Tarkett

Press release

Tarkett Group

Good organic growth (+2.1%) in 2018
Profitability penalized by raw materials
2019: priority to improvement of profitability and cash-flow generation

Paris, February 7, 2019

Highlights

- Organic growth of 2.1%(1), benefiting from the performance of Sports (+11.7% (1))
- Net sales of €2,836 million, down 0.2% vs. 2017 due to adverse currencies (-3.6%)
- Lower adjusted EBITDA(2): €249 million (8.8% of sales) mainly penalized by raw material inflation
- Net profit(3) of €49 million, equal to €0.78 per share
- Net debt/adjusted EBITDA pro forma : 2.8x
- Dividend unchanged (€0.60 per share) with the option to receive payment in new shares, to be proposed at the AGM
- Focus on cost reduction and cash-flow generation
- Transformation program underway - Presentation of a new strategic plan in June

(1) Organic growth: at constant scope of consolidation and exchange rates only reflects changes in volumes and the product mix (note that in the CIS segment, price increases implemented to offset currency fluctuations are not included in organic growth,). See the definition of alternative performance indicators at the end of this press release.
(2) Adjusted EBITDA: adjustments include expenses such as restructuring, acquisitions and share-based payment expenses. See the definition of alternative performance indicators at the end of this press release.
(3) Net profit attributable to owners of the Company.

Net sales amounted to €2,836 million in 2018, representing an **organic growth of 2.1%** compared with 2017, driven by higher volumes, as well as price increases mainly in EMEA and North America.
The Sports segment once again achieved strong organic growth (11.7%), supported by all product categories in all geographical zones. In North America segment, higher selling prices resulted in organic net sales growth of 1.3% in 2018, despite a drop (-2.2%) in Q4 because of production difficulties that affected volumes. Sales in the EMEA segment were stable (-0.1%) in 2018 and up 1.9% in Q4, due in particular to firm momentum in Germany and Central Europe. The CIS, APAC & Latin America segment posted a slight decrease in net sales (-1.5%) after the second half saw consumers become more hesitant in the CIS countries.

Reported sales were stable compared with 2017 **(-0.2%).** Exchange rates had a 3.6% negative effect, mainly because of the decline in the US dollar, Swedish krona and Brazilian real against the euro. Changes in scope had a 1.3% positive effect, mainly resulting from the acquisitions of Lexmark, one of North America’s leading producers of carpet for the hospitality industry ($120 million of sales in 2017, consolidated in the fourth quarter of 2018) and Grassman, a leading Australian producer of artificial turf (€10 million of sales in 2017, consolidated from February 2018).

Adjusted EBITDA amounted to €249 million versus €315 million in 2017 and the **adjusted EBITDA margin** came in at 8.8% compared to 11.1% in 2017. The decline in adjusted EBITDA firstly reflects the very large increase in raw materials and transport costs in all segments (negative impact of €48 million), although almost half of that was offset by selling price increases during the year in Europe and North America (positive impact of €22 million). The effect of those price increases gradually improved during the year, enabling the Group to offset almost 60% of its cost inflation in the second half.

Movements in volumes and the product mix had a negative impact on EBITDA in 2018 (-€20 million), mainly because of lower volumes of certain accretive products, such as commercial carpet in North America, as well as inventory reductions in the EMEA region.
Adverse movements in exchange rates (CIS countries excluded) also had a negative effect amounting to €8 million. Conversely, the net impact of currency and selling-price movements in the CIS countries was positive because of good pricing management in the region (positive lag effect of €3 million).

Net productivity gains totalled €19 million, lower than the target because of difficulties at two North America production sites in the second half of the year. However, productivity more than offset wage increases (negative EBITDA effect of €14 million, in line with previous years).
Recurring SG&A (sales, administrative and R&D costs) are stable. Total SG&A are nevertheless increasing significantly due to a number of one-offs, such as subsidies in 2017 and higher provisions for customer credit risk in 2018.
Acquisitions improved Group EBITDA by €8 million.
It should be noted that adjusted EBITDA of Sports in 2017 was boosted by $12 million after a positive settlement in a legal dispute.

