Revenue	**(3)**	**2,991.9**	**2,836.1**
Cost of sales		(2,321.7)	(2,183.7)
Gross profit	**(3)**	**670.2**	**652.4**
Other operating income	(3)	23.8	13.2
Selling and distribution expenses		(360.9)	(330.1)
Research and development		(32.8)	(36.0)
General and administrative expenses		(184.0)	(180.0)
Other operating expenses	(3)	(19.7)	(12.9)
Result from operating activities	**(3)**	**96.6**	**106.6**
Financial income		1.3	1.0
Financial expenses		(40.1)	(31.1)
Financial income and expenses	**(7)**	**(38.8)**	**(30.1)**
Share of profit of equity accounted investees (net of income tax)		(4.0)	(7.9)
Profit before income tax		**53.8**	**68.6**
Total income tax	(8)	(14.2)	(18.5)
Profit from continuing operations		**39.6**	**50.1**
Net profit for the period		**39.6**	**50.1**
Attributable to:			
Owners of Tarkett		39.6	49.3
Non-controlling interests	(2)	(0.0)	0.8
Net profit for the period		**39.6**	**50.1**
Earnings per share:			
Basic earnings per share *(in euros)*	(9)	0.62	0.78
Diluted earnings per share *(in euros)*	(9)	0.61	0.77

Consolidated statement of comprehensive income

(in millions of euros)	Note	2019	2018
Net profit for the period		**39.6**	**50.1**
Other comprehensive income (OCI)			
Foreign currency translation differences for foreign operations		13.0	12.0
Changes in fair value of cash flow hedge instruments	(7)	(2.7)	0.6
Income tax		0.7	(0.1)
First application of IFRS 9		-	(0.3)
OCI to be reclassified to profit and loss in subsequent periods		**11.0**	**12.2**
Defined benefit plan actuarial gain (losses)	(4)	(10.6)	2.3
Income tax		2.9	0.7
OCI not to be reclassified to profit and loss in subsequent periods		**(7.7)**	**3.0**
Other comprehensive income, net of tax		**3.3**	**15.2**
Total comprehensive income for the period		**42.9**	**65.3**
Attributable to:			
Owners of Tarkett		42.9	65.1
Non-controlling interests		(0.0)	0.2
Total comprehensive income for the period		**42.9**	**65.3**

Consolidated statement of financial position

Assets

(in millions of euros)	Note	Dec. 31, 2019	Dec. 31, 2018
Goodwill	(5)	650.6	662.0
Intangible assets	(5)	155.6	133.3
Property, plant and equipment [1]	(5)	607.3	514.8
Other financial assets	(7)	21.7	24.1
Deferred tax assets	(8)	91.1	76.6
Other intangible assets		-	-
Total non-current assets		**1,526.3**	**1,410.8**
Inventories	(3)	417.5	449.3
Trade receivables	(3)	258.5	350.5
Other receivables	(3)	93.8	84.1
Cash and cash equivalents	(7)	137.7	95.7
Total current assets		**907.5**	**979.6**
Total assets		**2,433.8**	**2,390.4**

Equity and liabilities

(in millions of euros)	Note	Dec. 31, 2019	Dec. 31, 2018
Share capital	(9)	327.8	318.6
Share premium and reserves		167.4	145.8
Retained earnings		299.5	290.9
Net profit for the period attributable to equity holders of the parents		39.6	49.3
Equity attributable to equity holders of the parent		**834.2**	**804.6**
Non-controlling interests		(0.0)	2.4
Total equity		**834.2**	**807.0**
Other non-current liabilities		5.5	-
Financial liabilities [2]	(7)	740.2	839.1
Other financial liabilities	(7)	0.3	4.1
Deferred tax liabilities	(8)	26.4	35.7
Employee benefits	(4)	136.7	129.8
Provisions and other non-current liabilities	(6)	40.5	46.4
Total non-current liabilities		**949.7**	**1,055.1**
Trade payables	(3)	324.0	283.6
Other operating liabilities	(3)	234.2	193.1
Financial liabilities and bank overdrafts [3]	(7)	34.2	10.2
Other financial liabilities	(7)	9.5	10.0
Provisions and other current liabilities	(6)	48.0	31.4
Total current liabilities		**649.8**	**528.3**
Total equity and liabilities		**2,433.8**	**2,390.4**

(1) Including €89.6 millions in right of use following the application of IFRS 16 as of December 31, 2019.
(2) Including €66.7 millions in lease liability following the application of IFRS 16 as of December 31, 2019.
(3) Including €22.6 millions of lease liability following the application of IFRS 16 as of December 31, 2019.

Consolidated statement of cash flows

(in millions of euros)	Note	2019	2018
Cash flows from operating activities			
Profit for the period before income tax		53.8	68.6
Adjustments for:			
Depreciation, amortization and impairment (1)		158.1	121.5
(Gain) loss on sale of fixed assets	(3)	(2.7)	(0.5)
Net finance costs (2)	(7)	38.8	30.1
Change in provisions and other non-cash items		6.2	(9.1)
Share of profit of equity accounted investees (net of tax)		4.0	7.9
Operating cash flow before working capital changes		**258.2**	**218.5**
(Increase) / Decrease in trade receivables		85.0	16.9
(Increase) / Decrease in other receivables		0.6	(1.4)
(Increase) / Decrease in inventories		33.1	(13.1)
Increase / (Decrease) in trade payables		38.9	(15.6)
Increase / (Decrease) in other payables		32.8	0.9
Changes in working capital		**190.4**	**(12.3)**
Net interest paid		(22.7)	(17.2)
Net income taxes paid		(30.5)	(25.3)
Other operating items		(11.2)	(0.7)
Net cash flows from operating activities		**384.3**	**163.0**
Cash flows from investing activities			
Acquisition of subsidiaries net of cash acquired	(2)	(2.5)	(231.9)
Acquisitions of intangible assets and property, plant and equipment	(2)	(124.6)	(128.2)
Proceeds from sale of property, plant and equipment	(5)	3.7	1.5
Effect of changes in the scope of consolidation		0.0	-
Net cash flows from investing activities		**(123.4)**	**(358.6)**
Cash flows from financing activities			
Acquisition of NCI without a change in control	(2)	(5.5)	-
Proceeds from loans and borrowings		483.0	230.4
Repayment of loans and borrowings		(653.6)	(9.8)
Repayment of lease liabilities (3)		(31.9)	(0.4)
Acquisitions/disposals of treasury shares		(4.1)	(5.3)
Dividends	(9)	(7.4)	(37.9)
Net cash flows from financing activities		**(219.5)**	**177.0**
Net increase / (decrease) in cash and cash equivalents		**41.4**	**(18.6)**
Cash and cash equivalents, beginning of period		95.7	114.7
Effect of exchange rate fluctuations on cash held		0.6	(0.4)
Cash and cash equivalents, end of period	**(7)**	**137.7**	**95.7**

(1) Including €29.3 million in depreciation of right-of-use assets (IFRS 16), as of December 31, 2019.
(2) Including €4.2 million in financial expenses on lease liabilities (IFRS 16), as of December 31, 2019.
(3) In 2019, concerned leases within the scope of IFRS 16, and in 2018, concerned financial leases within the scope of IAS 17.

Consolidated statement of changes in equity

(in millions of euros)	Share Capital	Share premium and reserves	Translation reserves	Reserves	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
As of January 1, 2018	**318.6**	**145.8**	**(55.4)**	**369.4**	**778.4**	**2.2**	**780.6**
Net profit for the period	-	-	-	49.3	49.3	0.8	50.1
Other comprehensive income, net of tax	-	-	12.6	3.5	16.1	(0.6)	15.5
First application for IFRS 9	-	-	-	(0.3)	(0.3)	-	(0.3)
Total comprehensive income for the period	**-**	**-**	**12.6**	**52.5**	**65.1**	**0.2**	**65.3**
Dividends	-	-	-	(37.9)	(37.9)	-	(37.9)
Own shares (acquired) / sold	-	-	-	(5.3)	(5.3)	-	(5.3)
Share-based payments	-	-	-	3.9	3.9	-	3.9
Acquisition of NCI without a change in control	-	-	-	-	-	-	-
First application of IFRS 9	-	-	-	0.3	0.3	-	0.3
Other	-	-	-	0.1	0.1	-	0.1
Total transactions with shareholders	**-**	**-**	**-**	**(38.9)**	**(38.9)**	**-**	**(38.9)**
As of December 31, 2018	**318.6**	**145.8**	**(42.8)**	**383.0**	**804.6**	**2.4**	**807.0**
First application of IFRIC 23 [(1)]	-	-	-	(4.3)	(4.3)	-	(4.3)
As of January 1, 2019	**318.6**	**145.8**	**(42.8)**	**378.7**	**800.3**	**2.4**	**802.7**
Capital increase [(2)]	9.1	-	-	-	9.1	-	9.1
Share premium [(2)]	-	21.5	-	-	21.5	-	21.5
Net profit for the period	-	-	-	39.6	39.6	(0.0)	39.6
Other comprehensive income, net of tax	-	-	13.0	(9.7)	3.3	-	3.3
Total comprehensive income for the period	**-**	**-**	**13.0**	**29.9**	**42.9**	**(0.0)**	**42.9**
Dividends [(2)]	-	-	-	(38.1)	(38.1)	-	(38.1)
Own shares (acquired) / sold	-	-	-	(0.4)	(0.4)	-	(0.4)
Share-based payments	-	-	-	0.1	0.1	-	0.1
Acquisition of NCI without a change in control	-	-	-	(3.2)	(3.2)	(2.3)	(5.5)
Other	-	-	-	1.9	1.9	(0.1)	1.8
Total transactions with shareholders	-	-	-	(39.7)	(39.7)	(2.4)	(42.1)
As of December 31, 2019	**327.8**	**167.4**	**(29.8)**	**368.9**	**834.2**	**(0.0)**	**834.2**

(1) cf. Note 1.2
(2) cf. Note 9

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Note 1 > Basis of preparation

1.1 General information

Tarkett's Consolidated Financial Statements as of and for the year ended December 31, 2019 comprise the Company and its subsidiaries (hereafter the "Group") as well as its interests in associates and joint ventures.

The Group is a leading global flooring company, providing a large range of flooring and sports surface solutions to business and residential end-users.

The Group completed its initial public offering on November 21, 2013, and is listed on Compartment B (Compartment A until January 31, 2020 and Compartment B since February 1, 2020) of Euronext Paris, ISIN code: FR0004188670 - Ticker Symbol: TKTT.

The Group's registered office is located at 1 Terrasse Bellini - Tour Initiale - 92919 Paris La Défense, France.

The Group's Consolidated Financial Statements as of and for the year ended December 31, 2019 were finalized by the Management Board on February 11, 2020 and reviewed by the Supervisory Board on February 13, 2020. They will be submitted for shareholder approval on April 30, 2020.

1.2 Significant accounting principles

1.2.1 Statement of compliance and applicable standard

The Group's Consolidated Financial Statements as of and for the year ended December 31, 2019 have been prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union as of such date, which are available at https://ec.europa.eu/info/index_en. These standards have been applied consistently for the fiscal years presented.

a) Amendments, new standards, or revisions to existing standards and interpretations applied during the period

The following new published standards have been applied to the period by the Group:

> **IFRS 16: Leases**

Presentation and general principles

On January 13, 2016, the IASB published IFRS 16, "Leases," which replaces IAS 17 and the related interpretations: IFRIC 4 ("Determining whether an Arrangement Contains a Lease"), SIC 15 ("Operating Leases - Incentives"), and SIC 27 ("Evaluating the Substance of Transactions in the Legal Form of a Lease").

The new standard, adopted by the European Union on October 31, 2017 and applicable as of January 1, 2019, eliminates the distinction between between opeating leases and finance leases for leases with terms of longer than one year. It requires leases to be recorded on the lessee's balance sheet as follows:

- with an asset representing the leased asset's right of use;
- with a liability for the obligation to make rental payments; and
- with amortization of the right of use and interest expense recorded for the interest on the lease liability.

Application by the Group

The Group considers an arrangement to be a lease within the meaning of IFRS 16 if it gives the lessee the right to control the use of an identified asset.

At Tarkett, the greatest number of lease agreements concern cars and forklifts; however, measured by value, lease agreements primarily concern real property (offices, plants, and warehouses).

The Group has deployed a dedicated information system to generate the accounting entries relating to this standard, which makes it possible to do the following:

- identify lease agreements, within the meaning of IFRS 16;
- update information in real time;
- generate accounting entries;
- manage forecast data; and
- analyze financial impacts.

Method of transition

The Group uses the "simplified retrospective" method, in which a liability is recorded on the transition date equal to the present value of the remaining payments, accompanied by a right-of use adjusted for any prepaid or accrued lease payments. The application of IFRS 16 had no impact on shareholders' equity.

In addition, this transition method does not allow for the restatement of comparative information provided for the 2018 fiscal year in the 2019 consolidated financial statements.

It provides for various simplification and exemption measures both during the transitional period and on an ongoing basis.

The Group has decided to use the general exemptions:

- leases with an initial term of less than 12 months;
- leases concerning low value assets (those whose value, when new, was less than €5,000 or $5,000).

For the transition, the Group opted:

- to use the remaining term of the lease to determine the discount rate as of the transition date; and
- to exclude initial direct costs from the valuation of the right of use as of the date of first application.

Discount rate

Among the key assumptions, the Group decided to use a different discount rate for each contract, determined based on its characteristics, term, country risk, and credit risk of the lessee entity, as well as the terms of the Group's outside financing.

Thus, the discount rate is determined for each asset on the basis of the incremental borrowing rate on the effective date of the contract and corresponds to the interest rate that each of the Group's entities would incur to borrow the amount necessary to acquire a similar asset, for a duration and in an economic environment similar to that of the lease.

For existing contracts on the transition date, in order to calculate the right of use and the lease liability, the Group applies a discount rate for each contract as of January 1, 2019 (the date on which the standard entered into force).

The Group's weighted average interest rate applied to lease liabilities as of January 1, 2019 is 4.14%.

Term of lease

The initial term of the lease corresponds to the period during which it cannot be terminated, plus, where applicable, renewal or termination options that the Group is reasonably certain it will exercise.

For certain types of leased assets (primarily vehicles), the Group believes that there is no option to extend that it is reasonably certain to exercise; as a result, the term runs until the first date on which it is possible to terminate the lease.

The enforceable period of a lease is the period during which the lease cannot be cancelled. The initial term used for each contract corresponds to the length of the enforceable period, to which is added any option to extend or to terminate early within the control of the Tarkett Group company and that it would be reasonably certain to exercise.

In assessing whether it is reasonably certain to exercise or not to exercise an option to extend or to terminate early, each Group entity considers all of the relevant facts and circumstances that would influence it to exercise or not exercise the option.

A Group entity may revise the length of a lease during its term, where an option to extend or to terminate had not initially been deemed exercised for purposes of determining the initial term of the lease, or where a significant event such as a loss or significant change in the environment occurs and requires the entity to consider the option.

With respect to the depreciation of non-removable leasehold improvements, the Tarkett Group decided to use the shorter of the following periods:

- the useful life of the leasehold improvement, as defined in IAS 16, "Property, Plant and Equipment"; and
- the lease term of the related leased asset, in light of the legal limit for the use of the asset imposed by the lease agreement.

Improvements associated with leased real property are recorded outside the scope of application of IFRS 16.

As of year-end 2019, the Group is not affected by the IFRIC's November 2019 update clarifying the relationship between the enforceable period of the lease agreement and the leased asset's non-removable improvements.

Types of lease agreements

- **Goods and real property**

For leases of land and buildings within the scope of IFRS 16, the lease term and discount rate are determined as described above.

Leases of land and buildings do not include clauses guaranteeing the value of the leased assets.

When a building is leased and local law requires the lessee to lease the land on which the building sits in the form of a long-term lease, the Tarkett Group uses an economic approach, limiting the lease term for the land to the lease term for the related building.

With respect to so-called "3-6-9" leases, the Tarkett Group, in accordance with the French Accounting Standards Authority (Autorité des Normes Comptables - ANC) assumes that:

- the non-termination period of the commercial lease is three years;
- the maximum term of the commercial lease is nine years, with any extension of the lease following the nine years constituting a new lease agreement; and
- in light of the termination options that only the lessee holds following the triennial periods;

the Group uses a nine-year term for this type of contract. None of the Group's commercial leases currently in effect includes an exception extending the nine-year maximum term.

The Tarkett Group's principal commercial lease is the lease of premises for the Group's registered office.

- **Equipment and machinery**

The Group's leases of equipment and machines within the scope of IFRS 16 primarily include company cars and forklifts used in the Group's plants. All company cars with lease terms of greater than 12 months are treated in accordance with IFRS 16.

The lease term and discount rate used in calculating the lease liability are determined in the manner described above. Equipment and machinery leases do not include clauses guaranteeing the value of the leased asset.

- **Non-capitalized lease agreements**
    - Short-term leases

Short-term leases have terms of one year or less. The Group's short-term leases consist primarily of short-term car leases.

