Consolidated financial statements

as of December 31, 2018

Tarkett

THE ULTIMATE FLOORING EXPERIENCE

1. Consolidated financial statements as of December 31, 2018

Consolidated income statement

(in millions of euros)	Note	2018	2017
Net revenue		2,836.1	2,841.1
Cost of sales		(2,183.7)	(2,138.1)
Gross profit		652.4	703.0
Other operating income	(3)	13.2	30.1
Selling and distribution expenses		(330.1)	(319.4)
Research and development		(36.0)	(36.4)
General and administrative expenses		(180.0)	(187.5)
Other operating expenses	(3)	(12.9)	(177.1)
Result from operating activities	(3)	106.6	12.7
Financial income		1.0	1.3
Financial expenses		(31.1)	(24.7)
Financial income and expense	(7)	(30.1)	(23.4)
Share of profit of equity accounted investees (net of income tax)		(7.9)	3.0
Profit before income tax		68.6	(7.7)
Total income tax	(8)	(18.5)	(30.3)
Profit from continuing operations		50.1	(38.0)
Profit (loss) from discontinued operations (net of income tax)		-	-
Net profit for the period		50.1	(38.0)
Attributable to:			
Owners of Tarkett		49.3	(38.7)
Non-controlling interests		0.8	0.7
Net profit for the period		**50.1**	**(38.0)**
Earnings per share:			
Basic earnings per share *(in euros)*	(9)	0.78	(0.61)
Diluted earnings per share *(in euros)*	(9)	0.77	(0.61)

Consolidated statement of comprehensive income

(in millions of euros)	**2018**	**2017**
Net profit for the period	50.1	(38.0)
Other comprehensive income (OCI)	-	-
Foreign currency translation differences for foreign operations	12.0	(77.2)
Changes in fair value of cash flow hedges	0.6	(0.8)
Income tax	(0.1)	0.2
First application of IFRS 9	(0.3)	-
OCI to be reclassified to profit and loss in subsequent periods	12.2	(77.8)
Defined benefit plan actuarial gain (losses)	2.3	7.8
Income tax	0.7	(7.2)
OCI not to be reclassified to profit and loss in subsequent periods	3.0	0.6
Other comprehensive income for the period, net of income tax	15.2	(77.2)
Net profit for the period	**65.3**	**(115.2)**
Attributable to:		
Owners of Tarkett	65.1	(115.5)
Non-controlling interests	0.2	0.3
Net profit for the period	**65.3**	**(115.2)**

Consolidated statement of financial position

Assets

(in millions of euros)	Note	December 31, 2018	December 31, 2017
Goodwill	(5)	662.0	510.5
Intangible assets	(5)	133.3	91.4
Property, plant and equipment	(5)	514.8	467.4
Other financial assets	(7)	24.1	31.7
Deferred tax assets	(8)	76.6	80.1
Other non-current assets		-	-
Total non-current assets		1,410.8	1,181.1
Inventories	(3)	449.3	404.2
Trade receivables	(3)	350.5	356.2
Other receivables	(3)	84.1	76.9
Cash and cash equivalents	(7)	95.7	114.7
Current assets		979.6	952.0
Total assets		**2,390.4**	**2,133.1**

Equity and liabilities

(in millions of euros)	Note	December 31, 2018	December 31, 2017
Share capital	(9)	318.6	318.6
Share premium and reserves		145.8	145.8
Retained earnings		290.9	352.7
Net result for the period		49.3	(38.7)
Equity attributable to equity holders of the parent		804.6	778.4
Non-controlling interests		2.4	2.2
Total equity		807.0	780.6
Interest-bearing loans	(7)	839.1	594.1
Other financial liabilities	(7)	4.1	0.5
Deferred tax liabilities	(8)	35.7	37.8
Employee benefits	(4)	129.8	135.4
Provisions and other non-current liabilities	(6)	46.4	49.7
Non-current liabilities		1,055.1	817.5
Trade payables	(3)	283.6	288.9
Total other liabilities	(3)	193.1	197.4
Interest-bearing loans and borrowings	(7)	10.2	12.3
Other financial liabilities	(7)	10.0	7.0
Provisions and other current liabilities	(6)	31.4	29.4
Current liabilities		528.3	535.0
Total equity and liabilities		**2,390.4**	**2,133.1**