Net profit attributable to owners of the Company amounted to **€49 million** (vs. a loss of €39 million in 2017).

Commenting on these results, **Fabrice Barthélemy, CEO,** said:

"Tarkett achieved good organic growth in 2018 despite a challenging environment in CIS countries. Increases in selling prices offset almost half of the adverse effect of raw materials and transportation costs. The integration of Lexmark is moving forward as expected. We are confident that we will quickly achieve the planned synergies. In the short term, we are focusing our efforts on reducing costs, managing selling prices and maintaining a highly disciplined approach to cash management.

In order to achieve a sustainable improvement in the financial performance of the Group, we have launched a transformation plan focused on innovation in our products and solutions, optimization of our industrial set-up, digital transition and our continued commitment to circular economy. We will detail the initiatives taken in these different areas in a new strategic plan to be presented next June."

Key figures

€ million	2018	2017	% change
Net sales *of which organic growth*[(1)]	2,836.1	2,841.1	-0.2% *+2.1%*
Adjusted EBITDA[(2)] *% of net sales*	248.7 *8.8%*	315.1 *11.1%*	-21.1%
Profit from operating activities (EBIT) *% of net sales*	106.6 *3.8%*	12.7[(3)] *0.4%*	nm
Net profit attributable to owners of the Company Basic earnings per share	49.3 €0.78	(38.7) [(3)] (€0.61)	nm
Free cash flow[(4)]	36.4	(65.6) [(3)]	nm
Net debt	753.6	491.8	nm
Net debt / proforma adjusted EBITDA[(5)]	2.8x	1.6x	nm
Dividend per share	€0.60[(6)]	€0.60	-

(1) Organic growth: at constant scope of consolidation and exchange rates only reflects changes in volumes and the product mix (note that in the CIS segment, price increases implemented to offset currency fluctuations are not included in organic growth,). See the definition of alternative performance indicators at the end of this press release.

(2) Adjusted EBITDA: adjustments include expenses such as restructuring, acquisitions and share-based payment expenses. See the definition of alternative performance indicators at the end of this press release.

(3) 2017 was penalized by the effect of a fine from the French competition authority of €165 million

(4) Free cash flow: defined as cash flow from operations less capital expenditure, plus net interest received (paid), net tax received (paid), miscellaneous operating inflows (outflows) and proceeds (losses) on disposals of non-current assets. See the definition of alternative performance indicators at the end of this press release.

(5) Adjusted EBITDA including 12 months of activity at Lexmark.

(6) To be paid in cash or shares, at the shareholder's discretion, and to be submitted for approval in the April 26, 2019 AGM.

Net sales by segment

€ million	2018	2017	% change	o/w organic growth(1)
EMEA	908.4	926.4	-1.9%	-0.1%
North America	783.6	783.4	0.0%	+1.3%
CIS, APAC & Latin America	580.5	619.0	-6.2%	-1.5%
Sports	563.6	512.3	+10.0%	+11.7%
Group total	**2,836.1**	**2,841.1**	**-0.2%**	**+2.1%**

€ million	Q4 2018	Q4 2017	% change	o/w organic growth(1)
EMEA	218.9	217.9	+0.4%	+1.9%
North America	199.3	172.8	+15.3%	-2.2%
CIS, APAC & Latin America	153.4	165.3	-7.2%	-5.5%
Sports	107.3	97.6	+10.0%	+0.5%
Group total	**678.8**	**653.6**	**+3.9%**	**-1.3%**

Adjusted EBITDA(2) by segment

€ million	2018	2017	2018 margin (% net sales)	2017 margin (% net sales)
EMEA	97.3	126.8	10.7%	13.7%
North America	70.2	95.0	9.0%	12.1%
CIS, APAC & Latin America	74.1	88.5	12.8%	14.3%
Sports	52.8	51,5(3)	9.4%	10.1%
Central costs not allocated	(45.6)	(46.7)	-	-
Group total	**248.7**	**315.1**	**8.8%**	**11.1%**

(1) Organic growth: at constant scope of consolidation and exchange rates only reflects changes in volumes and the product mix (note that in the CIS segment, price increases implemented to offset currency fluctuations are not included in organic growth,). See the definition of alternative performance indicators at the end of this press release.
(2) Adjusted EBITDA: adjustments include expenses such as restructuring, acquisitions and share-based payment expenses. See the definition of alternative performance indicators at the end of this press release.
(3) Including a $12 million received in settlement of a patent infringement claim against a competitor.