- Low value leases

Low value leases are those for which the value of the asset, if new, would be less than or equal to €5,000 or $5,000. The Group's low value leases consist primarily of leases of small machines and office equipment.

Impact of applying the standard on the principal financial aggregates

Right of use recorded in assets

As of the transition date, rights of use were valued on the basis of lease liability as of January 1, 2019.

In the absense of significant initial direct costs, the right of use corresponds to the present value of rental payments. The right is amortized and is impaired if there are indications of a potential loss of value.

The Tarkett Group includes all significant initial direct costs in valuing the right of use. These costs consist of the incremental costs that, first, would not have been incurred if the lease agreement had not been entered into, and second, were directly attributable to the negotiation and entry into the lease agreement. Generally speaking, these costs include the cost of negotiating and finalizing the lease, attorney fees, commissions, any eviction indemnity paid to the previous tenant, etc. These initial direct costs exclude general expenses as well as any costs for construction, improvements, or installation.

See Note 5.2, Intangible assets and property, plant and equipment.

Lease liabilities

As of January 1, 2019, lease liabilities totalled €104.0 million (including €3.3 million aleady recognized in respect of finance leases), as compared with lease commitments of €114.2 million as of December 31, 2018.

A reconciliation between off-balance sheet commitments and the opening date is presented in Note 5.4, Lease commitments.

The lease liability recorded coresponds to the present value of the remaining rent payments due to the lessor.

These liabilities are included in the Group's financial liabilities. However, lease liabilities and the cancellation of lease expenses are excluded for purposes of calculating the ratio of net indebtedness to adjusted EBITDA used in financial covenants (see Note 7.3.3, Financial ratio covenants).

Income statement and statement of cash flows

In addition to the balance sheet, the income statement and statement of cash flows are affected. Thus:

- operating lease expenses, previously recorded on a straight-line basis in EBITDA, will be replaced with an amortization expense for rights of use and an interest charge in financial income
- rights of use are amortized on a straight-line basis over the term of the lease;
- cash flows from operating leases (excluding variable rent based on the use or performance of the underlying asset) will be replaced with cash flows from the repayment of liabilities and interest.

Deferred tax

The Group takes the position that because the asset and liability resulting from the application of IFRS 16 arise out of the same contract, they must be treated together in calculating deferred tax. As of the initial date on which the asset and the liability were recorded, there is no temporary difference, as the two have the same value.

> **IFRIC 23: Uncertainty over income tax treatments**

On June 7, 2017, the IASB published IFRIC 23, Uncertainty over income tax treatments. This interpretation, adopted by the European Union on October 23, 2018, applies as from January 1, 2019. IFRIC 23 clarifies the application of IAS 12, Income taxes, with respect to recording and valuation where uncertainty exists as to income tax treatment.

The interpretation provides clarification regarding:

- the unit of tax treatment, which is the level at which the tax risk to which the rules on accounting for and valuing assets and liabilities apply are assessed: either collectively (at the level of the taxable entity, jurisdiction, or group), or individually at the level of each risk;
- the risk of detection, which must be fully included when accounting for and valuing tax risk. It must be assumed that the tax authorities will perform an audit and that they will have access to all information in order to identify the error or misinterpretation of the tax standard;
- the accounting principle regarding estimation of the probability (in the sense of "more likely than not") that the tax authorities will accept the uncertain tax treatment. Thus, and to the extent that it is more than 50% likely that the tax authorities will not accept the tax treatment applied, the uncertain tax treatment must be reflected in the financial statements in tax due and/or in deferred tax; and
- the principle regarding valuation of a provision based on an estimation of the amount that the entity expects to pay or to recover from the tax authorities. Either of two valuation methods may be used, on a case-by-case basis: the more probable amount, or the weighted average of the various possible scenarios.

The Group has chosen to apply the partially retrospective transition method, which means accounting for the cumulative impact in equity at the start of the fiscal year, as of January 1, 2019, and permits not restating the comparable period.

In view of IFRIC 23, and more specifically after applying a 100% risk of detection, the Group now believes that their are uncertainties as to the tax treatment of certain specific intragroup flows. As a result, equity was decreased by €4.3 million as of January 1, 2019, balanced by recording taxes on the balance sheet.

> **Amendments**

As of January 1, 2019, the Group has applied the following additional amendments:

- amendment to IFRS 9, Prepayment Features with Negative Compensation;
- amendment to IAS 19: Plan Amendment, Curtailment, or Settlement;
- amendment to IAS 28: Long Term Interests in Associates and Joint Ventures;
- amendment to IFRS 3: Definition of a Business regarding the multi-step acquisition of business previously considered a joint venture;
- amendment to IAS 12: tax consequences of the distribution of dividends within the meaning of IFRS 9; and
- amendment to IAS 23: Borrowing Costs.

These amendments, applicable as of January 1, 2019, have no significant impact as of December 31, 2019.

b) Early adoption of new standards or interpretations during the period

- Amendment to IFRS 9, IAS 39, and IFRS 7 published by the IASB in September 2019.

The Group has chosen early application, beginning in 2019, of the amendment to IFRS 9, IAS 39, and IFRS 7 published by the IASB in September 2019 in connection with the interest rate benchmark reform.

The amendment allows the Group not to account for uncertainties as to future benchmark interest rates when valuing the effectiveness of its hedge transactions or in assessing whether the hedged risk is highly probably, thus enabling the Group to securitize existing or future hedge relationships until the uncertainties are resolved.

Interest rate derivatives documented as part of a hedge are presented in Note 7.6. The Group is in the process of analyzing the impacts of the future modification of benchmark indices.

c) New standards and interpretations not adopted

The following published standards have not been applied by the Group:

> **IFRS 17: Insurance Contracts**

On May 18, 2017, the IASB published IFRS 17, Insurance Contracts, on accounting for and valuing insurance contracts, which will replace IFRS 4. As it has not yet been adopted by the European Union, and given the IASB's decision to postpone by one year, the first application will be on January 1, 2022.

1.2.2 Accounting estimates and judgments

The preparation of the Group's Consolidated Financial Statements requires it to make a number of estimates and assumptions that have an effect on the amounts recorded on its balance sheet and income statement.

These judgments and estimates relate principally to:

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Valuation of deferred tax assets	8.2
Determination of other provisions (warranties and disputes)	6

Management reviews these estimates and assumptions on an ongoing basis, by reference to past experience and information deemed significant given the current environment. Actual results may differ significantly from these estimates.

The Group's Consolidated Financial Statements have been prepared on the basis of historical cost with the exception of the following assets and liabilities, which have been measured at fair value: derivatives, investments held for trading, available-for-sale financial assets, pension plan assets and other assets when required. The carrying amount of assets and liabilities subject to fair value hedging has been adjusted in line with the changes in fair value attributable to the hedged risks.

1.3 Significant developments

On February 19, 2019, Tarkett and Sonae Arauco announced their intention to cease operating their joint venture, LaminatePark GmbH & Co. KG.

In addition, on April 17, 2019, Tarkett announced changes in its manufacturing footprint in North America. These changes are part of the Group's strategy to optimize its operations and to better position itself to respond to the needs of the North American market.

During the 2019 fiscal year, that strategy led to the transfer of manufacturing activities to production sites in the United States and to asset sales. These movements resulted in closing the plant in Waterloo, Ontario (Canada), which manufactured flooring accessories, and the plant in Truro in Nova Scotia (Canada), which produced commercial carpet rolls.

Note 2 > Changes in the scope of consolidation

2.1 Consolidation methods

2.1.1 Full consolidation

A subsidiary is an entity controlled by the Groupe. The Group controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Losses applicable to non-controlling interests in a subsidiary are allocated to the non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

2.1.2 Equity method accounting for joint ventures and associates

A joint venture, for purposes of IFRS 11, is an arrangement in which the Group has joint control, whereby the Group has right to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. The Group's interests in equity-accounted joint ventures comprise principally the joint venture Laminate Park GmbH & Co.

They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases.

The accounting policies described hereafter have been applied to all the periods presented in the Consolidated Financial Statements and have been uniformly applied by all Group entities acquired prior to December 31, 2019 (see Note 2.4 "Changes in Scope of Consolidation").

2.2 Business combinations

Business combinations are accounted for using the acquisition method on the acquisition date - i.e. when control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. However, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Acquisition of NCI without a change in control

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non -controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in profit or loss.

Share put options granted by the Group

The Group may write a put option or enter into a forward purchase agreement with the non-controlling shareholders in an existing subsidiary on their equity interests in that subsidiary. The Group consolidates the entity as though the non-controlling interests had already been acquired. This position leads to recognizing a liability for the present value of the price payable in the event that the non-controlling interests exercise their option.

As of December 31, 2019, all buyback options have been exercised.

2.3 Foreign currency translation

The functional currency of Tarkett and its subsidiaries located in the euro zone is the euro. Group entities operate on an autonomous basis and therefore the functional currency of entities operating outside the euro zone is generally their local currency.

The functional currency of entities in the Commonwealth of Independent States ("CIS") is the euro. After analyzing the primary and secondary indicators set forth in IAS 21.9, the Group has confirmed this choice for the 2019 financial statements.

The Group presents its financial statements in euros.

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at the foreign exchange rate as of the date of the transaction. Foreign exchange rate differences arising on these transactions are recognized either in the operating profit for operational transactions or in the financial result for financing transactions.

Some items are covered by hedging transactions; the accounting treatment for those transactions is described in Note 7.6.

Non-monetary items are translated using the historical exchange rates, while monetary items are translated using the foreign exchange rates ruling at the balance sheet date.

Financial statements of foreign operations

On the balance sheet date, assets and liabilities of foreign operations are translated at the closing rate, and income and expenses are translated at the average exchange rate for the period.

Foreign currency differences are recognized in other comprehensive income (OCI), and presented in the translation reserve in equity.

Net investments in foreign operations

When long-term loan in foreign currency is granted to a subsidiary, it may be deemed a net investment in a foreign company. Foreign exchange gains and losses relating to these long-term loans are then recognized in translation reserves in other comprehensive income.

2.4 Changes in the scope of consolidation

The Tarkett Group's scope of consolidation is as follows (see Note 13, which contains a list of consolidated companies):

Number of companies	December 31, 2018	Mergers	Acquisitions and creations	Liquidations	December 31, 2019
Fully consolidated companies	78	(3)	2	(2)	75
Equity-accounted consolidated companies	2	-	1	-	3
Total	**80**	**(3)**	**3**	**(2)**	**78**

2.4.1 Transactions completed in 2019

The year's main transactions are as follows:

a) Acquisitions and creations

In June 2019, in Germany, Fieldturf Tarkett acquired the shares of Denus. The name of this entity is now Tarkett Sports GmbH.

Through its subsidiary Tarkett GDL, the Tarkett Group also acquired 40% of the shares of FED Inc. in July 2019, a U.S. company consolidated through the equity method.

In July 2019, Tarkett Argentina was formed in Argentina.

b) Mergers

In January 2019, Tandus Centiva Inc. and Tandus Centiva US LLC were merged into Tarkett USA Inc.

In December 2019, The Tennis & Track Company was merged into L.E.R. Inc.

c) Liquidations

Vinisin Kft and Desso Ltd were liquidated respectively in August 2019 and December 2019.

d) Other transactions

In May 2019, in the United Stated, through its subsidiray FieldTurf USA, Inc., Tarkett acquired the assets of Beyond The Turf.

In November 2019, the Group purchased the 30% of the shares held by Tarkett Aspen's minority shareholders. This transaction did not result in a change in the company's method of consolidation.

2.4.2 Transactions completed in 2018

a) Acquisitions

In late 2017, FieldTurf Tarkett SAS acquired 30% of the shares of AllSports Constructions & Maintenance, a Scottish company, which was consolidated through the equity method in 2018.

On January 31, 2018, through its subsidiary FieldTurf Tarkett SAS, Tarkett acquired the assets of Grass Manufacturers Pty Limited (Grassman), a leading Australian artificial turf manufacturer.

As of July 1, 2018, through its subsidiary FieldTurf Tarkett USA Holding Inc., the Tarkett Group acquired The Tennis and Track Company, a U.S. company.

In September 2018, Tarkett USA Inc. acquired Lexmark Carpet Mills, which manufactures high quality carpeting, principally for the hotel industry in North America.

In November 2018, through FieldTurf Inc., Tarkett acquired certain assets of Thermagreen, a company specialized in the manufacture and sale of polyethylene foam products.

b) Mergers

In 2018, in the Netherlands, Fieldturf Benelux BV was merged into Tarkett Sports BV, and in Belgium, Tarkett Belux was merged into Desso NV.

2.5 Joint ventures

The Group holds interests in the following companies:

- AllSports Constructions & Maintenance, a company established in Scotland.
- FED Inc., a U.S. company.
- Laminate Park GmbH & Co KG, jointly held with the Sonae Arauco Group.

Note 3 > Operating Data

3.1 Components of the income statement

3.1.1 Net revenue

As from January 1, 2018, IFRS 15, "Revenue from Contracts with Customers," replaces IAS 18, "Revenue," and IAS 11, "Construction Contracts," and their related interpretations.

The standard includes new rules for recording revenue and segmenting contracts into performance obligations.

In accordance with the standard, revenue from the sale of goods is recognized in profit or loss when the control inherent to service obligations has been transferred to the buyer, payment is likely, the associated costs and potential return of the merchandise can be reliably assessed, the Group is no longer involved in managing the merchandise, and the revenue from the merchandise can be reliably assessed. Revenue is recognized net of returns, rebates, commercial discounts and bulk discounts.

The Group recognizes revenue using the five-step model set forth in the standard as a function of its two business sectors: flooring and sports surfaces.

Flooring:

The contracts that the Group enters into relate to the supply of identifiable and distinct products constituting the principal performance obligation. No significant long-term contracts were identified. The Group acts in its own name and not as an intermediary. The general terms and conditions of sale provide for payment in under one year, and the Group does not offer variable financing that would necessitate segmented recording pursuant to IFRS 15. Tarkett does not sell extended warranties on its products; therefore, its warranty is not considered as a separate service and is recorded in accordance with IAS 37, "Provisions, contingent liabilities and contingent assets."

For this business sector, in general, revenue is recorded at the time of delivery of the performance obligation. Taking into consideration the nature of the products and the general terms and conditions of sale, sales are usually recorded on the date on which the products leave the Group's warehouses, or upon delivery if Tarkett is responsible for transport.

Sports Surfaces:

The sports surfaces activity is composed of sales of products directly to distributors and the sale of installation contracts (including provision of the sports surfaces). The direct sale of products to distributors follows the same Group rules for recording revenue as those described for the flooring activity. With respect to installation contracts, the Group does not perform installations without also providing the sports surfaces; it therefore considers the supply of the products and the installation to be part of the same performance obligation. The general terms and conditions of sale do not offer variable financing or specific components of financing. Tarkett does not sell extended warranties on its installations; therefore, its warranty is not considered a separate service and is recorded in accordance with IAS 37, "Provisions, contingent liabilities and contingent assets."

In this business segment, revenue from services rendered or from construction contracts is recognized in profit or loss in proportion to the stage of completion of the transaction at the balance sheet date. Revenue is recorded as the performance obligation are completed. The stage of completion is assessed by reference to surveys of work performed. The use of the percentage-of-completion method requires satisfaction of one of the three prior conditions provided for in IFRS 15 paragraph 35.

Pursuant to that paragraph of the standard, the Group recognizes revenue over time to the extent that it complies with two of the three following conditions referred to in the standard:

- the asset created by the Tarkett Group's performance does not have an alternative use to that provided for in the contract; and
- the Group has an enforceable right to payment for performance completed to date.

Net sales comprise revenue from the sale of goods and services net of price reductions and taxes, and after elimination of intragroup sales.

3.1.2 Operating result

a) Grants

Grants relating to assets are deducted from the carrying amount of the property, plant and equipment. The grants are thus recognized as income over the lives of the assets by way of a reduced depreciation charge.

Grants are recognized when there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Other grants are recognized as income on a systematic basis over the periods necessary to match them with the related costs which they are intended to compensate.

b) Expenses

Cost of sales

Cost of sales comprises the cost of manufactured products, the acquisition cost of purchased goods which have been sold, and the supply chain, logistic and freight costs.

Selling and distribution expenses

Selling and distribution expenses comprise the expenses of the marketing department and the sales force, as well as advertising expenses, distribution expenses, sales commissions and bad debts.

Research and development

Research and development costs are recognized as expenses when incurred, unless the criteria are met for them to be capitalized, as per Note 5.2.1.

General and administrative expenses

General and administrative expenses comprise the remuneration and overhead expenses associated with management and administrative personnel with the exception of amounts charged to other cost centers.

c) Other operating income and expenses

This category includes all operating income and expenses that cannot be directly attributed to business functions, including operating expense related to retirement commitments and costs with respect to certain disputes.

3.1.3 Adjusted EBITDA

Adjusted EBITDA is a key indicator permitting the Group to measure its operating and recurring performance.