Consolidated statement of cash flows

(in millions of euros)	Note	**2018**	**2017**
Cash flows from operating activities			
Profit before income tax		68.6	(7.7)
Adjustments for:			
Depreciation, amortization and impairment		121.5	122.3
(Gain) loss on sale of fixed assets		(0.5)	(0.3)
Net finance costs		30.1	23.4
Change in provisions and other non-cash items		(9.1)	(6.6)
Share of profit of equity accounted investees (net of tax)		7.9	(3.0)
Operating cash flow before working capital changes		218.5	128.1
(Increase)/Decrease in trade receivables		16.9	(32.9)
(Increase)/Decrease in other receivables		(1.4)	(9.1)
(Increase)/Decrease in inventories		(13.1)	(30.1)
Increase/(Decrease) in trade payables		(15.6)	32.8
Increase/(Decrease) in other payables		0.9	2.3
Changes in working capital		(12.3)	(37.0)
Net interest paid		(17.2)	(11.3)
Net income taxes paid		(25.3)	(37.8)
Other		(0.7)	(1.0)
Net cash (used in)/from operating activities		**163.0**	**41.0**
Cash flows from investing activities			
Acquisition of subsidiaries net of cash acquired	(2)	(231.9)	(0.4)
Acquisitions of intangible assets and property, plant and equipment	(5)	(128.2)	(111.1)
Proceeds from sale of property, plant and equipment	(5)	1.5	4.5
Effect of changes in the scope of consolidation		0	-
Cash flows from investing activities		**(358.6)**	**(107.0)**
Net cash from/(used in) financing activities			
Acquisition of NCI without a change in control		-	(8.3)
Proceeds from loans and borrowings		230.4	362.0
Repayment of loans and borrowings		(9.8)	(224.3)
Payment of finance lease liabilities		(0.4)	(0.1)
Acquisition of treasury shares		(5.3)	-
Dividends		(37.9)	(38.4)
Net cash from (used in) financing activities		**177.0**	**90.9**
Net increase (decrease) in cash and cash equivalents		**(18.6)**	**24.9**
Cash and cash equivalents, beginning of period		114.7	93.1
Effect of exchange rate fluctuations on cash held		(0.4)	(3.3)
Cash and cash equivalents, end of period		**95.7**	**114.7**

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, 2017	318.6	145.8	21.4	447.1	932.9	2.3	935.2
Net profit for the period		-	-	(38.7)	(38.7)	0.7	(38.0)
Other comprehensive income, net of tax	-	-	(76.8)	-	(76.8)	(0.4)	(77.2)
Net profit for the period	-	-	(76.8)	(38.7)	(115.5)	0.3	(115.2)
Dividends	-	-	-	(38.0)	(38.0)	(0.4)	(38.4)
Own shares (acquired) sold	-	-	-	(1.5)	(1.5)	-	(1.5)
Share-based payments	-	-	-	5.1	5.1	-	5.1
Acquisition of NCI without a change in control	-	-	-	(4.6)	(4.6)	-	(4.6)
Total transactions with shareholders	-	-	-	(39.0)	(39.0)	(0.4)	(39.4)
As of December 31, 2017	**318.6**	**145.8**	**(55.4)**	**369.4**	**778.4**	**2.2**	**780.6**
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 of IFRS 9	-	-	-	(0.3)	(0.3)	-	(0.3)
Net profit 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**

2. Notes to the consolidated financial statements

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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, 2018 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 A of Euronext Paris, ISIN code: FR00004188670 – Stock 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, 2018 were finalized by the Management Board on February 6, 2019 and reviewed by the Supervisory Board on February 7, 2019. They will be submitted for shareholder approval on April 26, 2019.

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, 2018 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 http://ec.europa.eu/internal-market/accounting/ias/index-fr.htm. 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 15: Revenue from contracts with customers.