Comments by reporting segment

Europe, Middle East, Africa (EMEA)

After seeing a decline in sales at the start of the year, the EMEA segment achieved growth for the rest of 2018 with the result that sales were stable **on an organic basis** (-0.1%) over the full year, with organic growth of 1.4% in the second half. **Over the full year,** Germany, Central Europe, Spain and Italy performed well. Nordic countries stabilised after two years of firm growth. Sales continued to fall in France and there was a decline in the UK against an uncertain background.

The Luxury Vinyl Tiles (LVT) category maintained its momentum throughout the year, supported by new product launches. In particular, rigid composite core board products – iD Click Ultimate and Starfloor Click Ultimate – were very well received by customers.

Sales were down **1.9% on a reported basis in 2018**, penalised by adverse exchange-rate movements, mainly affecting the Swedish krona. In Turkey, the Group significantly increased its prices, fully offsetting the devaluation of the Turkish lira. As with the CIS countries, these adjustments are not included when calculating organic growth.

The **adjusted EBITDA margin** has decreased to **10.7%** compared to 13.7% in 2017, affected by a slight decrease in volumes, reinforced by inventory reductions efforts. Raw materials and transport costs increased very significantly, but more than 40% of that effect was offset by higher selling prices.

North America

Organic growth in North America was **1.3%** in 2018, although sales decreased by 2.2% in Q4. The slowdown was caused by lower sales in the commercial carpet market and difficulties at two production sites in the second half, which affected the product deliveries. Selling prices were increased throughout the year and specific measures taken in Q3 fully offset the increase in customs duties on imports from China.

Sales of commercial and residential resilient flooring remained buoyant throughout the year, as did sales of accessories and rubber. Sales of Luxury Vinyl Tiles (LVT) continued to grow at a good pace.

The integration of Lexmark is going to plan, and Lexmark sales teams are now also in charge of selling vinyl tiles and accessories in the hospitality market. This is strengthening Tarkett's market position in hospitality, where the refurbishment of properties offers good sales potential.

Reported sales were stable in 2018. The negative currency effect in the first part of the year was offset by the positive effects of organic growth and the Lexmark acquisition.

The **adjusted EBITDA margin** was **9.0%** as opposed to 12.1% in 2017, mainly affected by weak commercial carpet sales and lower volumes in Q4, along with poor manufacturing performance in the second half. The price rises applied throughout the year in North America were effective, fully offsetting significant inflation in raw materials prices and transport costs. The integration of Lexmark also had a positive effect in Q4.

CIS, APAC & Latin America

Sales in the CIS, APAC & Latin America segment decreased by 1.5% in **organic** terms (excluding selling price increases in the CIS region). After a strong first half, business levels slowed in certain CIS countries, leading to lower volumes in the second part of the year. In Russia, an uncertain environment and the weaker rouble dragged down consumer spending.

However, the product mix improved compared with 2017 thanks to good sales of high-end products.

Latin America posted strong organic growth in 2018, thanks to buoyant volumes in Brazil, in particular for LVT products, as well as substantial price increases intended to make up for the weak real. Sales in Asia-Pacific rose slightly in 2018.

On a reported basis, sales decreased by 6.2% in 2018, affected by the decline in the Russian rouble and Brazilian real against the euro during the period.

Adjusted EBITDA margin came in at **12.8%**, down from 14.3% in 2017. The fall in sales volumes and higher raw materials costs led to lower profitability in this segment. However, increases in selling prices in the first half of the year more than offset currency weakness in the CIS countries: the "lag effect" (net impact of currency and selling-price movements in the CIS) amounted to +€3m in 2018. Productivity levels were also good in this segment, notably in CIS countries.