It is calculated by taking operating income before depreciation and amortization and removing the following revenues and expenses:

- restructuring costs to improve the future profitability of the Group;
- gains or losses on disposals of significant assets;
- impairment and reversal of impairment based on Group impairment testing only;
- costs related to business combinations and legal reorganizations, including legal fees, transactions costs, advisory fees and other adjustments;
- expenses related to share-based payments due to their non-cash nature; and
- other one-off expenses considered exceptional by their nature.

(in millions of euros)		Of which adjustments					
	2019	**Re-structuring**	**Gains/Losses on asset sales / impairment**	**Business Combinations**	**Share-based payments**	**Other**	**2019 adjusted**
Net revenue	**2,991.9**	**(0.0)**	**-**	**-**	**-**	**-**	**2,991.9**
Cost of sales	(2,321.7)	12.7	(0.5)	(0.2)	0.0	2.6	(2,307.1)
Gross profit	**670.2**	**12.7**	**(0.5)**	**(0.2)**	**0.0**	**2.6**	**684.8**
Selling and distribution expenses	(360.9)	1.5	0.1	-	0.0	(0.1)	(359.5)
Research and development	(32.8)	0.5	-	-	0.0	-	(32.3)
General and administrative expenses	(184.0)	1.6	0.4	0.1	4.1	1.2	(176.7)
Other operating income and expenses	4.1	3.5	(2.2)	-	-	-	5.5
Result from operating activities (EBIT)	**96.6**	**19.7**	**(2.2)**	**(0.1)**	**4.1**	**3.6**	**121.8**
Depreciation and amortization	158.2	-	0.0	-	-	-	158.2
EBITDA	**254.7**	**19.7**	**(2.2)**	**(0.1)**	**4.1**	**3.6**	**280.0**

In 2019, the application of IFRS 16 increased EBITDA by €30.5 million. As a reminder, the standard was not applied in 2018.

(in millions of euros)		Of which adjustments					
	2018	**Re-structuring**	**Gains/Losses on asset sales / impairment**	**Business Combinations**	**Share-based payments**	**Other**	**2018 Adjusted**
Net revenue	**2,836.1**	**-**	**-**	**-**	**-**	**-**	**2,836.1**
Cost of sales	(2,183.7)	7.6	2.8	2.4	-	-	(2,171.0)
Gross profit	**652.4**	**7.6**	**2.8**	**2.4**	**-**	**-**	**665.2**
Selling and distribution expenses	(330.1)	1.0	-	-	0.1	(0.2)	(329.3)
Research and development	(36.0)	0.4	-	-	-	-	(35.6)
General and administrative expenses	(180.0)	1.9	0.6	2.4	4.0	1.1	(170.0)
Other operating income and expenses	0.3	0.3	-	0.3	-	-	1.0
Result from operating activities (EBIT)	**106.6**	**11.2**	**3.3**	**5.1**	**4.1**	**0.9**	**131.3**
Depreciation and amortization	121.5	(0.7)	(3.3)	-	-	-	117.5
EBITDA	**228.1**	**10.5**	**-**	**5.1**	**4.1**	**0.9**	**248.7**

3.2 Segment information

In accordance with IFRS 8, "Operating Segments," the Group's activities have been segmented based on the organization of its internal management structure and of its products.

As in 2018, the Group is organized in four segments:

> Europe, Middle East and Africa ("**EMEA**");
> North America;
> Commonwealth of Independent States ("**CIS**"), Asia Pacific ("**APAC**") and Latin America; and
> Sports surfaces.

Certain expenses are not allocated, including the expenses of headquarters and of the R&D Group.

Reminder on the organization of the CIS and Asia Pacific (APAC)/Latin America divisions

Reporting reviewed by the chief operating decision maker is organized by division, of which there are currently six: EMEA, North America, CIS, APAC, Latin America, and Sports Sufaces.

The CIS and APAC/Latin America Divisions have been combined to form the "CIS, APAC and Latin America" segment, for the following reasons:

> The markets of the divisions had similar economic characteristics (similar growth trends in the relevant markets).
> The products sold, manufacturing methods, types of clients, and distribution modes of the zones are similar.

In addition, the relatively small contribution of revenue and operating income from Asia-Pacific/Latin America (less than 10% of the Group's net revenue and adiusted EBITDA) highlighted that there was no need to present the division in a separate segment.

By operating segment

2019			Flooring			
(in millions of euros)	EMEA	North America	CIS, APAC and Latin America	Sports Surfaces	Central	Group
Net revenue	**910.4**	**825.9**	**587.4**	**668.1**	**-**	**2,991.9**
Gross profit	**240.6**	**187.9**	**114.1**	**127.5**	**0.1**	**670.2**
% of net revenue	26.4%	22.7%	19.4%	19.1%		22.4%
Adjusted EBITDA	**105.3**	**59.9**	**85.9**	**75.2**	**(46.1)**	**280.0**
% of net revenue	11.6%	7.3%	14.6%	11.2%		9.4%
Of which adjustments	**(7.2)**	**(12.3)**	**(0.2)**	**(0.1)**	**(5.6)**	**(25.3)**
EBITDA	**98.1**	**47.6**	**85.8**	**75.1**	**(51.7)**	**254.7**
% of net revenue	10.8%	5.8%	14.6%	11.2%		8.5%
Result from operating activities (EBIT)	**52.5**	**(28.3)**	**37.7**	**51.1**	**(16.3)**	**96.6**
% of net revenue	5.8%	-3.4%	6.4%	7.6%		3.2%
Ongoing capital expenditures	**48.9**	**29.4**	**19.9**	**14.6**	**11.2**	**124.1**

2018			Flooring			
(in millions of euros)	EMEA	North America	CEI, APAC et Amérique latine	Sports Surfaces	Central	Group
Net revenue	**908.4**	**783.6**	**580.5**	**563.6**	**-**	**2,836.1**
Gross profit	**244.0**	**191.1**	**111.5**	**105.6**	**0.2**	**652.4**
% of net revenue	*26.9%*	*24.4%*	*19.2%*	*18.7%*		*23.0%*
Adjusted EBITDA	**97.3**	**70.2**	**74.1**	**52.8**	**(45.7)**	**248.7**
% of net revenue	*10.7%*	*9.0%*	*12.8%*	*9.4%*		*8.8%*
Of which adjustments	**(5.8)**	**(4.0)**	**(1.7)**	**(1.5)**	**(7.6)**	**(20.6)**
EBITDA	**91.5**	**66.1**	**72.4**	**51.4**	**(53.4)**	**228.1**
% of net revenue	*10.1%*	*8.4%*	*12.5%*	*9.1%*		*8.0%*
Result from operating activities (EBIT)	**48.9**	**14.9**	**26.6**	**31.0**	**(14.8)**	**106.6**
% of net revenue	*5.4%*	*1.9%*	*4.6%*	*5.5%*		*3.8%*
Ongoing capital expenditures	**40.1**	**41.7**	**22.2**	**12.9**	**10.4**	**127.3**

Information on activity in France and in other significant countries

The Group's activity in France represented less than 10% of revenue in 2019 and in 2018.

Non-current assets in France, excluding the non-affected goodwill arising out of the merger between Tarkett and Sommer in the early 2000's, also represent less than 10% of the Group's total non-current assets in 2019 and in 2018.

Tarkett considers the threshold of 25% of revenues to be significant. Only the United States is above that threshold, with 43% of the Group's consolidated revenue in 2019 (41% in 2018).

The United States represents 50% of the Group's total non-current assets as of December 31, 2019 (50% as of December 31, 2018).

No single customer represents more than 10% of the Group's revenues. In 2019, the largest customer represented 3% of consolidated revenues (3% in 2018).

3.3 Other operating income and expenses

(in millions of euros)	2019	2018
Gains on disposal of fixed assets	2.7	0.5
Other operating income	21.1	12.7
Other operating income	**23.8**	**13.2**
Losses on disposal of fixed assets	-	-
Other operating expenses	(19.7)	(12.9)
Other operating expenses	**(19.7)**	**(12.9)**
Total other operating income and expenses	**4.1**	**0.3**

3.4 Breakdown of working capital requirement

3.4.1 Inventories

Inventories are stated on a FIFO (first in, first out) basis, at the lower of manufacturing/acquisition costs and net realizable value. Manufacturing costs of self-produced inventories comprise all costs that are directly attributable and a systematic allocation of production overhead and depreciation of production facilities based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(in millions of euros)	December 31, 2019	December 31, 2018
Raw materials and supplies	138.9	148.0
Work in progress	85.3	75.5
Finished goods	241.4	264.0
Samples	1.6	2.4
Displays	-	(2.3)
Consumables and spare parts	21.6	22.8
Total gross Value	**488.8**	**510.4**
Provision for inventory depreciation	(71.3)	(61.1)
Total net inventory	**417.5**	**449.3**

Detail of the provision for inventory depreciation

(in millions of euros)	December 31, 2018	Allowance	Decrease	Foreign exchange gain & loss	Other	December 31, 2019
Raw materials and supplies	(10.4)	(5.0)	3.3	(0.1)	2.0	(10.4)
Work in progress	(7.8)	(4.3)	5.6	(0.0)	(6.6)	(12.9)
Finished goods	(36.1)	(14.9)	11.7	(0.4)	(1.0)	(40.8)
Samples	(0.3)	(0.2)	0.1	(0.0)	-	(0.5)
Consumables and spare parts	(6.5)	(0.6)	0.5	0.0	-	(6.6)
Total provision for inventory depreciation	**(61.1)**	**(25.0)**	**21.1**	**(0.5)**	**(5.6)**	**(71.3)**

The rate of inventory provisions is applied in a similar way for the different periods.

Cost of raw materials was €1,223 million in 2019, as compared with €1,179 million in 2018.

3.4.2 Trade receivables

Trade receivables are stated at their invoiced value converted at the closing rate, less any allowance for doubtful accounts.

The Group conducts a review of each of its customer receivables individually, taking into account the probability of default by the counterparty as well as the extent to which the receivables were hedged, and uses the simplified method provided for by IFRS 9 to provision the expected losses over the remaining maturity of the receivables.

Factoring of trade receivables

Certain of the Tarkett Group's subsidiaries have transferred trade receivables to specialised credit institutions without recourse, transferring nearly all of the risks and benefits attached to the transferred receivables.

Receivables transferred and having payment dates later than December 31, 2019, totaled €138.7 million and are no longer recorded on the Group's balance sheet.

Provision for doubtful receivables

Where trade receivables are not covered by credit insurance, provisions to cover the risk of failing to collect trade receivables either in full or in part are recorded using the expected loss method (see Note 7.1).

Doubtful receivables are identified and provisioned as folows:

> a statistical provision, based on the age of the outstanding receivables, is defined as follows:

Receivables, trade overdue	**Impairment** *(as a percentage of the gross amount)*
From 61 to 180 days	25%
From 181 to 270 days	50%
From 271 to 360 days	75%
More than 360 days	100%

> An additional provision on a case-by-case basis based on an application of professional judgment.

(in millions of euros)	**December 31, 2019**	**December 31, 2018**
Related party receivables	11.9	8.1
Trade receivables	264.8	360.1
Total gross value	**276.7**	**368.2**
Provisions for doubtful receivables	(18.1)	(17.7)
Total net receivables	**258.5**	**350.5**

The variation of the provision for doubtful receivables amounts to €(0.4) million and is mainly explained as follows:

> €(3.9) million of allowance;

> €3.4 million of reversals;

> €0.1 million of foreign exchange impact.

Detail of unimpaired overdue receivables

(in millions of euros)	**December 31, 2019**	**December 31, 2018**
Receivables, trade overdue 0-180 days	39.2	54.0
Receivables, trade overdue 181-270 days	1.1	1.0
Receivables, trade overdue 271-360 days	0.6	0.2
Receivables, trade overdue > 360 days	1.4	0.8
Receivables, bankruptcy procedure/legal cases	1.0	1.4
Total unimpaired overdue Receivables	**43.3**	**57.4**

3.4.3 Other receivables

(in millions of euros)	**December 31, 2019**	**December 31, 2018**
Other receivables non-current	**-**	**-**
Prepaid expenses current	15.2	19.6
Income tax receivable current	27.1	24.6
VAT and other taxes	16.3	16.9
Other accounts receivable and other assets current	35.1	23.0
Other receivables current	**93.8**	**84.1**

3.4.4 Trade payables

Payables due more than a year in the future are discounted to net present value. Payables due more than a year in the future, including €5.5 million in deferred income are discounted to net present value.

(in millions of euros)	**December 31, 2019**	**December 31, 2018**
Trade payables	324.0	281.5
Trade notes payable	-	2.1
Trade payables	**324.0**	**283.6**

3.4.5 Other liabilities

(in millions of euros)	**December 31, 2019**	**December 31, 2018**
Liabilities related to employees	110.9	96.4
Current tax	22.4	13.3
VAT and other taxes	20.6	15.7
Sales rebates	41.4	39.9
Other liabilities	39.0	27.8
Other current liabilities	**234.2**	**193.1**

3.5 Free cash flow

Free cash flow is defined as the liquidity generated by operating activities after deducting investments other than acquisitions of subsidiaries and other changes in the scope of consolidation.

Free cash flow is calculated based on the items presented in the consolidated cash flow statement, and consists of the following items:

- Operating cash flow before working capital changes;
- Changes in working capital requirement
- net interest paid;
- net income taxes paid;
- miscellaneous operational items paid;
- acquisitions of intangible assets and property, plant and equipment;
- proceeds from sales of property, plant and equipment;
- repayment of lease liabilities.

Following the entry into force of IFRS 16, the change in lease liabilities presented in the line item "repayment of lease liabilities" of the statement of cash flows is henceforth included in the definition of free cash flow.

Free cash-flow

(in millions of euros)	**2019**	**2018**
Operating cash flow before working capital changes (A)	258.2	218.5
Repayment of lease liabilities (B) [1]	(31.9)	(0.4)
Total (A+B)	**226.3**	**218.1**
Changes in working capital requirement	190.4	(12.3)
Net interest paid	(22.7)	(17.2)
Net income taxes paid	(30.5)	(25.3)
Miscellaneous operating items paid	(11.2)	(0.7)
Acquisitions of intangible assets and property, plant and equipment	(124.6)	(128.2)
Proceeds from sale of property, plant and equipment	3.7	1.5
Free cash flow	**231.4**	**36.0**

(1) In 2019, payments on lease liabilities recorded in accordance with IFRS 16 and in 2018, payment of finance leases in accordance with former IAS 17.

In 2019, the changes in working capital requirement benefited from the factoring and securitization lines (for a total amount of €126.3 million as of December) and the reduction in inventories (-€46.2 million).

Note 4 > Employee benefits

4.1 Retirement benefits

Within the Tarkett Group, various systems for providing for retirement benefits depending on the legal, economic and tax environment of each country exist. In accordance with the laws and uses applied in each country, the Group participates in pension, welfare, health and retirement benefit plans whose benefits are dependent on various factors such as length of service, salary and the contributions paid to institutions.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions 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 and prior periods.

These contributions, based on services rendered by employees, are recognized as an expense in profit or loss as incurred.

Defined benefit plans

Defined benefit plans are post-employment benefit plans under which the Group assumes the obligation of providing employees with future benefits and thus also assumes the related actuarial and investment risks. The defined benefit liability is calculated using the projected unit credit method and is discounted to its present value from which the amount of past service cost for the period may also be deducted.

The detailed actuarial calculation requires the use of actuarial hypotheses for demographic variables (mortality, employee turnover) and economic variables (future increases in salaries and medical costs, discount rate).

When defined benefit plans are totally or partially funded by contributions paid to a separate fund or insurance company, those entities' assets are measured at their fair value.

Their amount is then deducted from the obligation to define net liability disclosed in the Group's balance sheet.

The Group's obligation in respect of such arrangements is calculated by independent actuaries, in accordance with IAS 19, "Employee Benefits".

Description of plans

As of December 31, 2019, the Group's largest retirement plans were in the United States, Germany, Sweden, Canada, the United Kingdom, and Russia. Those six countries represent close to 93.2% of total benefit obligations under the defined benefits plans.

In the United States and the United Kingdom, the Group's retirement plans have been closed to new participants and to the accrual of rights for several years. Most of the Group's plans in Canada are now closed. These plans are prefinanced in accordance with local legislation. Additionally, the Group operates medical and life-insurance benefit plans for certain employees in the United States. These plans are not covered by financing assets and are now closed.

In Sweden, defined benefit retirement plans are mandatory for employees born prior to 1979 under the applicable collective bargaining agreement. Employees born after that date participate in the mandatory defined contribution plan. In Germany, the Group offers a pension plan, service awards and early retirement.

The Group also offers lump-sum retirement payments as provided for by applicable legislation or collective bargaining agreements in certain countries, including Russia, France and Italy.

The weighted average duration of the defined benefit obligation is 13 years.