  On September 22, 2016, the European Union adopted IFRS 15, "Revenue from Contracts with Customers," application of which was mandatory as from the fiscal year beginning January 1, 2018. Related amendments were adopted on October 31, 2017 and are applicable as of the same date as IFRS 15.

  IFRS 15, "Revenue from Contracts with Customers," replaces IAS 18, "Revenue," and IAS 11, "Construction Contracts," and their related interpretations. It entered into effect on January 1, 2018, and includes new rules for recording revenue and segmenting contracts into performance obligations.

  The standard includes new principles for revenue recognition, as well as new provisions on the information to be included in the notes to the financial statements. It establishes the principle that recognition of revenue should take place when control of a good or service is transferred to the customer, in the amount to which the seller expects to be entitled when all of the contractual obligations have been satisfied.

Tarkett develops, manufactures, and sells flooring and sports surfaces to professionals and end-users in the residential and commercial markets.

The Group performed an exhaustive review applied it to all of its revenue sources in order to identify and assess the potential impacts of the standard on its revenue recognition.

The Group divided its analysis into its two business sectors: flooring and sports surfaces.

For each of its activities, the Group applied and analyzed revenue recognition using the five steps defined by the standard. The objective was to identify any differences between existing principles for recording the Group's revenue and the new recording methods set forth by IFRS 15. This process confirmed the absence of any significant impact on the Group's Consolidated Financial Statements in light of its current accounting rules.

The flooring activity is the Group's principal activity. 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 the flooring activity, 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 measured, and the revenue from the merchandise can be reliably assessed. Generally, 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.

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."

For sports surfaces, 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 obligations are delivered. 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) (C).

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

- 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.

In addition, at the end of the period, the majority of the performance obligations have been completed.

As a result, the Group believes that the implementation of IFRS 15 has not had a significant impact on its Consolidated Financial Statements.

- IFRS 9: Financial Instruments.

IFRS 9, "Financial Instruments," adopted by the European Union on November 22, 2016, replaces IAS 39, "Financial Instruments," as from January 1, 2018.

The new standard has been applied retrospectively effective as of January 1, 2018. The comparative 2017 figures have not been restated as authorized by IFRS 9.

IFRS 9 includes three phases:

- phase 1 – "Classification and valuation of Financial Instruments";
- phase 2 – "Impairment testing of assets";
- phase 3 – "Hedge transactions other than macro hedges."

Phase 1 – "Classification and measurement of financial assets"

The new categories of financial assets introduced by IFRS 9 have no impact on the method of accounting for the financial assets held by Tarkett as of January 1, 2018.

The table below sets forth the classifications of the Group's financial assets and liabilities in accordance with the former IAS 39 and the new IFRS 9:

As of January 1, 2018 *(in millions of euros)*	**Initial classification in accordance with IAS 39**	**New classification in accordance with IFRS 9**	**Book value as of January 1, 2018 in accordance with IAS 39**	**Book value as of January 1, 2018 in accordance with IFRS 9**
Other financial assets, current	Loans and receivables	Amortized cost	9.3	9.3
Non current financial assets valued at fair value	Assets designated at fair value through profit and loss	Fair value through profit and loss	22.3	22.3
Cash and cash equivalents	Assets designated at fair value through profit and loss	Fair value through profit and loss	114.7	114.7
Interest-bearing loans and borrowings	Liabilities at amortized cost	Amortized cost	606.5	606.5

The changes that IFRS 9 makes to accounting methods for debt restructuring have no impact on the Group, since as of January 1, 2018, it had no debts that had been restructured in a manner treated for accounting purposes as a "modification of debt" (as opposed to an extinguishment of debt).

Therefore, application of Phase 1 of IFRS 9 has no impact on the Group's shareholders' equity as of January 1, 2018.

Phase 2 – "Impairment testing of assets"

IFRS 9 introduced an impairment model for financial assets that is based on expected losses, whereas IAS 39 had been based on a model of objective evidence of losses (with impairment being recorded only following the occurrence of a credit event, such as a payment delay or a significant deterioration in credit quality). The application of IFRS 9 results in earlier recording of impairment on financial assets valued on the balance sheet at amortized cost.