Sports

The Sports segment again achieved **strong organic growth,** with sales up **11.7%** in 2018. It achieved a very strong performance in artificial turf in North America, landscape applications and indoor activities. In addition, turnkey projects (which include civil engineering) and hybrid products posted firm growth.

We have installed one of our hybrid turf solutions, Playmaster™, in the Wanda stadium of Atlético de Madrid that will host the Champions' League final.

Reported sales grew 10.0% in 2018, factoring in a negative currency effect over the full year.

Adjusted EBITDA margin was 9.4% in 2018, higher than 2017 margin of 8.1% excluding the $12 million received in settlement of a legal dispute in 2017. Strong volume growth offset the impact of higher raw material prices on adjusted EBITDA, and industrial performance improved, leading to productivity gains.

Several acquisitions were completed in 2018. Grassman, a leading Australian artificial turf manufacturer whose assets Tarkett acquired in February 2018, is enabling the Group to expand in the growing Australian market. The acquisition of The Tennis and Track Company in Salt Lake City, Utah, was completed in July 2018 and is bolstering Tarkett's market position in tennis surfacing as well as post-tensioned concrete construction for sports.

Net profit attributable to owners of the Company

Central costs not allocated to the segments decreased to €45.6 million from €46.7 million in 2017, partly due to cost control efforts initiated in the course of 2018.

Adjustments to EBIT amounted to -€24.7 million in 2018 versus -€18.7 million in 2017 (excluding the non-recurring payment of €165 million related to a fine from the French competition authority) due to higher restructuring and acquisition costs than in 2017.

Net financial expense was €30.1 million as opposed to €23.4 million in 2017, mainly because of an increase in interest expense and currency losses.

The effective tax rate was **24.2%**, reflecting a lower tax rate in the United States and the conclusion of a tax dispute in Canada. In 2017, the effective tax rate of 19.7% was exceptionally low because of the cancellation of the 3% tax on dividends in France and the remeasurement of certain tax credits.

Net profit attributable to owners of the Company amounted to **€49.3 million.**

Capital expenditure and Net Debt

Capital expenditure totalled €128 million in 2018, equal to 4.5% of net sales, as opposed to €111 million in 2017 (3.9% of net sales), resulting from capacity increase projects in growth products (LVT in North America and EMEA, wooden flooring in Russia) and investments to increase the productivity of production lines through automation.

Because of the decline in adjusted EBITDA, **free cash flow** was €36 million in 2018, down from €100 million in 2017 (excluding the €165 million payment made in December 2017 related to a fine from the French competition authority).

Net debt ended the year at €754 million, representing 2.8 times 2018 proforma adjusted EBITDA (1.6x at end-December 2017). The increase was partly related to acquisitions made during the year, including Lexmark in North America and Grassman in Australia.

The Management Board will propose a **dividend of €0.60 per share** in respect of 2018, unchanged year-on-year. Shareholders will have an option to be paid in new shares, at their discretion, and the dividend will be submitted for approval in the April 26, 2019 AGM. The Deconinck family, which owns 50.8% of Tarkett's capital, has indicated that it will opt for payment in new Tarkett shares.

Impact of IFRS 16 "Leases" in 2019

IFRS 16 "Leases" standard, applicable since January 1st, 2019, requires to record most of lease contracts as an asset in the balance sheet, with corresponding liability for the obligation created by these agreements.

As a consequence, net debt will increase (by an amount currently estimated at around €100 million), lease expenses will decrease and adjusted EBITDA will improve (by €28 million in 2019, increasing EBITDA margin by around 100 basis points). The effect of these changes on the leverage ratio (net debt/adjusted EBITDA) is very limited (around 0.1x adjusted EBITDA). (see Appendix 4)

Changes to Tarkett's governance

During its January 11, 2019 meeting, the Supervisory Board appointed Fabrice Barthélemy as Tarkett's CEO. Mr Barthélemy, 50 years old, has been a member of Tarkett's Management Board since 2008. He was Chief Financial Officer between 2008 and 2017, then President of the Europe, Middle East and Africa (EMEA) & Latin America division. He had been Tarkett's interim CEO since September 2018.