Special Events

In 2019, a "Wind-up" campaign was launched for two Canadian plans. The goal is to offer plan beneficiaries a choice between exiting with a lump sum payment or exiting with a mix of lump-sum and annuity payments. The campaign will be completed in 2020. The final accounting impact will be known and recorded during 2020.

No other special events occurred in 2019.

Assumptions

Accounting for actuarial values relies on long-term interest rates, predicted future increases in salaries and inflation rates. The main assumptions are presented below:

	December 31, 2019		December 31, 2018	
	Pensions	**Other benefit obligations**	**Pensions**	**Other benefit obligations**
Weighted discount rate	2.17%		3.10%	
Including:				
United States	3.20%	3.00%	4.25%	4.25%
Germany	-0,30% / 0% / 0,75%		1.50%	
Sweden	1.75%		2.50%	
United Kingdom	2.00%		2.75%	
Canada	2.55% / 2.90%		3.75%/4.00%	
Russia	6.50% / 7.50%		9.00%	
Salary increases	2.33%		2.60%	
Inflation	2.20%		2.16%	

Discount rates are determined by reference to the yield on high-quality bonds. They are calculated on the basis of external indices commonly used as references:

- United States: iBoxx $ 15+ year AA;
- Euro zone: iBoxx € Corporate AA 10+;
- Sweden: bonds of Swedish companies;
- United Kingdom: iBoxx £ 15+ year AA;
- Canada: Canadian AA "Mercer Yield Curve Canada" bonds;
- Russia: Russian government bonds.

	December 31, 2019			December 31, 2018		
Amounts recognized in the statement of financial position *(in millions of euros)*	**Pensions**	**Other benefit obligations**	**TOTAL**	**Pensions**	**Other benefit obligations**	**TOTAL**
Defined Benefit Obligations	227.9	1.8	229.7	220.6	1.8	222.4
Fair value on plan assets	(92.9)	-	(92.9)	(92.6)	-	(92.6)
Net liability booked in the statement of financial position	**135.0**	**1.8**	**136.7**	**128.0**	**1.8**	**129.8**

Pension obligations

	December 31, 2019			December 31, 2018		
Pension obligations *(in millions of euros)*	**Defined benefit obligations**	**Fair value of plan assets**	**Net liabilities recorded in the balance sheet**	**Defined benefit obligations**	**Fair value of plan assets**	**Net liabilities recorded in the balance sheet**
As of January 1	**220.6**	**(92.6)**	**128.0**	**232.1**	**(98.7)**	**133.4**
Current service cost	3.6	-	3.6	3.8	-	3.8
Past service cost	-	-	-	(1.1)	-	(1.1)
(Gain)/loss on new retirement plans	3.2	-	3.2	(0.4)	-	(0.4)
Financial cost (effect of discount)	6.7	(3.2)	3.5	6.8	(3.2)	3.6
Update to other post-employment commitments	-	-	-	-	-	-
Administrative expenses and taxes (expenses paid)	(0.1)	1.8	1.7	(0.2)	1.7	1.5
Expense (income) for the period	**13.4**	**(1.4)**	**12.0**	**8.9**	**(1.4)**	**7.5**
Benefit payments from employer	**(4.9)**	**-**	**(4.9)**	**(5.2)**	**-**	**(5.2)**
Benefit payments from plan	**(5.7)**	**5.7**	**-**	**(10.9)**	**10.9**	**-**
Plan participants' contributions	**0.2**	**(0.2)**	**-**	**0.2**	**(0.2)**	**-**
Employer contributions	**-**	**(4.3)**	**(4.3)**	**-**	**(5.1)**	**(5.1)**
Changes in demographic assumptions	(1.2)	-	(1.2)	(1.1)	-	(1.1)
Changes in financial assumptions	24.7	-	24.7	(5.5)	-	(5.5)
Effect of experience adjustments	(2.8)	-	(2.8)	(0.2)	-	(0.2)
(Return) on plan assets (excluding interest income)	-	(10.1)	(10.1)	-	4.4	4.4
Total pension cost/(income) recognized in the OCI	**20.7**	**(10.1)**	**10.6**	**(6.8)**	**4.4**	**(2.4)**
Transfer (1)	(18.9)	12.3	(6.5)	-	-	-
Changes in scope	**-**	**-**	**-**	**-**	**-**	**-**
Foreign exchange differences	**2.4**	**(2.4)**	**0.0**	**2.3**	**(2.5)**	**(0.2)**
As of December 31	**227.9**	**(92.9)**	**135.0**	**220.6**	**(92.6)**	**128.0**

(1) Following the announcement of the closure of the Truro plant in Canada, pension commitments for the site were reclassified as provision for restructuring. See Note 6.1 - Provisions

Other benefit obligations

	31 décembre 2019			31 décembre 2018		
Other benefit obligations *(in millions of euros)*	**Defined benefit obligations**	**Fair value of plan assets**	**Net liabilities recorded on in the balance sheet**	**Defined benefit obligations**	**Fair value of plan assets**	**Net liabilities recorded on in the balance sheet**
As of January 1	**1.8**	**-**	**1.8**	**2.0**	**-**	**2.0**
Current service cost	-	-	-	-	-	-
Past service cost	-	-	-	-	-	-
(Gain)/loss on new retirement plans	-	-	-	-	-	-
Financial cost (effect of discount)	0.1	-	0.1	0.1	-	0.1
Update to other post- employment commitments	-	-	-	-	-	-
Administrative expenses and taxes (expenses paid)	-	-	-	-	-	-
Expense (income) for the period	**0.1**	**-**	**0.1**	**0.1**	**-**	**0.1**
Benefit payments from plan	**-**	**-**	**-**	**-**	**-**	**-**
Benefit payments from employer	**(0.2)**	**-**	**(0.2)**	**(0.3)**	**-**	**(0.3)**
Plan participants' contributions	**-**	**-**	**-**	**-**	**-**	**-**
Employer contributions	**-**	**-**	**-**	**-**	**-**	**-**
Changes in demographic assumptions	(0.0)	-	(0.0)	-	-	-
Changes in financial assumptions	0.1	-	0.1	(0.1)	-	(0.1)
Effect of experience adjustments	(0.1)	-	(0.1)	-	-	-
(Return) on plan assets (excluding interest income)	-	-	-	-	-	-
Total pension cost/(income) recognized in the OCI	**0.0**	**-**	**0.0**	**(0.1)**	**-**	**(0.1)**
Changes in scope	**-**	**-**	**-**	**-**	**-**	**-**
Foreign exchange differences	**0.0**	**-**	**0.0**	**0.1**	**-**	**0.1**
As of December 31	**1.8**	**-**	**1.8**	**1.8**	**-**	**1.8**

Allocation of plan assets by type of investment

	December 31, 2019	December 31, 2018
Shares	34.7%	36.7%
Bonds	47.0%	39.2%
Insurance contracts	12.1%	14.0%
Cash & cash equivalent (liquidity)	3.8%	7.1%
Real Estate	2.4%	3.0%

Sensitivity to discount rate assumptions

(in millions of euros)	December 31, 2019	December 31, 2018
Increase of 50 points		
Increase (Decrease) in defined benefit obligations	(15.0)	(13.5)
Decrease of 50 points		
Increase (Decrease) in defined benefit obligations	16.4	14.9

Sensitivity to inflation rate assumptions

(in millions of euros)	December 31, 2019	December 31, 2018
Increase of 50 points		
Increase (Decrease) in defined benefit obligations	6.0	4.8
Decrease of 50 points		
Increase (Decrease) in defined benefit obligations	(5.2)	(4.4)

Benefits to be paid in the next five years

Benefits to be paid in the next five years under retirement and similar plans are estimated as follows:

	December 31, 2019	December 31, 2018
2019	-	11.8
2020	11.9	11.0
2021	12.1	11.2
2022	11.7	11.1
2023	11.2	11.4
2024	11.1	-
TOTAL	**58.0**	**56.5**

4.2 Personnel costs and compensation of senior management

(in millions of euros)	December 31, 2019	December 31, 2018
Wages and salaries	(718.1)	(668.6)
Pension costs	(6.8)	(2.3)
Total Personnel costs	**(724.9)**	**(670.9)**
Employees (average number)	12,950	12,907

Key management personnel compensation

The key management personnel includes the members of the Executive Management Committee and the members of the Supervisory Board.

Key management personnel received the following compensation:

(in millions of euros)	December 31, 2019	December 31, 2018
Short-term employee benefits	6.0	6.2
Retirement benefits	-	0.1
Other long-term benefits	-	-
Lump-sum retirement payments	0.8	0.9
Share-based payments	0.9	3.2
Total	**7.7**	**10.4**

Compensation of the Group's key management personnel includes salaries, attendance fees and non-cash benefits.

4.3 Share based payment transactions

The Group regularly implements share grant plans. The grant-date fair value of equity-settled share-based payment awards granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the shares awarded. At the end of each fiscal year, the amount recognized as an expense is adjusted such that amount ultimately recognized is based on the number of shares awarded that meet the related service and non-market performance conditions at the vesting date.

For the three plans in effect, ordinary shares will be granted to the beneficiaries at the end of a two-year vesting period. The grant will be subject to satisfying an economic performance condition (based on the Group's 3-year plan) and the beneficiaries' continuous employment through the end of the vesting period. The 2018 and 2019 LTIP plans are also conditional on a market performance condition.

In 2019, the 2016 LTIP plan resulted in a payment of 116,944 shares.

	LTIP 2017	LTIP 2018	LTIP 2019
Grant date	September 25, 2017	July 25, 2018	June 24, 2019
End of the vesting period	June 30, 2020	June 30, 2021	June 30, 2022
Number of shares	228,765	271,417	324,270
Estimated value as of the plan's start date *(in euros)*	37.00	19.85	19.74
Estimate of number of shares to be delivered as of December 31, 2019	114,383	135,709	324,270
Form of settlement	Distribution of shares		
2019 expenses (in millions of euros)	(1.3)	(1.0)	(1.3)
2018 expenses (in millions of euros)	(2.0)	(1.2)	-
2017 expenses (in millions of euros)	(1.4)	-	-

Note 5 > Intangible assets and property, plant and equipment

5.1 Goodwill

For the measurement of goodwill at initial recognition, Tarkett applies IFRS 3 Revised (see 2.2), except for acquisitions accounted for before December 31, 2009, for which IFRS 3 (2004) was applied.

Negative goodwill (badwill) is recognized directly in profit or loss.

Goodwill is allocated to cash-generating units and is not amortized, but instead is tested at least annually for impairment on the basis described in Note 5.3, or following any event that could lead to a loss of value.

Subsequently, goodwill is measured at cost less accumulated impairment losses.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Changes in goodwill

(in millions of euros)	December 31, 2019	December 31, 2018
Opening carrying amount	662.0	510.5
Goodwill on acquisitions during the period	1.7	132.4
Adjustment to initial purchase price allocation	(21.8)	-
Foreign exchange gain & loss	8.7	19.1
Closing carrying amount	**650.6**	**662.0**

The change is explained primarily by the acquisition over the period of the assets of Beyond The Turf, the foreign exchange impact relating to the evolution in the exchange rate between the euro and the U.S. dollar, and the update of goodwill from Lexmark.

On October 1, 2018, the Group finalized the acquisition of Lexmark Carpet Mills, in the United States, which manufactures high quality carpeting, principally for the hotel industry in North America.

In 2018, Lexmark's revenues totaled €101 million, and its operating income was €16 million (non audited data). Consolidated revenue for the fourthquarter in 2018 was €24 million, and result from operating activities was €1 million.

Consideration for the acquisition totaled €222.6 million and includes the repayment of Lexmark's debt, for a value of €104.4 million.

As of December 31, 2019, goodwill from Lexmark totaled €112.9 million and was broken down as follows:

Changes in goodwill from Lexmark

(in millions of euros)	December 31, 2018	Variance	Foreign exchange impact	December 31, 2019
Consideration paid (+)	222.6	0.3	4.3	227.2
Fair Value of assets acquired (-)	94.4	18.2	1.8	114.3
Total Goodwill recognized	**128.2**	**(17.8)**	**2.5**	**112.9**

The amount of goodwill recorded as of December 31, 2019 is final.

This goodwill is explained primarily by the following:

> Specific technology and know-how;
> Market share acquired in the hospitality and commercial carpet segments in the United States; and
> Sales and supply chain synergies leveraging both companies' broad products portfolios.

In addition, on January 31, 2018, through its subsidiary FieldTurf Tarkett SAS, Tarkett acquired the assets of Grass Manufacturers Pty Limited (Grassman), a leading Australian artificial turf manufacturer. The Grassman acquisition expands FieldTurf's presence on the Australian market, in particular in hockey, tennis, and landscaping, complementing its football and rugby business. This acquisition will also provide a strong platform for serving field builders and installers throughout Australia.

As of December 31, 2019, goodwill from Grassman totaled €3.9 million and was broken down as follows:

Changes in goodwill from Grassman

(in millions of euros)	December 31, 2018	Variance	Foreign exchange impact	December 31, 2019
Consideration paid (+)	9.3	-	0.1	9.4
Fair Value of assets acquired (-)	1.5	3.9	-	5.5
Total Goodwill recognized	**7.8**	**(3.9)**	**0.1**	**3.9**

The amount of goodwill recorded as of December 31, 2019 is final.

5.1.1 Allocation of goodwill between the various CGUs

As of December 31, within the EMEA segment, following cessation of the laminates business performed essentially by the joint venture LaminatePark GmbH & Co. KG., the Laminate CGU was combined with Wood CGU.

In addition, in North America, following a reorganization at the end of the year, the combining of the sales forces and all support functions for the Commercial (other than carpet) CGU and Tandus & Centiva, they were combined into a new Commercial and Hospitality CGU.

Impairment tests were performed on each CGU individually before the combinations.

Allocation of goodwill between the various CGUs is as follows:

(in millions of euros)	December 31, 2019		December 31, 2018	
	Gross value	**Net value**	**Gross value**	**Net value**
Resilient and miscellaneous	70.4	69.8	70.4	69.8
Carpet	33.5	33.5	33.5	33.5
Wood (1)	-	-	-	-
Laminate (1)	n/a	n/a	-	-
EMEA	**103.9**	**103.3**	**103.9**	**103.3**
Commercial (excluding carpet) (2)	n/a	n/a	*72.8*	*55.8*
Tandus & Centiva (2)	n/a	n/a	*312.9*	*312.9*
Commercial and hospitality (2)	375.0	358.0	-	-
Residential	-	-	-	-
North America	**375.0**	**358.0**	**385.7**	**368.7**
CIS	96.5	95.5	96.5	95.5
APAC	(0.0)	(0.0)	(0.0)	(0.0)
Latin America	0.1	0.1	0.1	0.1
CIS, APAC and Latin America	**96.6**	**95.6**	**96.6**	**95.6**
Athletic tracks	40.0	34.4	39.1	33.4
Synthetic grass & other	59.9	59.3	61.4	61.0
Sports Surfaces	**99.9**	**93.7**	**100.5**	**94.4**
Total goodwill	**675.4**	**650.6**	**686.7**	**662.0**

(1) CGU "Laminate" combined with CGU "Wood" in 2019.
(2) CGUs "Commercial (excluding carpet)" and "Tandus & Centiva" merged in CGU "Commercial and hospitality" in 2019.

5.2 Intangible assets and property, plant and equipment

5.2.1 Intangible assets

Research and development

In accordance with IAS 38, expenditures on research and development are expensed as incurred except when the criteria for capitalization are met.

Patents

Patents obtained by the Group are stated at cost less accumulated amortization and impairment losses.

Capitalized costs for internally generated patents principally relate to the costs of legal counsel. Patents capitalized are amortized on a straight-line basis over the shorter of the length of the patent or estimated length of use.

Software licenses

Software is stated at cost less accumulated amortization and impairment losses.

Amortization

Amortization of intangible assets is recorded on a straight-line basis from the date of their availability:

- patents and trademarks: the shorter of the length of the patent or its length of use;
- development costs: 3 - $6^{2/3}$ years;
- computer software: 3-5 years.

5.2.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Acquisition cost

Acquisition cost includes purchase cost or production cost plus the other costs incurred for bringing the items to their operating location and condition. The cost of a self-constructed asset includes the costs of raw materials and direct labor, the initially estimated cost of any obligation for dismantling, removing and restoring the site on which the asset is located, and an appropriate allocation for directly attributable production overhead.

When an item of property, plant and equipment includes material components with different useful lives, each major component is accounted for separately.

Subsequent costs

Replacements and improvements are capitalized and recorded as a separate asset if it is probable that the Group will derive economic advantages from the item, while general repairs, day to day servicing and maintenance are charged to expenses as incurred.

Depreciation

Depending on the economic use of the asset, straight-line depreciation is recorded over the following periods:

- Buildings: 20-30 years;
- Equipment and machinery: $6^{2/3}$ - 10 years;
- Printing cylinders: 2 years;
- Other equipment and furnishings: 3-5 years.