For non-current assets valued at amortized cost, impairment was 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 conducted 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 used the simplified method of provisioning expected losses over the remaining maturity of the receivables.

On the basis of the work performed and in light of the Group's credit risk management procedures, application of the expected loss model has no significant impact on the Group's financial statements as of January 1, 2018.

Therefore, the impacts of the first application of the impairment phase of IFRS 9 are not significant and were not recorded in the Group's shareholders' equity as of January 1, 2018.

Phase 3 – "Hedge transactions other than macro hedges"

The changes made by IFRS 9 to hedge accounting are primarily intended to harmonize the rules companies use to reflect risk management activities in the financial statements.

The impacts of the first application of IFRS 9 on the Group's financial statements concern, in particular, the method of accounting for the time value of currency and interest rate options.

Adjustments in time value recorded during the life of the option are now 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).

The impacts of the first application of the standard were restated in the Group's opening shareholders' equity as of January 1, 2018, and represent a net total of €0.3 million.

- In addition, as of January 1, 2018, the Group has adopted the interpretation IFRIC 22: "Foreign currency transactions and advance consideration," as well as IFRS 2, "share-based Payment". Their impacts are not significant.

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

No new standards or interpretations were adopted early by the Group for the period.

c) New standards and interpretations not adopted

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

- IFRS 16: Leases. On January 16, 2016, the IASB published IFRS 16, "Leases," which will replace IAS 17 and the related IFRIC and SIC interpretations, and will eliminate the distinction formerly made between operating leases and finance leases. This standard, applicable as of January 1, 2019 (or 2018, if adopted early) and adopted by the European Union, requires lessors to record all leases with terms of over one year in the manner currently required for finance leases under IAS 17, meaning to record an asset and a liability for the rights and obligations created by a lease agreement.

  The first phase of the project, in 2017, concerned the identification of the Group's lease agreements as well as the collection of the necessary data to precisely measure the impact on the balance sheet.

  The identification of agreements continued in 2018. The greatest number of lease agreements concern cars and forklifts; however, measured by value, lease agreements primarily concern real property (offices, plants and warehouses).

  In accordance with the standard, agreements with a value of less than €5,000 (or USD 5,000) or entered into for an initial term of less than 12 months will be excluded from the standard's scope.

  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.

  Off balance-sheet commitments as of December 31, 2018 provide a good indication of the amount of the debt generated by this standard, it being noted that the amount of that debt will be less than the amount of off balance-sheet commitments, due to the application of a discount rate.

  The Group is currently finalizing the deployment of a dedicated information system to generate the accounting entries relating to this standard.

  The new standard will be applied on January 1, 2019 using the "simplified retrospective" method which does not allow the restatement of comparative financial statements.

  In 2019 the application of IFRS 16 will have the effect of increasing fixed assets and net indebtedness, estimated at approximately + €100 million as of the date hereof.

  On the income statement, the result is a decrease in lease payments recorded in EBITDA and an increase in depreciation of fixed assets and financial expenses. The improvement in EBITDA over the full 2019 year is estimated at about €+28 million, corresponding to an increase in profit of about +100 basis points.

  The effect of these changes on the Net Debt to EBITDA ratio is limited to approximately +0.1x as compared with the ratio as of December 31, 2018, from 2.8x to 2.9x proforma adjusted EBITDA. However, the Group's financing agreements provide that the effects of the change in accounting standards will be neutralized, and then will be renegotiated. Thus, the adoption of IFRS 16 will have no consequences for the Group's financing.

  The impact on the Group's net profit is not very significant.

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:

	Note
Measurement of the fair value of the consideration transferred, NCI and assets acquired and liabilities assumed	2
Impairment testing of assets	5.3
Accounting treatment of Financial Instruments	7.6
Provisions for employee benefits	4.1
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 development

In late March 2013, the French Competition Authority started an investigation of several flooring manufacturers, including Tarkett, in connection with possible anti-competitive practices on the French resilient flooring market.