Outlook

The economic growth outlook for 2019 is more moderate than in 2018. The North American residential market (new build and refurbishment) and new build activity in Europe are showing signs of slowing. In the CIS countries, the situation in early 2019 is more uncertain, although this does not alter the region's medium-term growth potential.

Despite lower prices for certain oil derivatives, the environment is still inflationary. Based on current prices for raw materials, energy and transportation, the Group expects purchases of these items to have an **adverse impact of around €15 million** in full-year 2019, mainly in the first half of the year. As a result, **increases in selling prices** will continue throughout the year, with the aim of offsetting cost inflation.

In addition, the Group is focusing on turning around manufacturing performance at certain sites that set back performance in 2018, and on implementing **cost reduction measures** in order to **significantly improve profitability**. We are also putting in place **tight management of working capital** and investments, in order to reduce debt levels.

At the same time, the Group has initiated a **review of its strategic priorities and industrial set-up.** As well as achieving a long-term improvement in profitability, the aim is also to **make the Group's organisation more agile and capture new opportunities offered by digital,** in order to accelerate innovation and provide solutions that will make a difference for our clients. Finally, it is a priority to increase the Group's **leadership in the circular economy** to better address the aspirations of all stakeholders and stand out in the market.

A new strategic plan covering all of these areas will be presented in June 2019.

The audited consolidated financial statements for the full year 2018 are available on Tarkett's website https://www.tarkett.com/en/content/financial-results. The analysts' conference will be held on Friday February 8, 2019 at 11:00 am CET and an audio webcast service (live and playback) along with the results presentation will be available on https://www.tarkett.com/en/content/investors-2

Financial calendar

- April 24, 2019: Q1 2019 financial results - *press release after close of trading on the Paris market and conference call the following morning*
- April 26, 2019: Annual General Meeting
- July 23, 2019: H1 2019 financial results - *press release after close of trading on the Paris market and presentation in person the following morning*
- October 23, 2019: Q3 2019 financial results - press release after close of trading on the Paris market and conference call the following morning

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About Tarkett

With a history stretching back 135 years, Tarkett is a worldwide leader in innovative flooring and sports surface solutions, with net sales of more than €2.8 billion in 2018. Offering a wide range of products including vinyl, linoleum, rubber, carpet, wood and laminate flooring, artificial turf and athletics tracks, the Group serves customers in over 100 countries across the globe. Tarkett has 13,000 employees and 35 industrial sites, and sells 1.3 million square meters of flooring every day, for hospitals, schools, housing, hotels, offices, stores and sports fields. Committed to "Doing Good. Together.", the Group has implemented an eco-innovation strategy based on Cradle to Cradle® principles and promotes circular economy, with the ultimate goal of contributing to people's health and wellbeing, and preserving natural capital. Tarkett is listed on Euronext Paris (compartment A, ISIN: FR0004188670, ticker: TKTT) and is a constituent of the SBF 120 and CAC Mid 60 indexes. www.tarkett.com.

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Appendices

1/ Bridges

Net sales (€ million)

2017	2,841
+/- EMEA	-1.0
+/- North America	+10.6
+/- CIS, APAC & Latin America	-9.4
+/- Sports	+60.4
2018 sales like-for-like(1)	**2,902**
+/- Scope	+36.7
+/- Currencies	-85.3
+/- Selling price lag effect	-16.9
2018	**2,836**

(1) Like-for-like: at constant scope and exchange rates (N.B. in the CIS and Turkey, price increases implemented to offset currency fluctuations are not included in organic growth, which therefore only reflects volume and price effects). See the definition of alternative performance indicators at the end of this press release.

Adjusted EBITDA (€ million)

2017	315.1
+/- Currencies	-8.0
+/- Selling price lag effect	+2.9
+/- Volume / mix	-20.0
+/- Selling prices	22.3
+/- Purchasing prices	-47.6
+/- Productivity	+18.8
+/- Scope	+8.1
+/- Salary increase, SG&A and One-offr(1)	-42.8
2018	**248.7**

(1) Including in 2017 $12 million received in settlement of a patent infringement claim against a competitor.