IFRS 16: Leases

The rights of use resulting from leases are recognized as items of property, plant and equipment and broken down by category at an amount equal to the present value of the rental payments, adjusted, where applicable, for any prepayments.

As a reminder, all of the accounting principles and methods used by the Group are presented in Note 1.2.

The allocation of net values of intangible assets and property, plant and equipment is as follows:

(in millions of euros)	December 31, 2019	December 31, 2018
Research and development	4.1	5.1
Patents	9.6	11.2
Trademarks	27.7	29.1
Software licenses	22.8	24.9
Other intangible assets	69.1	51.6
Advance payments and fixed assets in progress	22.2	11.4
Intangible Assets	**155.6**	**133.3**
Goods and real property	269.4	197.0
of which right to use goods and real property	*73.7*	-
Technical equipment and machinery	235.8	230.7
of which right to use technical equipment and machinery	*15.9*	-
Leased equipment	-	2.9
Advance payments and fixed assets in progress	102.1	84.2
Property, plant and equipment	**607.3**	**514.8**

The variations in gross value, depreciation and amortization break down as follows:

Acquisition costs *(in millions of euros)*	**December 31, 2018**	**Impact of IFRS 16 as of Jan 1, 2019**	**Acqui-sition**	**Disposal**	**Change in scope**	**Transfer**	**Foreign Exchange differences**	**December 31, 2019**
Research and development	16.3	-	0.7	-	-	0.0	0.7	17.7
Patents	141.0	-	0.7	(0.1)	(0.0)	(1.4)	2.7	142.8
Trademarks	55.2	-	0.0	-	-	1.6	0.8	57.6
Software licenses	146.0	-	7.1	(10.2)	-	6.5	0.7	150.1
Other intangible assets	68.2	-	0.4	(0.0)	-	14.7	1.4	84.6
Advance payments and fixed assets in progress	11.4	-	15.1	-	0.0	(4.5)	0.3	22.3
Intangible assets	**438.1**	**-**	**23.9**	**(10.3)**	**-**	**17.0**	**6.6**	**475.1**
Goods and real property	529.5	84.5	17.6	(3.9)	-	9.3	3.6	640.7
of which right to use goods and real property	*0.5*	*84.5*	*8.8*	*(0.7)*	-	*(0.0)*	*1.1*	*94.2*
Technical equipment and machinery	1,404.1	16.1	32.7	(26.9)	-	11.1	8.4	1,445.5
of which right to use technical equipment and machinery	*7.7*	*16.1*	*6.2*	*(1.3)*	-	(0.0)	*0.1*	*28.9*
Advance payments and fixed assets in progress	84.2	-	65.5	(0.2)	-	(47.7)	0.3	102.1
Property, plant and equipment	**2,017.8**	**100.7**	**115.9**	**(31.0)**	**-**	**(27.3)**	**12.3**	**2,188.3**

Cumulative depreciation, amortization, and impairment *(in millions of euros)*	**December 31, 2018**	**Impact of IFRS 16 as of Jan 1, 2019**	**Allowance**	**Disposal/ reversal**	**Change in scope**	**Transfer**	**Foreign exchange differences**	**December 31, 2019**
Research and development	(11.2)	-	(2.0)	-	-	-	(0.4)	(13.6)
Patents	(129.7)	-	(0.9)	0.1	-	-	(2.6)	(133.1)
Trademarks	(26.1)	-	(3.5)	-	-	-	(0.5)	(29.9)
Software licenses	(121.1)	-	(15.1)	10.1	-	(0.2)	(0.8)	(127.2)
Other intangible assets	(16.7)	-	(10.9)	0.0	-	12.4	(0.4)	(15.6)
Intangible assets	**(304.8)**	**-**	**(32.4)**	**10.2**	**-**	**12.1**	**(4.6)**	**(319.5)**
Goods and real property	(332.3)	-	(40.7)	3.2	-	0.1	(1.7)	(371.3)
of which right to use goods and real property	*(0.3)*	-	*(20.3)*	*0.2*	-	-	*0.0*	*(20.5)*
Technical equipment and machinery	(1,170.5)	-	(85.6)	26.5	-	26.3	(6.3)	(1,209.7)
of which right to use technical equipment and machinery	*(5.2)*	-	*(8.9)*	*1.2*	-	*0.1*	*(0.2)*	*(13.0)*
Property, plant and equipment	**(1,502.8)**	**-**	**(126.3)**	**29.6**	**-**	**26.4**	**(8.0)**	**(1,581.0)**

5.3 Impairment

5.3.1 Non-financial assets

Annual impairment testing

Goodwill and other intangible assets with indefinite useful lives are systematically tested for impairment once a year.

The carrying amounts of the Group's assets, other than financial and deferred tax assets and liabilities, are reviewed to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of assets is the greater of their fair value less costs of disposal and value in use.

Value in use is calculated by discounting estimated future cash flows for each cash-generating unit, excluding borrowing costs and tax.

Impact of IFRS 16 on annual impairment testing:

The Group uses the transition simplification measure:

> rights of use are included in the basis of tested assets;

> the book value of the lease liability is deducted from that basis of assets;

> rental payments are taken into account in future cash flows.

Cash generating units

In carrying out impairment testing, assets are tested at the level of cash-generating units ("CGU") that reflect the segment organization of the Group and its products. For this purpose, goodwill was allocated over the cash-generating units.

Impairment process

The Group analyzes future cash flows over a period of three years based on the most recent forecasts, corresponding to the best estimate of a full business cycle. The forecasts have been established taking into account variations affecting selling prices, volumes and raw material costs. Beyond three years, the Group determines a standard year calculated by extending the third year on the assumption of a stable revenue and margin, a need for working capital and investments determined on normative renewal based on historical observations. This standard year is then projected to infinity according to the Gordon Shapiro method.

Future cash flows are discounted to present value at a weighted average cost of capital (WACC) discount rate that reflects current market assessments of the time value of money and the risks specific to each financing means.

The discount rate is an after-tax rate applied to after-tax cash flows. The following assumptions were used for 2019:

	Discount rate after tax	Perpetual growth rate
EMEA	7.59%	2.0%
North America	7.59%	2.0%
CIS	10.04%	4.0%
APAC	8.20%	4.0%
Latin America	9.90%	4.0%
Sports Surfaces	7.59%	2.0%

Operating assumptions

For each CGU, operational assumptions that were considered key by the Group are as follows:

> evolution of the markets in which these CGU are involved on the basis of internal estimates, supported if possible by external forecasts on the concerned segments or products;

> evolution of the Group in its various markets;

> general hypothesis of stability of inflation balance (purchase prices stable, or if changes are considered, full offset by changes in selling prices to balance the impact on value);

> continual implementation of productivity plans for factories working on these CGU to Improve profitability; and

> EBITDA, resulting from the combination of factors listed above.

Sensitivity analysis

The sensitivity analysis was carried out on three assumptions:

> the discount rate (WACC);

> the perpetual growth rate; and

> EBITDA.

Changes of 50 basis points in the discount rate and growth rate are reasonably possible variations for the Group. Tarkett operates in a large number of countries, with a balance between three main areas (EMEA; North America; and CIS, APAC and Latin America). The Group believes that economic developments in these geographic areas can offset each other, as has been demonstrated in the past.

In 2019, the combination of an increase in the discount rate of 50 basis points and a decrease in the growth rate of 50 basis points would not result in additional impairment.

Furthermore, a decrease of 100 basis points in EBITDA margin, a key hypothesis for the Group, would not result in accounting for an impairment.

Impairment losses

An impairment loss is recognized whenever the carrying amount of a cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then, to reduce the carrying amount of the other assets in the unit.

An impairment loss recorded in respect of goodwill cannot be reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

5.3.2 Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

For financial assets held for sale, a significant or prolonged decline in fair value as compared with cost is results in recognition of impairment on the income statement.

Impairment loss on an available-for-sale financial asset is measured as the difference between its carrying amount and its fair value, less any impairment loss previously recognized in profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Impairment

In 2019 no loss of value was recorded. In 2018, a loss of value of €2.8 million was recorded and is broken down as follows:

(in millions of euros)	**December 31, 2019**	**December 31, 2018**
North America	-	(2.8)
TOTAL	**-**	**(2.8)**

5.4 Lease commitments

As of December 31, 2019, lease commitments concern contracts that were not restated following the application of IFRS 16, namely, primarily:

- contracts considered to be of low value pursuant to paragraph 5 of IFRS 16;
- service agreements that do not meet the definition of a lease within the meaning of IFRS 16.

Minimum lease payments under operating leases are recorded as expenses on a straight-line basis over the term of the lease.

Future minimum rental commitments under operating leases with initial or remaining non-cancellable terms in excess of one year, are summarized below:

(in millions of euros)	**December 31, 2019**	**December 31, 2018**
Less than 1 year	2.3	28.1
1 to 5 years	3.0	69.9
More than 5 years	0.0	16.2
Total future minimum lease payments	**5.3**	**114.2**

Reconciliation of off balance sheet commitments and the lease liabilities as of January 1, 2019

As of December 31, 2018, the Group's operating lease commitments are mainly commitments for buildings, vehicles, computer hardware and software, and offices. Such commitments totaled €114.2 million as of December 31, 2018.

The difference between this amount and liabilities on lease agreements pursuant to IFRS 16 is due to the following:

- lease liabilities do not include contracts signed prior to December 2018 but taking effect after January 1, contrary to off balance sheet commitments;
- lease liabilities do not include contracts with initial terms of one year or less, pursuant to the exceptions provided for in paragraph 5(a) of IFRS 16, contrary to off balance sheet commitments;
- lease liabilities do not include contracts in which the underlying asset is considered to be of low value, pursuant to the exceptions provided for in paragraph 5(b) of IFRS 16, contrary to off balance sheet commitments;
- estimation of the terms of certain leases pursuant to IFRS 16 may differ from those of off balance sheet commitments: these are contracts for which the Group is reasonably certain to exercise an option to renew or to terminate early, as the case may be;
- the effect of discounting liabilities on leases to present value does not apply to off balance sheet commitments.

Reconciliation of off-balance sheet commitments and lease liability as of January 1, 2019

(in millions of euros)	**January 1, 2019**
Off balance sheet commitments in respect of operating leases as of December 31, 2018	114.2
Leases signed as of December 31, 2018 and entering into effect as of January 1, 2019	4.0
Service agreements (and service portion of lease agreements)	(2.0)
Exemption for short-term leases *(12 months or less)*	(0.7)
Exemption for leases of low value *(less than or equal to €5,000 or $5,000)*	(1.0)
Effects of renewal and early termination options used	0.0
Other	0.2
Gross lease liabilities as of January 1, 2019	**114.7**
Discount effect	(14.0)
Lease liabilities as of January 1, 2019	**100,7**

5.5 Impact of exemptions to IFRS 16

The Group applies the exemptions provided for under IFRS 16, Leases, keeping rental operating charges where the lease term as of the effective date is less than or equal to 12 months and rental charges where the value of the underlying asset is less than €5,000 or $5,000.

Such rental charges totaled €2.9 million and €0.8 million, respectively, as of December 31, 2019.

(in millions of euros)	**< or equal to 5 K€ / 5K$**	**> or equal to 12 months**	**Total**
Cost of sales	(0.3)	(2.6)	(2.9)
Selling and distribution expenses	(0.1)	(0.1)	(0.3)
Research and development	-	(0.0)	(0.0)
General and administrative expenses	(0.4)	(0.1)	(0.5)
Other operating expenses	-	-	-
Impact on result from operating activities	**(0.8)**	**(2.9)**	**(3.7)**

Note 6 > Provisions

6.1 Provisions

Provisions come primarily from environmental risks, legal and tax risks, litigation and other risks.

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are reversed when they are no longer required.

A provision for warranties is recognized when the underlying products are sold. The provision is based on historical warranty data. In the event of risks relating to specific products, an additional provision may be recorded.

A provision for restructuring is recorded when the Group has approved a detailed and formal restructuring plan, and the restructuring has been either implemented or publicly announced. Future operating losses are not provisioned.

Change in provisions

(in millions of euros)	December 31, 2018	Allowance	Decrease	Change in scope	Transfer	Foreign exchange gain & loss	December 31, 2019
Product warranty provision	3.1	0.8	(0.1)	(0.0)	-	0.0	3.8
Restructuring provisions	-	-	-	-	-	(0.0)	-
Claims & litigation provisions	2.3	2.2	(1.6)	-	-	(0.0)	2.9
Other provisions	7.6	2.1	(3.3)	-	(3.0)	-	3.4
Provision for additional tax assessments	0.1	-	(0.0)	-	-	0.0	0.1
Financial provisions [(1)]	33.3	2.4	(6.0)	-	-	0.6	30.3
Total Provisions – long-term	**46.4**	**7.5**	**(11.1)**	**(0.0)**	**(3.0)**	**0.7**	**40.5**
Product warranty provision	18.9	5.3	(8.5)	(0.0)	(2.0)	0.3	14.1
Restructuring provisions	1.3	5.3	(0.7)	0.0	13.6	0.0	19.5
Claims & litigation provisions	11.0	5.7	(4.7)	-	2.0	0.1	14.1
Other provisions	0.2	0.1	(0.1)	-	-	0.0	0.2
Total Provisions – short-term	**31.4**	**16.5**	**(13.9)**	**0.0**	**13.6**	**0.4**	**48.0**
Total Provisions	**77.8**	**23.9**	**(25.1)**	**0.0**	**10.6**	**1.1**	**88.4**

(in millions of euros)	December 31, 2017	Allowance	Decrease	Change in scope	Transfer	Foreign exchange gain & loss	December 31, 2018
Product warranty provision	3.7	0.5	(1.1)	-	-	-	3.1
Restructuring provisions	-	-	-	-	-	-	-
Claims & litigation provisions	2.9	0.1	(0.5)	-	-	(0.2)	2.3
Other provisions	5.2	-	(0.6)	-	3.0	-	7.6
Provision for additional tax assessments	1.2	-	(1.1)	-	-	-	0.1
Financial provisions [(1)]	36.7	-	(5.0)	-	-	1.6	33.3
Total Provisions – long- term	**49.7**	**0.6**	**(8.3)**	**-**	**3.0**	**1.4**	**46.4**
Product warranty provision	19.1	6.1	(5.9)	-	(1.0)	0.6	18.9
Restructuring provisions	2.0	-	(0.7)	-	-	-	1.3
Claims & litigation provisions	8.1	5.5	(3.5)	(0.2)	1.0	0.1	11.0
Other provisions	0.2	-	-	-	-	-	0.2
Total Provisions – short- term	**29.4**	**11.6**	**(10.1)**	**(0.2)**	**-**	**0.7**	**31.4**
Total Provisions	**79.1**	**12.2**	**(18.4)**	**(0.2)**	**3.0**	**2.1**	**77.8**

[(1)] Variations in provisions for financial liabilities relate to the provision for asbestos litigation recorded by Domco Products Texas Inc.

6.2 Potential liabilities

Asbestos

In the United States, the Group has been a defendant in lawsuits by third parties relating to personal injury from asbestos. Expected costs of the current or future cases are covered by Group's insurances, sellers' guarantees granted by third-parties and by provisions that management, based on the advice and information provided by its legal counsel, considers to be sufficient.

Note 7 > Financing and Financial Instruments

7.1 Significant accounting principles

Other financial assets

Financial assets are initially recognized at their fair value plus any applicable transaction costs except for financial assets at fair value through profit or loss for which transactions costs are recognized in profit or loss as incurred.

Under IFRS 9, all financial assets for which the cash flows do not represent solely payment of principal and interest (SPPI) must be recorded at fair value through profit and loss. However, IFRS 9 introduces an option that may be irrevocably elected at the time of initial recognition, investment by investment, permitting equity investments to be recorded at fair value through other comprehensive income, without later being moved to profit and loss, even in the event of a disposal. Only the dividends are recognized in profit or loss.

Financial assets for which the cash flows do represent solely payment of principal and interest (SPPI) are recognized at amortized cost using the effective interest rate method.

For non-current assets valued at amortized cost, impairment is assessed individually, taking into account the risk profile of the counterparty and the warranties obtained. At the time of the initial recording of such non-current financial assets, impairment is systematically recorded in the amount of the credit losses expected to result from events that may occur in the next twelve months. In the event of a significant deterioration in the counterparty's credit quality, the initial impairment is supplemented to cover all of the expected losses over the remaining maturity of the receivable.

For commercial receivables, the Group conducts a review of each of its customer receivables individually, taking into account the probability of default by the counterparty as well as the extent to which the receivables were hedged, and uses the simplified method provided for by IFRS 9 to provision the expected losses over the remaining maturity of the receivables.

Non-derivative financial liabilities

Financial liabilities comprise financial debt and trade and other operating payables. They are accounted for at amortized cost using the effective interest rate method.

Derivative instruments

Derivatives are recognized in the balance sheet at their fair value (whether positive or negative) with changes in fair value immediately recognized in profit or loss.

However, derivative instruments that are part of a hedging relationship are classified either as fair value hedges (FVH) (when their purpose is to hedge an existing asset or liability's exposure to the risk of changes in its fair value) or cash flow hedges (CFH) (when their purpose is to hedge the exposure to changes in the cash flows associated with highly probable future transactions).

Derivative instruments that are part of a hedge are documented on the basis of intrinsic value for exchange rate and interest rate options, and on the basis of the spot price component for forward contracts.

Changes in fair value relating to the effective portion of derivative exchange rate and interest rates instruments qualified as fair value hedges (FVH) are recognized within income. The value of the hedged items is adjusted to their fair value and the changes in fair value attributable to the hedged risk(s) are also recognized in profit and loss.

Changes in fair value relating to the effective portion of derivative exchange rate and interest rates instruments qualified as cash flow hedges (CFH) are recognized within other comprehensive income, and the result of such hedges is recorded in profit and loss, symmetrically to the risk being hedged.

The time value of exchange rate and interest rate options is recorded as a cost of hedging. Changes in time value recorded over the life of the option are recorded as a counterpart to other comprehensive income. The initial option premium is either (i) moved into profit or loss when the hedged transaction impacts profit or loss, where the hedged item is related to a transaction (commercial foreign exchange hedges); or (ii) amortized in profit or loss over the duration of the hedge, where the hedged item is related to a period of time (interest rate hedges).

Changes in value of the swap point for forward contracts classified as hedges are recorded in profit and loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, term deposits, monetary UCITs, and other monetary investments with initial maturities not exceeding three months and subject to an insignificant risk of changes in value.

7.2 Financial income and expenses

Financial expense includes, in particular, interest payable on borrowings accounted for at amortized cost using the effective interest method, and the effects of the related hedges.

Other financial income and expense includes the income and expenses associated with loans and receivables accounted for at amortized cost, the gains recognized in respect of investment of cash and cash equivalents, financial charges relating to the discounting of post-employment expenses, exchange rate gains and losses, impairment losses relating to financial assets, and dividends, which are recorded in net income when the right to payment vests.

(in millions of euros)	**December 31, 2019**	**December 31, 2018**
Interest income on loan assets & cash equivalents	1.1	0.7
Other financial income	0.2	0.3
Total financial income	**1.3**	**1.0**
Interest on financial liabilities	(18.8)	(15.2)
Financial expense relating to leases	(4.2)	(0.2)
Commission expenses on financial liabilities	(4.8)	(3.5)
Cost of loans and debt renegotiation	(1.1)	(1.0)
Interest on provisions for pensions	(5.3)	(5.1)
Foreign exchange gains or losses	0.5	(4.8)
Impairment of financial assets	(0.1)	-
Changes in value of interest rate hedge instruments	(5.8)	(1.2)
Other financial expenses	(0.7)	(0.1)
Total financial expenses	**(40.1)**	**(31.1)**
Financial income and expenses	**(38.8)**	**(30.1)**

7.3 Net debt – interest-bearing loans and borrowings

7.3.1 Net Debt

Net debt is defined as the sum of interest bearing loans and borrowings minus cash and cash equivalents. Interest-bearing loans and borrowings refer to any obligation for the repayment of funds received or raised that are subject to repayment terms and interest charges. They also include liabilities on finance leases.

(in millions of euros)	**December 31, 2019**		**December 31, 2018**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Bank loans	57.2	3.6	240.9	0.7
Private placements	612.1	-	595.5	-
Other loans	1.8	-	0.2	0.9
Bank overdrafts	-	7.2	-	7.8
Leases (1)	2.5	0.8	2.5	0.8
Interest bearing loans and borrowings	**673.6**	**11.6**	**839.1**	**10.2**
Total interest bearing loans and borrowings	**685.2**		**849.3**	
Cash and cash equivalents	(137.7)		(95.7)	
Net debt before application of IFRS 16 (1)	**547.5**		**753.6**	
Leases (2)	66.6	22.7	-	-
Net debt (2)	**636.8**		**753.6**	

(1) *Leases recorded in accordance with former IAS 17 – finance leases.*

(2) *Leases recorded in accordance with IFRS 16 (excluding leases previously recorded in accordance with IAS 17).*

The change in net debt during the fiscal year relates primarily to cash flows from operating activities, to reduced working capital requirement, and to the non-recourse assignment of certain trade receivables in certain subsidiaries.

In June 2019, Tarkett entered into a non-recourse factoring line of credit for certain European and Australian subsidiaries and a non-recourse securitization line of credit for certain U.S. subsidiaries. As a result, the prior €50.0 million French, German, and Spanish-law assigment of receivables with recourse, which was not used, has been terminated.

As of December 31, 2019, Tarkett is using its factoring and securitization lines of credit in the amounts of €101.2 million and $28.2 million.

All of the interest-bearing loans and borrowings are unsecured and include mainly:

- A "Schuldschein" of €144.0 million and $26.5 million entered into in June 2019 and maturing in June 2026 for €51.0 million, in June 2025 for €45.0 million, and in June 2024 for the remainder;
- A "Schuldschein" of €252.5 million and $50.0 million entered into in April 2017 and maturing in April 2024 for €150.5 million and in April 2022 for the remainder;
- A "Schuldschein" of €147.5 million entered into in June 2016 and maturing in June 2023 for €91.0 million and in June 2021 for €56.5 million, and for which the previous variable rate tranches were repayed using the Schuldschein of June 2019;
- A multi-currency revolving syndicated loan with a capacity of €700.0 million subscribed in May 2019 for a term of five years with two options to extend for an additional year, and which was used in the amount of €53.4 million as of December 31, 2019.

7.3.2 Details of loans and borrowings

December 31, 2019 *(in millions of euros)*	**Currency of draw-down**	**Interest rate**	**TOTAL**	**12 months or less until 31/12/2020**	**2 years until 31/12/2021**	**3 to 5 ans until 31/12/2024**	**More than 5 years**
Bank loans							
European revolving credit facilities	USD	2.49%	53.4	-	-	53.4	-
Other bank loans	RMB	5,22%-5,70%	7.4	3.6	1.6	2.2	-
Subtotal Bank loans			**60.8**	**3.6**	**1.6**	**55.6**	**-**
Private placements Europe	EUR	1.15%-1.722%	544.0	-	56.5	391.5	96.0
Private placements Europe	USD	3,48%-3,57%	68.1	-	-	68.1	-
Financing backed by business receivables			-	-	-	-	-
Other loans	EUR	0,25% - 4,05%	1.8	-	0.9	0.9	-
Bank overdrafts			7.2	7.2	-	-	-
Leases (1)			3.3	0.8	0.8	1.6	0.1
Interest bearing loans and borrowings (1)			**685.2**	**11.6**	**59.8**	**517.7**	**96.1**
Leases (2)			89.3	22.7	26.7	28.8	11.1
Interest bearing loans and borrowings (2)			**774.5**	**34.3**	**86.5**	**546.5**	**107.2**

(1) Leases recorded in accordance with former IAS 17 – finance leases
(2) Leases recorded in accordance with IFRS 16 (excluding leases previously recorded in accordance with IAS 17).

December 31, 2018 *(in millions of euros)*	**Currency of draw-down**	**Interest rate**	**TOTAL**	**12 months or less until 31/12 /2019**	**2 years until 31/12/ 2020**	**3 to 5 ans until 31/12/ 2023**	**More than 5 years**
Bank loans							
European revolving credit facilities	USD	3.27%-3.55%	235.8	-	235.8	-	-
Other bank loans	RMB	5.22%	5.8	0.7	1.5	3.6	-
Subtotal bank loans			**241.6**	**0.7**	**237.3**	**3.6**	**-**
Private placements Europe	EUR	1.15%-1.722%	502.5	-	-	352.0	150.5
Private placements Europe	USD	4.07%-4.54%	93.0	-	-	93.0	-
Financing backed by business receivables	EUR	3,85%-5,75%	0.9	0.9	-	-	-
Other loans	EUR	0.25%	0.2	-	0.1	0.1	-
Bank overdrafts			7.8	7.8	-	-	-
Leases (1)			3.3	0.8	0.8	1.6	0.1
Interest bearing loans and borrowings (1)			**849.3**	**10.2**	**238.2**	**450.3**	**150.6**
Leases (2)			-	-	-	-	-
Interest bearing loans and borrowings (2)			**849.3**	**10.2**	**238.2**	**450.3**	**150.6**

(1) Leases recorded under the former IAS 17 – Leases.
(2) Leases recorded under IFRS 16 (excluding leases previously recorded under IAS 17).

7.3.3 Financial ratio covenants

The facilities mentioned above contain covenants binding on the borrower, including financial ratio covenants: the ratio of net debt to adjusted EBITDA may not exceed 3.0 as of December 31, of each year and 3.5 as of June 30 of each year, with additional leeway of 0.5 in the event of a significant acquisition.

The Group is in compliance with all of its banking commitments as of December 31, 2019, as well as with the financial ratio covenants "Net debt / Adjusted EBITDA", as detailed below:

Net debt / Adjusted EBITDA *(in millions of euros)*	December 31, 2019	December 31, 2018
Net debt (1)	547.5	753.6
Adjusted EBITDA (2)	249.5	267.4
Ratio (3)	**2.2**	**2.8**

(1) Net debt excluding lease liabilities resulting from the application of IFRS 16, but including €3.3 million relating to finances leases (€3.3 million as of December 31, 2018).
(2) Adjusted EBITDA used to exclude the impact of the application of IFRS 16 as of December 31, 2019, in accordance with the calculation methods provided for in the underlying financing contract.
(3) Must be less than 3.0 as of December 31 and less than 3.5 as of June 30.

As of December 31, 2018, the ratio of adjusted EBIT to net interest was a contractual covenant. This ratio is no longer one of the covenants required by the new documentation for the syndicated loan and for the June 2019 Schuldschein.

7.3.4 Cash and cash equivalents

(in millions of euros)	December 31, 2019	December 31, 2018
Current cash	93.1	31.4
Remunerated cash balances	37.1	56.4
Short term treasury notes and Money Market funds	7.4	7.9
Cash and cash equivalents	**137.7**	**95.7**

7.3.5 Changes in financial liabilities

The following table reconciles changes in financial liabilities shown on the balance sheet and the cash flow statement:

(in millions of euros)	December 31, 2018	Cash-flows	Reclassification	Non-cash change			December 31, 2019
				Acquisition(3)	Foreign exchange differences	Fair value change	
Long-term financial liabilities	839.6	(175.4)	(49.5)	116.4	9.6	-	740.6
Short-term financial liabilities	10.1	(23.3)	49.5	-	(2.3)	-	34.2
Long-term financial assets (1)	(33.7)	3.1	7.5	-	(0.4)	-	(23.6)
Short-term financial assets	(1.2)	(2.1)	-	-	-	-	(3.3)
Other		(4.8)					
Total changes in financing activities (2)		**(202.5)**					
Cash-flows from financing activities (2)		**(202.5)**					

(1) Excluding shares accounted for by the equity method.

(2) Excluding dividends, acquisition of treasury shares and acquisition of non-controlling interests.

(3) of which €100.7 million for IFRS 16 as of January 1, 2019 and €15.7 million related to new leases in 2019.

7.4 Other financial assets and liabilities

7.4.1 Other financial assets

(in millions of euros)	December 31, 2019	December 31, 2018
Long-term investments	0.0	-
Financial investments and receivables – long-term [1]	21.7	24.1
Other financial assets	**21.7**	**24.1**

(1) Financial investments and receivables – long-term include shares of companies accounted for by the equity method.

The variations in gross value, depreciation and amortization break down as follows:

Acquisition costs *(in millions of euros)*	December 31, 2018	Increases	Decreases	Transfer	Foreign exchange differences	December 31, 2019
Long-term investments	-	-	-	-	-	-
Financial investments and receivables – long-term	26.6	12.1	(7.4)	(7.5)	0.4	24.2
Other financial assets	**26.6**	**12.1**	**(7.4)**	**(7.5)**	**0.4**	**24.2**

Accumulated depreciation and amortization *(in millions of euros)*	December 31, 2018	Allowance	Disposal	Decrease	Impairment losses	Transfer	Foreign exchange differences	December 31, 2019
Security deposit – long-term	-	-	-	-	-	-	-	-
Long-term financial assets and receivables	(2.5)	(0.1)	-	-	-	-	0.1	(2.5)
Other financial assets	**(2.5)**	**(0.1)**	**-**	**-**	**-**	**-**	**0.1**	**(2.5)**

7.4.2 Other financial liabilities

(in millions of euros)	December 31, 2019	December 31, 2018
Fair value of derivatives non-current	-	-
Other financial liabilities non-current	0.3	4.1
Other financial liabilities non-current	**0.3**	**4.1**
Accrued interest expenses current	1.3	2.1
Fair value of derivatives current	3.6	2.0
Other financial liabilities current	4.5	5.9
Other financial liabilities current	**9.5**	**10.0**

7.5 Fair value of financial assets and liabilities

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible.

Fair values are categorized into three levels based on the inputs used in the valuation techniques, as follows:

- level 1: quoted prices (unadjusted) on active markets for identical assets or liabilities;
- level 2: prices determined using valuation techniques based on observable market data;
- level 3: inputs relating to the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of interest rate swaps and of interest rate and foreign currency options is the estimated amount that the Group would expect to receive or have to pay in order to cancel each derivative instrument at the balance sheet date, taking into account the current level of interest rates and the credit risk associated with these instruments' counterparties.

The derivative Financial Instruments (swaps, caps, floors, etc.) entered into by the Group are traded on over-the-counter markets on which there are no quoted prices. They are therefore measured using the valuation models commonly employed by operators in the market (Level 2).

Derivative instruments are entered into exclusively with first class banks or other financial institutions, and with the sole purpose of providing security for the Group's current operations and for the financing thereof.

In the case of receivables and payables with maturities of less than a year and certain floating rate receivables and payables, historical cost is considered as a reasonable approximation of their fair value.

December 31, 2019	Fair Value Category	Assets at amortized cost	Liabilities at amortized cost	Fair value through profit and loss	Fair value of interest rate hedge instruments	Carrying amount	Fair value
(in millions of euros)							
Financial assets, non-current	Level 2	0.1	-	21.6	-	21.7	21.7
Other current financial assets	Level 2	-	-	-	3.4	3.4	3.4
Trade receivables	Level 2	258.5	-	-	-	258.5	258.5
Cash and cash equivalents	Level 2	-	-	137.7	-	137.7	137.7
Interest-bearing loans and borrowings	Level 2	-	774.5	-	-	774.5	774.5
Other non-current financial liabilities	Level 2	-	0.3	-	-	0.3	0.3
Other current financial liabilities	Level 2	-	5.8	-	3.7	9.5	9.5
Trade payables	Level 2	-	324.0	-	-	324.0	324.0

December 31, 2018	Fair Value Category	Assets at amortized cost	Liabilities at amortized cost	Fair value through profit and loss	Fair value of interest rate hedge instruments	Carrying amount	Fair value
(in millions of euros)							
Financial assets, non-current	Level 2	7.6	-	16.5	-	24.1	24.1
Other current financial assets	Level 2	-	-	-	3.1	3.1	3.1
Trade receivables	Level 2	350.5	-	-	-	350.5	350.5
Cash and cash equivalents	Level 2	-	-	95.7	-	95.7	95.7
Interest-bearing loans and borrowings	Level 2	-	849.3	-	-	849.3	849.3
Other non-current financial liabilities	Level 2	-	4.1	-	-	4.1	4.1
Other current financial liabilities	Level 2	-	8.0	-	2.0	10.0	10.0
Trade payables	Level 2	-	283.6	-	-	283.6	283.6

7.6 Financial risks and Financial Instruments

7.6.1 Financial risk management

The Group's financial risk (market risk, credit risk and liquidity risk) management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2018.

7.6.2 Derivative instruments

The Group uses derivative Financial Instruments to hedge some of its exposure to foreign currency risk and interest rate risk associated with its purchases and sales denominated in foreign currencies and with its financing and investment transactions.

The derivatives employed include interest rate options, other forward contracts and foreign currency options.

In accordance with its policy in respect of Financial Instruments, the Group neither uses nor issues derivative Financial Instruments for trading purposes.

7.6.3 Financial market risks

Exposure to interest rate, currency, liquidity and credit risks arises in the normal course of Tarkett's activities. Derivative financial instruments are used to reduce the exposure to fluctuations in both foreign exchange and interest rates. Liquidity and credit risk are managed following specific procedures approved by the Group's management bodies.