2/ Key figures

Net sales by segment

€ million	Q1 2018	Q1 2017	% change	o/w organic growth(1)
EMEA	228.3	243.4	-6.2%	-4.6%
North America	163.5	190.3	-14.1%	-1.6%
CIS, APAC & Latin America	116.3	121.3	-4.1%	+5.0%
Sports	59.8	56.7	+5.4%	+15.9%
Group total	**567.9**	**611.7**	**-7.2%**	**+0.1%**

€ million	Q2 2018	Q2 2017	% change	o/w organic growth(1)
EMEA	236.0	237.9	-0.8%	+1.7%
North America	214.8	222.4	-3.4%	+3.7%
CIS, APAC & Latin America	145.4	154.4	-5.8%	+1.4%
Sports	153.2	137.6	+11.4%	+18.6%
Group total	**749.4**	**752.3**	**-0.4%**	**+5.3%**

€ million	H1 2018	H1 2017	% change	o/w organic growth(1)
EMEA	464.3	481.3	-3.5%	-1.5%
North America	378.3	412.7	-8.3%	+1.3%
CIS, APAC & Latin America	261.7	275.7	-5.1%	+3.0%
Sports	213.0	194.3	+9.6%	+17.8%
Group total	**1,317.3**	**1,364.0**	**-3.4%**	**+3.0%**

€ million	Q3 2018	Q3 2017	% change	o/w organic growth(1)
EMEA	225.2	227.1	-0.8%	+0.9%
North America	206.0	197.9	+4.1%	+4.3%
CIS, APAC & Latin America	165.4	178.0	-7.1%	-4.8%
Sports	243.3	220.4	+10.4%	+11.8%
Group total	**839.9**	**823.5**	**+2.0%**	**+3.4%**

€ million	Q4 2018	Q4 2017	% change	o/w organic growth(1)
EMEA	218.9	217.9	+0.4%	+1.9%
North America	199.3	172.8	+15.3%	-2.2%
CIS, APAC & Latin America	153.4	165.3	-7.2%	-5.5%
Sports	107.3	97.6	+10.0%	+0.5%
Group total	**678.8**	**653.6**	**+3.9%**	**-1.3%**

(1) Organic growth: at constant scope of consolidation and exchange rates only reflects changes in volumes and the product mix (note that in the CIS segment, price increases implemented to offset currency fluctuations are not included in organic growth,). See the definition of alternative performance indicators at the end of this press release.

Quarterly Group adjusted EBITDA(1)

€ million	2018	2017	2018 margin (% of net sales)	2017 margin (% of net sales)
Q1	29.8	51.5	5.2%	8.4%
Q2	86.3	108.8 (2)	11.5%	14.5%
Q3	97.7	101.2	11.6%	12.3%
Q4	35.0	53.7	5.2%	8.2%

(2) Including $12 million received in settlement of a patent infringement claim against a competitor.

Half-year adjusted EBITDA by segment(1)

€ million	H1 2018	H1 2017	H1 2018 margin (% of net sales)	H1 2017 margin (% of net sales)
EMEA	57.1	68.5	12.3%	14.2%
North America	35.5	51.7	9.4%	12.5%
CIS, APAC & Latin America	31.1	40.2	11.9%	14.6%
Sports	13.9	23,0(2)	6.5%	11.8%
Central costs not allocated	(21.5)	(23.1)	-	-
Group total	**116.1**	**160.3**	**8.8%**	**11.8%**

€ million	H2 2018	H2 2017	H2 2018 margin (% of net sales)	H2 2017 margin (% of net sales)
EMEA	40.2	58.3	9.1%	13.1%
North America	34.6	43.3	8.5%	11.7%
CIS, APAC & Latin America	43.0	48.3	13.5%	14.1%
Sports	39.0	28.5	11.2%	9.0%
Central costs not allocated	(24.1)	(23.6)	-	-
Group total	**132.7**	**154.8**	**8.7%**	**10.5%**