The portfolio of derivative instruments is broken down as follows:

December 31, 2019 *(in millions of euros)*	**Accounting classification**	**Maturity**	**Fair value**	**Counterpart in OCI** [1]
Currency swaps	FVH	< Mar 2020	1.9	-
Exchange rate derivative instruments			**1.9**	**-**
Forward exchange contracts	CFH	< May 2021	(1.0)	(0.9)
Options	CFH	< Dec 2020	(0.2)	(0.5)
Exchange rate derivatives related to commercial transactions			**(1.2)**	**(1.4)**
Caps	CFH	< April 2024	(0.9)	(1.0)
Interest rate derivatives			**(0.9)**	**(1.0)**
Total			**(0.2)**	**(2.4)**

[1] *Corresponds to the balance of the counterpart in OCI as of December 31, 2019.*

December 31, 2018 *(in millions of euros)*	**Accounting classification**	**Maturity**	**Fair value**	**Counterpart in OCI** [1]
Currency swaps	FVH	< June 2019	0.4	-
Exchange rate derivative instruments			**0.4**	**-**
Forward exchange contracts	CFH	< Mar 2020	0.2	0.2
Options	CFH	< Jan 2020	0.8	0.5
Exchange rate derivatives related to commercial transactions			**1.0**	**0.7**
Caps	CFH	< April 2024	(0.3)	(0.5)
Interest rate derivatives			**(0.3)**	**(0.5)**
Total			**1.1**	**0.2**

[1] *Corresponds to the balance of the counterpart in OCI as of December 31, 2018.*

The nominal amounts of derivative instruments hedging the main exposures are broken as follows:

(in millions of euros)	December 31, 2019					December 31, 2018				
Currency of exposure	**USD**	**PLN**	**GBP**	**CAD**	**NOK**	**USD**	**PLN**	**GBP**	**CAD**	**NOK**
Exchange rate derivative instruments	275.3	2.3	0.1	41.6	-	102.5	33.6	4.5	30.1	-
Exchange rate derivatives related to commercial transactions	-	-	46.6	-	15.3	-	-	35.3	-	10.3
Nominals hedging the main currencies *(in euros)*	**275.3**	**2.3**	**46.7**	**41.6**	**15.3**	**102.5**	**33.6**	**39.8**	**30.1**	**10.3**

a) Interest rate risk

The Group manages its exposure to interest rate risk centrally. The Group's general debt strategy is to give preference to floating interest rate debt over fixed interest rate debt, but also to use interest rate derivatives to protect a part of the floating rate debt over a period of three to five years against a rate increase that could result in extensive damage. The hedging tools used are mainly cap or tunnel type derivatives. The cost of the cap may be offset in part or in full by a tunnel.

Following is the interest rate structure of the Group's net debt before and after application of interest rate hedges.

(in millions of euros)	**Fixed rate**	**Floating rate**	**December 31, 2019**
Interest-bearing loans and borrowings	367.9	406.6	774.5
Cash and cash equivalents	(8.0)	(129.7)	(137.7)
Net debt before hedging	**359.9**	**276.9**	**636.8**
Effect of hedging	112.0	(112.0)	-
Net debt after hedging	**471.9**	**164.9**	**636.8**

(in millions of euros)	**Fixed rate**	**Floating rate**	**December 31, 2018**
Interest-bearing loans and borrowings	343.3	506.0	849.3
Cash and cash equivalents	(7.9)	(87.8)	(95.7)
Net debt before hedging	**335.4**	**418.2**	**753.6**
Effect of hedging	111.2	(111.2)	-
Net debt after hedging	**446.6**	**307.0**	**753.6**

Sensitivity analysis

Sensitivity to interest-rate fluctuations is calculated on the basis of interest-bearing non-derivatives and derivative Financial Instruments, as well as interest-bearing loans granted to joint ventures or third parties. The analysis is based on the market index in effect at the balance sheet date and on assumptions of constant debt and constant debt management policy over one year.

(in millions of euros)	**December 31,2019**	**December 31, 2018**
Increase of 100 basis points		
Increase (Decrease) in financial expense	2.4	3.2
Increase of 100 basis points (1)		
Increase (Decrease) in financial expense	(1.5)	(3.0)

(1) With a floor of 0%

b) Exchange rate risk

Transaction risk

Exchange rate fluctuations have a direct impact on the Group's Consolidated Financial Statements, derived from transactions regarding the Group entities that incur revenues and expenses in currencies other than their functional currency.

Exchange rate derivatives related to commercial transactions

The Group has attempted to develop its production capacities in the same geographic and monetary areas where it distributes its products. Moreover, through the choice of the invoicing currency for certain intra-group transactions, the Group aims to offset revenues with costs in the same currency. In certain unstable currency countries, the Group may also offset the local currencies fluctuations with price indexations. Therefore the remaining exposure on cross-border transactions is moderate. The currencies to which the Group is most exposed are the British pound, the Norwegian crown, the U.S. dollar, the Polish zloty, the Australian dollar, the Canadian dollar, the Russian ruble and the euro as a foreign currency for certain subsidiaries.

The Group has attempted to reduce the impact of short-term fluctuations of currencies on its revenue through centralized management of exchange risks and the use of derivatives. Nevertheless, in the long-term, significant and long lasting variations in exchange rates could affect the Group's competitive position in foreign markets, as well as its results of operations.

The Group's policy is to hedge certain significant residual exposure, decided upon periodically by the finance department based on monitoring Value at Risk. This exposure includes exposure recorded on the balance sheet, namely all recognized trade receivables, trade payables and borrowings denominated in a foreign currency, and unrecorded exposure, which consists of forecast sales and purchases over a six-month period.

Exchange rate derivative instruments relating to financing

The Group may be exposed to transactional exchange-rate risk on certain intragroup loans and borrowings resulting from the financing of its foreign subsidiaries. The Group minimizes this risk either (i) by borrowing in the same currency or (ii) by entering into currency swaps or forwards reflecting the maturity of the hedged item.

7.6.4 Liquidity risks

a) Future cash flows on Financial Instruments

The following figures show the estimated future cash flows on interest-bearing loans and borrowings recorded as liabilities on the balance sheet.

The estimate of future cash flows on interest is based on the debt amortization table and on the assumption of a crystallization of the interest rates outstanding as of the closing date, unless a better estimate is available.

Financial liabilities	**December 31, 2019**		**Less than 12 months**		**1 to 2 years**		**3 to 5 years**		**More than 5 years**	
(in millions of euros)	Carrying amount	Total future cash flows	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Interest-bearing loans										
Bank loans	60.8	74.6	3.6	3.3	1.6	3.2	55.6	7.3	-	-
Private placements	612.1	652.2	-	10.8	56.5	10.4	459.6	17.4	96.0	1.5
Other loans	1.8	1.9	-	0.1	0.9	-	0.9	-	-	-
Bank overdrafts	7.2	7.2	7.2	-	-	-	-	-	-	-
Finance leases	3.3	3.3	0.8	-	0.8	-	1.6	-	0.1	-
Leases	89.3	103.1	22.7	4.1	26.7	3.0	28.8	4.5	11.1	2.2
Total	**774.5**	**842.3**	**34.3**	**18.3**	**86.5**	**16.6**	**546.5**	**29.2**	**107.2**	**3.7**
Other financial liabilities										
Trade payables	324.0	324.0	324.0	-	-	-	-	-	-	-
Other non-current financial liabilities	0.3	0.3	-	-	0.3	-	-	-	-	-
Other current financial liabilities	9.5	9.5	9.5	-	-	-	-	-	-	-
Total	**333.8**	**333.8**	**333.5**	**-**	**0.3**	**-**	**-**	**-**	**-**	**-**
Total financial liabilities	**1,108.3**	**1,176.1**	**367.8**	**18.3**	**86.8**	**16.6**	**546.5**	**29.2**	**107.2**	**3.7**

Financial liabilities	December 31, 2018		Less than 12 months		1 to 2 years		3 to 5 years		More than 5 years	
(in millions of euros)	Carrying amount	Total future cash flows	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Interest-bearing loans	-	-	-	-	-	-	-	-	-	-
Bank loans	241.6	257.0	0.7	10.2	237.3	5.0	3.6	0.2	-	-
Private placements	595.5	638.4	-	11.5	-	11.6	445.0	19.0	150.5	0.8
Other loans	1.1	1.4	0.9	0.1	0.1	0.1	0.1	0.1	-	-
Bank overdrafts	7.8	7.9	7.8	0.1	-	-	-	-	-	-
Finance leases	3.3	3.3	0.8	-	0.8	-	1.6	-	0.1	-
Total	**849.3**	**908.0**	**10.2**	**21.9**	**238.2**	**16.7**	**450.3**	**19.3**	**150.6**	**0.8**
Other financial liabilities	-	-	-	-	-	-	-	-	-	-
Trade payables	283.6	283.6	283.6	-	-	-	-	-	-	-
Other non-current financial liabilities	4.1	4.1	-	-	4.1	-	-	-	-	-
Other current financial liabilities	10.0	10.0	10.0	-	-	-	-	-	-	-
Total	**297.7**	**297.7**	**293.6**	**-**	**4.1**	**-**	**-**	**-**	**-**	**-**
Total financial liabilities	**1,147.0**	**1,205.7**	**303.8**	**21.9**	**242.3**	**16.7**	**450.3**	**19.3**	**150.6**	**0.8**

b) Liquidity position

The Group's debt capacity is €1,502.8 million, including €89.3 million related to the leasing debt (IFRS 16), of which €774.5 million has been used (see Note 7.3.1). Including cash and cash equivalents, the liquidity position of the Group amounts to €866.0 million.

(in millions of euros)	December 31, 2019	December 31, 2018
Amount available on credit facilities	728.3	533.5
Cash and cash equivalents	137.7	95.7
Total	**866.0**	**629.2**

7.6.5 Credit risk

Credit risk represents the risk of financial loss for the Group in the event that a counterparty to a financial instrument defaults in paying its contractual obligations.

The financial assets potentially bearing this risk are mainly:

- cash deposits;
- derivative instruments;
- trade receivables;
- loans granted.

The maximum potential credit risk on the financial assets is equal to their net accounting value less the indemnification receivable from credit insurance.

a) Customer credit risk

The Group believes that its exposure to counterparty risk is limited, because of its large number of customers, its dispersion in many geographical areas, and its follow-up policy. The Group has established a credit policy which includes, among other things, a credit limit for each customer, collections processes, and a computer-aided credit scoring and customer payment behavior follow-up.

The total of receivables overdue over 60 days amounts to approximately 11% of total accounts receivable as of December 31, 2019 (9.0% of total accounts receivable as of December 31, 2018).

The Group believes that there is no need to assume that there is risk on outstanding receivables less than 60 days overdue.

With respect to outstanding receivables that are more than 60 days overdue, the Group believes that risks are limited given existing procedures for customer risk management (as detailed above).

b) Credit risk management on equities and derivatives

The counterparties to the Group's financial derivatives are leading banks, all of which have business relationships with the Group for debt or cash management. The Group's policy with regard to investments and cash deposits is to only invest in liquid securities and only with the leading credit institutions in the countries where the investments are made.

The Group is not exposed to a material risk due to any significant concentration, and does not anticipate any counterparty default.

The effect of Credit and Debit Valuation Adjustments (CVA/DVA) on the measurement of the fair value of the derivative Financial Instruments was not material as at the closing date and was therefore not booked.

7.7 Guarantees

Tarkett:

- has granted a General Indemnity Agreement of a maximum amount up to USD 75.0 million in favor of Federal Insurance Company in consideration of an agreement to execute security bonds in favor of FieldTurf Inc. As of the closing date, outstanding security bonds, either active or in the process of restitution, total USD 89.2 million;
- has signed a Joint and Several Guarantee for a maximum amount of USD 75.0 million for the benefit of Ester Finance Titrisation, relating to the collections on its behalf in connection with the securitization line of credit set up with the subsidiary Tarkett USA Inc.;
- has granted a guarantee given to the Swedish retirement insurance company Pri-Pensionsgaranti to insure Tarkett AB's employee benefit commitments in the amount of SEK 201.8 million;
- has granted a guarantee covering 50% of two lines of credit for a maximum amount of €10.0 million, each granted to its joint venture Laminate Park GmbH & Co KG, of which €2.2 million has been used as of the balance sheet date;
- has granted a guarantee to a raw materials supplier of its subsidiary Morton Extrusion Technik (M.E.T GmbH) to secure its payables up to €7.0 million, of which €4.7 million has been used as of the balance sheet date;
- has granted its guarantee as parent company to the lenders of Tarkett Limited (UK), Tarkett BV (Netherlands), Tarkett Asia Pacific (Shanghai) Management Co Ltd (China) and Tarkett Industrial (Beijing) Co Ltd., and Tarkett Spa (Italy) to obtain overdraft facilities or letters of credit for a maximum amount equal to €35.1 million, of which €11.7 million has been used as of the balance sheet date.

Furthermore, in the ordinary course of business, Tarkett and several of the Group's subsidiaries have given payment guarantees to various suppliers, customers, government offices, lessors, and cash pooling or trade finance operators, either directly or through bank guarantees, for an amount of €14.8 million as of the closing date.

Note 8 > Income tax

8.1 Income tax expense

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items in equity or in other comprehensive income, in which case it is recognized in those items.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable with respect to previous years. Income tax expense/income are defined in Note 8.2, Deferred Taxes.

Income tax is calculated based on the rules applicable in each country where the Group operates.

The "Cotisation sur la Valeur Ajoutée des Entreprises (C.V.A.E.)" tax contribution due in France on the basis of the value added as determined based on the statutory accounts of French entities the statutory accounts meets the definition of income tax under IAS 12, "Income Taxes," and is classified on the current income tax line. Similar treatment has been adopted for similar other tax (State Tax and BEAT Tax in the USA in particular) based on a net of products and costs, even though that amount may differ from accounting net income.

Income tax (current and deferred) is detailed as follows:

(in millions of euros)	2019	2018
Current tax	(33.7)	(18.6)
Deferred tax	19.4	0.1
Total income tax	**(14.2)**	**(18.5)**

Theoretical income taxes determined using the French corporate income tax rate of 34.43% for 2019 and 2018 can be reconciled as follows to the actual income tax charge:

(in millions of euros)	**2019**	**2018**
Pre-tax profit from continuing operations (a)	53.8	68.6
Profit from equity-accounted subsidiaries (b) (1)	3.5	(7.9)
Pre-tax profit from fully consolidated activities (a- b)	50.3	76.5
Income tax at nominal French income tax rate	(17.3)	(26.3)
Effect of:		
Taxation of foreign companies at different rates	6.2	8.8
Exchange rate effects on non-monetary assets	3.6	(3.5)
Valuation of deferred tax assets	3.1	(1.3)
Permanent differences	(1.8)	3.6
Taxes on dividends (Withholding at the source, 3% contribution)	(3.4)	(0.1)
Other items	(4.5)	0.3
Income tax expenses	**(14.2)**	**(18.5)**
Effective rate	**28.3%**	**24.2%**

(1) In 2019, the result of companies consolidated with equity method was restated by €7.5 million for an expense carried by a fully integrated company relating to the closure of Laminate Park, which is consolidated with equity method.

Taxation of foreign companies at different rates:

The main contributing countries are Russia, with a local income tax rate of 20%, Sweden, with a local tax rate of 21.40%, and Luxembourg, with a local income tax rate of 28.09%.

Exchange rate effects on non-monetary assets

The deferred tax income of €3.6 million is due to the effect of changes in the exchange rate on non-monetary assets and liabilities of entities whose functional currency is different from the local currency. Recognition of this income is required by IFRS, even if the revalued tax basis does not generate any tax obligation in the future.

Changes in unrecognized deferred tax assets

The Group has activated a net amount of €3.1 million in respect of the future taxable results of certain subsidiaries.

Other items

In 2019, an additional tax for €3.1million related to the BEAT tax in the United States.

8.2 Deferred tax

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

The following temporary differences are not provided for:

> goodwill not deducted for tax purposes;

> the initial recognition of assets or liabilities, other than in the context of transactions involving business combinations, that affect neither accounting nor taxable profit;

> differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

A deferred income tax asset is recognized only to the extent that it is probable that there will be future taxable profits over the next five years against which this asset can be utilized.

In accordance with IAS 12, where an entity's tax return is prepared in a currency other than its functional currency, changes in the exchange rate between the two currencies generate temporary differences with respect to the valuation of non-monetary assets and liabilities. As a result, deferred tax is recognized in profit or loss.

Deferred taxation is shown on the balance sheet separately from current tax assets and liabilities and is categorized in non-current items.

(in millions of euros)	2019	2018
Valuation of deferred tax assets	33.9	25.3
DTA for pensions and healthcare benefits	45.3	39.5
Other items temporarily non deductible	56.5	39.1
Provision for other deferred tax liabilities	(2.1)	(1.6)
Internal profit eliminations	3.3	2.5
Netted against deferred tax assets	(45.8)	(28.2)
Deferred tax assets	**91.1**	**76.6**
Fixed assets revaluation	46.6	39.8
Other deferred tax liabilities	25.6	24.1
Netted against deferred tax assets	(45.8)	(28.2)
Deferred tax liabilities	**26.4**	**35.7**

The Group had €33.9 million in deferred tax assets related to tax loss carryforwards and unused tax credits, of which €12.3 million related to Luxembourg, €13.3 million related to the Group's North American (United States) tax consolidation group, and €5.0 million related to France.

The €33.9 million can be broken down as follows: €23.5 million of net deferred tax assets for tax loss carryforwards, and €10.4 million of net unused tax credits.

As of December 31, 2019, unrecognized deferred tax assets related to loss carryforwards and unused tax credits amount to €170.8 million.

Note 9 > Equity and liabilities

9.1 Share capital

Share capital comprises the par value of the ordinary shares minus incremental costs directly attributable to the issue of ordinary shares and share options, net of any tax effects. When share capital recognized as equity is repurchased, the amount of consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity classified as own shares. When own shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

	December 31, 2019	December 31, 2018
Share capital *(in euros)*	327,751,405	318,613,480
Number of shares	65,550,281	63,722,696
Par value *(in euros)*	5.0	5.0

9.2 Earnings per share and dividends

Weighted average number of shares outstanding (basic earnings)

(in thousands of shares)	December 31, 2019	December 31, 2018
Average number of shares outstanding (basic earnings)	64,636	63,723
Average number of treasury shares held by Tarkett during the year	(356)	(434)
Weighted average number of shares outstanding (basic earnings)	**64,280**	**63,289**

Basic earnings per share

Basic earnings per share as of December 31, 2019 are calculated on the basis of the Group's share of net profit and on the weighted average number of shares outstanding during the period (and after deduction of the weighted average number of treasury shares).

(in thousands of shares)	December 31, 2019	December 31, 2018
Profit for the period attributable to Tarkett shareholders *(in millions of euros)*	39.6	49.3
Weighted average number of shares outstanding (basic earnings)	64,280	63,289
Basic earnings per share (in euros)	**0.62**	**0.78**

Weighted average number of shares outstanding (diluted)

(in thousands of shares)	December 31, 2019	December 31, 2018
Number of shares outstanding at year-end	64,280	63,289
Impact of share- based payment plans (1)	345	370
Weighted average number of shares outstanding during the period (diluted)	**64,625**	**63,659**

(1) Free share grant plans provide only for the grant of existing shares and not for issuance of new shares

Diluted earnings per share

Diluted earnings per share as of December 31, 2019 are calculated on the basis of the Group's share of net profit and on the weighted average number of shares outstanding during the period and the weighted average number of potential shares outstanding (and after deduction of the weighted average number of treasury shares).

(in thousands of shares)	December 31, 2019	December 31, 2018
Profit for the period attributable to Tarkett shareholders *(in millions of euros)*	39.6	49.3
Weighted average number of shares outstanding (diluted)	64,625.4	63,658.7
Diluted earnings per share (in euros)	**0.61**	**0.77**

Dividends

On April 26, 2019, the General Shareholders' Meeting decided to pay a dividend of €0.60 per share and offered the option to receive payment of the dividend in newly issued shares.

As a result, on July 4, 2019, Tarkett paid €7.4 million and carried out a capital increase of €30.6 million.

In 2018, the Group had paid a dividend of €0.60 per share for a total amount of €37.9 million.

Note 10 > Related parties

In accordance with IAS 24, "Related Party Disclosures," the Group has identified the following related parties:

- The joint ventures;
- The Group's principal shareholder, Société Investissement Deconinck ("**SID**");
- The members of Tarkett's Management Board and Supervisory Board.

Transactions entered into during the period with the Group's joint ventures and principal shareholders are detailed below.

10.1 Joint ventures

All transactions between fully consolidated entities are eliminated in consolidation.

Transactions with related entities and jointly held entities are entered into on arm's length terms.

The Group has three joint ventures, including Laminate Park GmbH & Co KG in Germany, jointly controlled with the Sonae group.

The Group's transactions with its joint venture may be summarized as follows:

(in millions of euros)	**December 31, 2019**	**December 31, 2018**
Joint ventures		
Sale of goods to Tarkett	16.2	24.1
Purchase of services from Tarkett	(0.4)	(1.0)
Loans from Tarkett	-	7.5

10.2 Principal shareholders

Société Investissement Deconinck holds 50.68% of Tarkett's share capital and as such controls and coordinates the Group's activities. In addition, The family Group Deconinck, made of SID and members of Deconinck family members', hold jointly 51,26 % of the share capital.

As of December 31, 2019, SID had invoiced a total of €300,000 in fees under the Assistance Agreement (€300,000 as of December 31, 2018).

As of December 31, 2019, Tarkett had invoiced a total of €55,000 to SID under the Service Agreement (€55,000 as at December 31, 2018).

10.3 Members of the Management Board and Supervisory Board

None.

Note 11 > Subsequent events

None.

Note 12 > Statutory auditor fees

Amount *(excluding taxes) (in thousands of euros)*	**KPMG S.A.**	**KPMG S.A.**	**MAZARS**	**MAZARS**
	Auditor	**Network**	**Auditor**	**Network**
Statutory audit, certification, audit of the individual company and Consolidated Financial Statements				
Tarkett	291	-	240	-
Controlled entities	123	1,154	55	640
Subtotal (A)	**414**	**1,154**	**295**	**640**
Services other than certification of the financial statements required by laws and regulations				
Tarkett	-	-	-	-
Controlled entities	3	1	2	-
Subtotal (B)	**3**	**1**	**2**	**-**
Services other than certification of the financial statements at the entity's request				
Tarkett	74	-	-	-
Controlled entities	-	-	-	-
Subtotal (C)	**74**	**-**	**-**	**-**
Services other than certification of the financial statements (1)				
Subtotal D = B + C	**77**	**1**	**2**	**-**
Subtotal E = A + D	**491**	**1,155**	**297**	**640**
Total	**1,646**		**937**	

(1) Nature of services other than certification of the financial statements provided by the statutory auditors to the consolidating entity and its controlled subsidiaries: review of CSR information by an independent third-party, a compliance assignment

Note 13 > Principal consolidated entities

Companies	Country	Consolidation method	Pourcentage of interest as of December 31, 2019	Pourcentage of interest as of December 31, 2018
G: Full consolidation				
E: Equity method				
NC: Not consolidated				
EMEA				
Tarkett AB	Sweden	G	100%	100%
Tarkett AS	Norway	G	100%	100%
Tarkett OY	Finland	G	100%	100%
Tarkett NV	Belgium	G	100%	100%
Tarkett A/S	Denmark	G	100%	100%
Tarkett Polska Sp.z.o.o.	Poland	G	100%	100%
Tarkett Aspen Zemin AS (1)	Turkey	G	100%	70%
Laminate Park GmbH & Co KG	Germany	E	50%	50%
Tarkett Holding GmbH	Germany	G	100%	100%
M.E.T GmbH	Germany	G	100%	100%
Tarkett Sports GmbH (1)	Germany	G	100%	N/A
Tarkett SA	France	Parent Company	100%	100%
Tarkett Services	France	G	100%	100%
Tarkett France	France	G	100%	100%
Tarkett Bois SAS	France	G	100%	100%
Fieldturf Tarkett SAS	France	G	100%	100%
Tarkett GDL SA	Luxembourg	G	100%	100%
Tarkett Capital SA	Luxembourg	G	100%	100%
Somalré	Luxembourg	G	100%	100%
Tarkett SpA	Italy	G	100%	100%
Tarkett - Produtos Internacionias, SA	Portugal	G	100%	100%
Tarkett Monoprosopi Ltd.	Greece	G	100%	100%
Tarkett Floors S.A. Spain	Spain	G	100%	100%
Fieldturf Poligras SA	Spain	G	100%	100%
Tarkett BV	Netherlands	G	100%	100%
Tarkett Sports BV	Netherlands	G	100%	100%
Desso Sports System BV	Netherlands	G	100%	100%
Desso Refinity BV	Netherlands	G	100%	100%
Desso Holding BV	Netherlands	G	100%	100%
Tarkett Ltd.	Great Britain	G	100%	100%
Desso Ltd. (1)	Great Britain	G	0%	100%
Allsports construction and maintenance Ltd.	Great Britain	E	30%	30%
F.E.D. Inc. (1)	United States of America	E	40%	N/A
Desso Czech Republic	Czech Republic	G	100%	100%
Tarkett Schweiz	Switzerland	G	100%	100%
Desso Ambiente Textil Handelsgesellschaft m.b.h	Austria	G	100%	100%
North America				
Tarkett INC. (Delaware) (TKT)	United States of America	G	100%	100%
Tandus Centiva Inc. (1)	United States of America	G	0%	100%
Tandus Centiva US LLC (1)	United States of America	G	0%	100%
Domco Products Texas Inc (AZR)	United States of America	G	100%	100%
Tarkett Alabama Inc. (NAF)	United States of America	G	100%	100%
Tarkett Finance Inc.	United States of America	G	100%	100%
Tarkett USA Inc. (DUS)	United States of America	G	100%	100%

Companies	Country	Consolidation method	Pourcentage of interest as of December 31, 2019	Pourcentage of interest as of December 31, 2018
				100%
Easy Turf	United States of America	G	100%	100%
Beynon Sport Surfaces Inc	United States of America	G	100%	100%
Fieldturf Tarkett USA Holding	United States of America	G	100%	100%
Fieldturf USA Inc.	United States of America	G	100%	100%
Diamond W	United States of America	G	100%	100%
Desso (U.S.A.) Inc	United States of America	G	100%	100%
Lexmark Carpet Mills	United States of America	G	100%	100%
Tarkett Inc.	United States of America	G	100%	100%
Tandus Centiva Limited	Canada	G	100%	100%
Fieldturf Inc	Canada	G	100%	100%
Johnsonite Canada Inc.	Canada	G	100%	100%
The Tennis and Track Company (1)	United States of America	G	0%	100%
CIS, APAC and Latin America				
Tarkett Australia Pty.Ltd.	Australia	G	100%	100%
Tarkett Brasil Revestimentos LTDA	Brazil	G	100%	100%
Tarkett Flooring Mexico	Mexico	G	100%	100%
Tarkett Asia Pacific (Shanghai) Management Co Ltd.	China	G	100%	100%
Tarkett Hong Kong Ltd.	Hong Kong	G	100%	100%
Tarkett Industrial (Beijing) Co, Ltd	China	G	100%	100%
Tandus Flooring (Suzhou) Co. Ltd	China	G	100%	100%
AO Tarkett	Russia	G	100%	100%
AO Tarkett Rus	Russia	G	100%	100%
Tarkett Sommer OOO	Russia	G	100%	100%
Tarkett d.o.o.	Serbia	G	100%	100%
Tarkett SEE	Serbia	G	100%	100%
Galerija Podova	Serbia	G	100%	100%
Tarkett UA	Ukraine	G	100%	100%
Vinisin	Ukraine	G	100%	100%
Tarkett Kazakhstan	Kazakhstan	G	100%	100%
Vinisin Kft (1)	Hungary	G	0%	100%
Tarkett Bel	Belarus	G	100%	100%
Tarkett Flooring Singapore	Singapore	G	100%	100%
Tarkett Flooring India Private	India	G	100%	100%
Fieldturf Australia (Grassman)	Australia	G	100%	100%

(1) cf. Note 2.4.

The percentages of equity and voting rights held for each entity of the Group are identical.

3 Statutory Auditors' Report on the Consolidated Financial Statements

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

For the year ended 31 December 2019

To the general meeting of shareholders of Tarkett,

Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying consolidated financial statements of Tarkett for the year ended 31 December 2019.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2019 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit, Risks and Compliance Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 1st January 2019 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics *(code de déontologie)* for statutory auditors.

Emphasis of matter

Without qualifying our conclusion, we draw your attention on the note "1.2.1. Statement of compliance and applicable standard" to the consolidated financial statements which sets out the impacts of the first application of IFRS 16 "Lease" and IFRIC 23 "Uncertainty over Income Tax Treatments" as at 1st January 201.9

Justification Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Long term assets valuation

Key audit matter

Goodwill, intangible assets and property, plant and equipment have net book values at 31 December 2019 of 650,6M€, 155,6M€ and 607,3M€, respectively, and represent a significant amount of the consolidated balance sheet. These assets are accounted in accordance with the principles described in notes "2.2 - Business Combinations", "5.1 – Goodwill" and "5.2 - Tangible and intangible assets" to the consolidated financial statements.

These assets may present a risk of impairment caused by internal or external factors, such as the deterioration of the Group's performance, changes in the competitive environment, unfavorable market conditions and changes in legislation or regulations. These changes can have an impact on the Group's cash flow forecasts and consequently on the determination of the recoverable amounts of these assets.

Management performs impairment tests if there is an impairment trigger event and at least once a year for goodwill and other non-amortizable intangible assets or for other non-financial assets as described in Note 5.3.1 - Non-Financial Assets. Assets are tested at the level of the cash-generating units ("CGUs") defined by the Group. An impairment loss is recognized if the net booked value of an asset or cash-generating unit is higher than its recoverable value. The recoverable value is the higher amount between the fair value less the transfer costs and the value in use. Value in use is determined according to the discounted future cash flow projections method (excluding interest on borrowings and taxes) for each cash generating unit.

The assessment of the recoverable value of these assets is a key audit matter, given the significant potential of impairment and the high degree of estimation and judgment required by management for this assessment. The judgments include, in particular, assumptions regarding the future evolution of selling prices, volumes and costs of raw materials, renewal investments and changes in working capital requirements related to the operation of these assets, and the determination of infinite growth rates and discount rates applied to the appropriate future cash flows.

Audit approach

We reviewed the impairment testing process implemented by Group management, in order to identify trigger events and conduct to impairment testing, on the base of cash-flow forecasts from the budget and business plan established by the Board of Management and presented to the Supervisory Board, and assessed the permanence of the method used.

We also assessed appropriateness and relevance of Group management's approach to determine the cash-generating units and units mergers for long-term assets' testing.

We adapted our audit approach when impairment triggers events occur on such cash-generating units. Concerning value in use, we assessed the reasonableness of key management assumptions with respect to earnings forecasts (with comparison to both budget and historical performance), of growth and discount rates.

With the help of our valuation experts, we reviewed Group management's key assumptions related to the discount and growth rates, comparing them with external market data and other comparable sectors' companies.

For a selection of CGUs, we assessed the reasonableness of future cash flow projections, including the infinity normative terminal cash flow amount, with respect to past achievements, our knowledge of business activity supported by interviews with Group or division managers and, according to their availability, external data of other comparable sectors' companies.We analyzed the sensitivity of the impairment test to assess the materiality of the potential impacts on the recoverable value of the assets bearing the highest risk

Litigations and provisions

Key audit matter

The Group is exposed to a variety of legal and tax risks, as well as cases of litigation, including asbestos claims in the United States.

As indicated in note "6.1 – Provisions" to the consolidated financial statements, these risks and litigations are covered by provisions established in accordance with the applicable accounting standard (IAS 37 "Provisions") and amount to 88,4M€ at 31 December 2019 including essentially asbestos litigations.

Significant contingent liabilities for these risks and litigations, the amount and timing of which can not be reliably estimated, are described in note "6.2 - Contingent liabilities" to the consolidated financial statements.

The identification of risks and litigations, the valuation of provisions for such risks and litigations constitute a key audit matter given the amounts involved and the high degree estimate and judgment required from management.

Audit approach

In order to obtain an understanding of litigations, contingent liabilities and related valuations, we reviewed the process of identification, qualification and valuation implemented by Group management for such provisions through various interviews with Group's legal and finance departments, divisions and main subsidiaries.

We conducted a critical review of the internal analysis notes for the likelihood and potential impact of each risk, examining the available procedural elements (letters, claims, judgments, notifications, etc.).

We obtained direct confirmations from the main lawyers involved to confirm our understanding of risks and litigations and assessed the relevance of the amount of provisions accrued.

Based on historical data used by the Group to estimate its provisions for asbestos claims:

> We assessed the permanence of methods used, the relevance and reliability of underlying data and calculations applied;

> We compared amounts paid to previously recognized provisions to assess the quality of the management estimates.

> We exercised our professional judgment to assess, in particular, wether the positions held by Management are in the acceptable range ok risk assessment and the validity of the evolution over time of such positions.

Specific verifications

As required by French laws and regulations, we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of Boards of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the consolidated declaration of extra-financial performance, required under Article L. 225-102-1 of the French Commercial Code (Code de commerce), is included in the management report [or in the information relating to the group provided in the management report], being specified that, in accordance with the provisions of Article L. 823-10 of this Code, we have not verified the fair presentation and the consistency with the consolidated financial statements of the information provided in this declaration and this information must be reported by an independent third party.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards 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 specified in Article L.823-10-1 of the French Commercial Code (code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his 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.
- Obtains 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 internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's 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 Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit, Risks and Compliance Committee

We submit a report to the Audit, Risks and Compliance Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit, Risks and Compliance Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters, that we are required to describe in this audit report.

We also provide the Audit, Risks and Compliance Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (code de commerce) and in the French Code of Ethics *(code de déontologie)* for statutory auditors. Where appropriate, we discuss with the Audit, Risks and Compliance Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris La Défense, on the 13 February 2020

The statutory auditors

French original signed by

KPMG Audit	Mazars	
Renaud Laggiard	Anne-Laure Rousselo	Eric Schwaller
Partner	Partner	Partner

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