Simplified consolidated income statement

€ million	2018	2017
Net sales	**2,836.1**	**2,841.1**
Adjusted EBITDA[1] ***% of net sales***	**248.7** *8.8%*	**315.1** *11.1%*
Depreciation, amortisation and impairment Adjustments to EBIT	(117.5) (24.7)	(118.8) (183.6)
Profit from operating activities (EBIT) *% of net sales*	**106.6** *3.8%*	**12.7** *0.4%*
Net financial income/(expense)	(30.1)	(23.4)
Profit before income tax Income tax *Effective tax rate*	68.6 *(18.5)* *24.2%*	(7.7) (30.3) *19,7%*[2]
Net profit attributable to owners of the Company	**49.3**	**(38.7)**
Basic earnings per share (in euros)	0.78	(0.61)

(1) Adjusted EBITDA: adjustments include expenses such as restructuring, acquisitions and share-based payment expenses. See the definition of alternative performance indicators at the end of this press release.
(2) Excluding the effect of a €165m fine, non-tax deductible.

3/ Definition of alternative performance measures (not defined under IFRSs)

The Tarkett Group uses the following non-IFRS financial indicators:

- Organic growth
- Adjusted EBITDA
- Free cash flow
- Return on invested capital (ROIC)

These indicators are calculated as described below.

- **Organic growth**
    - Organic growth measures the change in net sales as compared with the same period in the previous year, at constant scope of consolidation and exchange rates.
    - The exchange rate effect is calculated by applying the previous year's exchange rates to sales for the current year and calculating the difference as compared with sales for the current year. It also includes the impact of price adjustments in CIS countries intended to offset movements in local currencies against the euro. In 2018, a €17 million positive adjustment in selling prices was excluded from organic growth and included in currency effects.
    - The scope effect reflects:
        - current-year sales for entities not included in the scope of consolidation in the same period in the previous year, up to the anniversary date of their consolidation;
        - the reduction in sales relating to discontinued operations that are not included in the scope of consolidation for the current year but were included in sales for the same period in the previous year, up to the anniversary date of their disposal.

Year-on-year net sales trends can be analysed as follows:

€ million	**2018**	**2017**	% change	*o/w exchange rate effect*	*o/w scope effect*	o/w organic growth
Group total – Q1	567.9	611.7	-7.2%	*-7.5%*	*+0.3%*	+0.1%
Group total – Q2	749.4	752.3	-0.4%	*-6.0%*	*+0.3%*	+5.3%
Group total – H1	**1,317.3**	**1,364.0**	**-3.4%**	***-6.7%***	***+0.3%***	**+3.0%**
Group total – Q3	839.9	823.5	2.0%	*-1.9%*	*+0.5%*	+3.4%
Group total – Q4	678.7	653.6	+3.9%	*+0.8%*	*+4.3%*	-1.3%
Group total – Full year	**2,836.1**	**2,841.1**	**-0.2%**	***-3.6%***	***+1.3%***	**+2.1%**

- **Adjusted EBITDA**
    - Adjusted EBITDA is calculated by deducting the following income and expenses from profit from operating activities before depreciation, amortisation and impairment:
        - restructuring costs intended to increase the Group's future profitability;
        - capital gains and losses recognised on significant asset disposals;
        - provisions and provision reversals for loss in value;
        - costs arising on corporate and legal restructuring;
        - share-based payment expenses;
        - other one-off items considered non-recurring owing to their nature.
    - Note 3.1 to the consolidated financial statements includes a table that reconciles profit from operating activities with adjusted EBITDA, as well as the effect of adjustments by type.

    Bridge from EBITDA to adjusted EBITDA:

(in millions of euros)	2018	Non-recurring items					2018 adjusted
		Restructuring	Gains/losses on asset sales /impairment	Business combinations	Share-based payments	Other	
Net sales	**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**			**665.1**
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 expenses	0.3	0.3		0.3			1.0
Profit from operating activities (EBIT)	**106.6**	**11.2**	**3.3**	**5.1**	**4.1**	**0.9**	**131.3**
Depreciation, amortisation and impairment	121.5	(0.7)	(3.3)				117.5
EBITDA	**228.1**	**10.5**	**-**	**5.1**	**4.1**	**0.9**	**248.7**

- **Free cash flow:**
  - Cash flow from operating activities before change in working capital, plus the following inflows and minus the following outflows:
    - change in the working capital requirement
    - net interest received (paid)
    - net tax received (paid)
    - miscellaneous operating inflows (outflows)
    - acquisitions of property, plant and equipment and intangible assets
    - proceeds (losses) on disposals of non-current assets
  - Free cash flow breaks down as follows:

€ million	2018	2017
Cash flow from operating activities before change in working capital	218.5	128.1
Change in the working capital requirement	(12.3)	(37.0)
Net interest paid	(17.2)	(11.3)
Net tax paid	(25.2)	(37.8)
Miscellaneous operating items	(0.7)	(1.0)
Acquisitions of property, plant and equipment and intangible assets	(128.2)	(111.1)
Proceeds from disposals of property, plant and equipment	1.5	4.5
Free cash flow	**36.4**	**(65.6)**

Note 3.5 to the consolidated financial statements includes a table showing the reconciliation of the line items in the Statement of Cash Flows to free cash flow.

- **Return on invested capital (ROIC)**
  - ROIC equals:
    - net operating profit after taxes (NOPAT) divided by
    - invested capital, which corresponds to the sum of property, plant and equipment, intangible assets (including goodwill), and net working capital.

Net operating profit after taxes (NOPAT) is calculated as follows:

€ million	2018	2017
Profit from operating activities (EBIT)	**106.6**	**12.7**
Non-recurring items		
Restructuring	11.2	2.1
Gains (losses) on asset disposals/impairment	3.3	4.6
Business combinations	5.1	(1.3)
Share-based payments	4.1	12.1
Other	0.9	166.1
Adjusted EBIT	**131.3**	**196.3**
Standard tax rate	28%	35%
Net operating profit after taxes (NOPAT)	**94.5**	**127.6**
Proforma net operating profit after taxes (NOPAT)[1] (A)	**104.9**	**n/a**

(1) Proforma NOPAT including 12 months of activity at Lexmark.

Invested capital is calculated as follows:

€ million	2018	2017
Property, plant and equipment	514.8	467.4
Intangible assets	133.3	91.4
Goodwill	662.0	510.5
Net current assets(1)	410.4	365.1
Total invested capital (B)	**1,720.5**	**1,434.4**

(1) Working capital includes inventory, trade and other receivables, deferred tax assets and liabilities, trade payables, other liabilities, and other short-term provisions, restated for financial items (€11.6 million) and for amounts payable on fixed assets (€5.4 million).

The Group's return on invested capital is as follows:

€ million	2018	2017
Proforma return on invested capital(1) (ROIC) (A/B)	**6.1%**	**8.9%**

(1) Proforma NOPAT including 12 months of activity at Lexmark.

4/**Impact of IFRS 16 "Leases" in 2019**

IFRS 16 "Leases" has been applicable since January 1, 2019. This new accounting standard requires lessees to recognise, for all leases that it covers, all lease payments yet to be paid in the form of a right of use under non-current assets on the balance sheet, with a balancing entry under debt on the liabilities side.

In 2019, applying IFRS 16 will increase non-current assets and net debt by an amount currently estimated at around €100 million.

In the income statement, there will be a decrease in lease expenses recorded under EBITDA, and an increase in depreciation of non-current assets and interest expense. The full-year improvement in EBITDA is expected to be €28 million in 2019, increasing EBITDA margin by around 100 basis points.

The effect of these changes on the net debt/adjusted EBITDA ratio is limited to around 0.1x: based on 2018 results, the ratio would rise from 2.8x to 2.9x. However, the documentation of Tarkett's financing agreements provides that the effect of changes in accounting standards will be neutralised. As a result, the application of IFRS 16 will have no consequences for the Group's financing.

The impact on net profit attributable to owners of the Company is limited.