In its decision no. 17-D-20 dated October 18, 2017, the Competition Authority handed down a financial penalty of €165 million. As of December 31, 2017, the entire amount was recorded in "other operating expenses." The payment of the full amount of the fine took place in December 2017.

Note 2 > Changes in the scope of consolidation

2.1 Consolidation methods

2.1.1 Full consolidation

Subsidiaries are entities controlled by the Group. 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, 2018 (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 at 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, 2018, 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 2018 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. (Note 13 provides a list of consolidated entities.)

Number of companies	December 31, 2017	Mergers	Acquisitions	Liquidations	December 31, 2018
Fully consolidated companies	78	(2)	2	-	78
Equity-accounted consolidated companies	1	-	1	-	2
Total	**79**	**(2)**	**3**	**-**	**80**

2.4.1 Transactions completed in 2018

The year's main transactions are as follows:

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 Holdings 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 Tarkett NV.

2.4.2 Transactions completed in 2017

a) Mergers

In 2017, in Canada, Tandus Centiva Limited acquired Nova Scotia Limited and Tandus Centiva GP.

Moreover, in Serbia, Tarkett DOO Backa Palancka took over Sintelon RS DOO Backa Palancka and Sintelon DOO Backa Palancka.

In France, Desso SAS was merged into Tarkett France.

Finally, in the United States, Tarkett Finance Inc. absorbed Tarkett Enterprises Inc. and Domco Products Texas Inc. acquired Texas Tile Manufacturing LLC.

b) Call options

In November 2017, the commitment to purchase the minority interests (49%) of FieldTurf Benelux B.V. was carried out. FieldTurf Benelux BV was already fully consolidated.

In December 2017, the commitment to buy the minority interests (49%) of Morton Extrusionstechnik (M.E.T GmbH) was carried out. Morton Extrusionstechnik (M.E.T GmbH) was already fully consolidated.

2.5 Joint ventures

Laminate Park GmbH & Co KG is jointly held with the Sonae Group in Germany.

The joint venture produces laminate and board for the EMEA market.

The Group also holds an interest in the Company AllSports Constructions & Maintenance, a company established in Scotland.

Note 3 > Operating Data

3.1 Components of the income statement

3.1.1 Revenue recognition

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.

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 obligations are delivered.

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 costs for logistic and freight.

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					
	2018	Restructuring	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	0.0	-	(2,171.0)
Gross profit	**652.4**	**7.6**	**2.8**	**2.4**	**0.0**	**-**	**665.2**
Selling and distribution expenses	(330.1)	1.0	-	-	0.1	(0.2)	(329.3)
Research and development	(36.0)	0.4	-	-	0.0	-	(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**

(in millions of euros)	2017	Of which adjustments: Restructuring	Gains/losses on asset sales/ impairment	Business combinations	Share-based payments	Other [1]	2017 adjusted
Net revenue	2,841.1	-	-	-	-	-	2,841.1
Cost of sales	(2,138.1)	1.6	3.9	-	1.0	-	(2,131.6)
Gross profit	703.0	1.6	3.9	-	1.0	-	709.5
Selling and distribution expenses	(319.4)	(1.2)	-	-	0.5	-	(320.1)
Research and development	(36.4)	0.4	-	-	0.3	-	(35.7)
General and administrative expenses	(187.5)	0.8	0.6	0.6	10.3	0.4	(174.8)
Other operating income and expenses	(147.0)	0.5	0.1	(1.9)	-	165.7	17.4
Result from operating activities (EBIT)	12.7	2.1	4.6	(1.3)	12.1	166.1	196.3
Depreciation and amortization	122.3	1.0	(4.5)	-	-	-	118.8
EBITDA	**135.0**	**3.1**	**0.1**	**(1.3)**	**12.1**	**166.1**	**315.1**

(1) Other: includes the adjustment of €165 million recorded following the decision by the French Competition Authority (see Note 1.3).

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. 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.

By operating segment

2018 *(in millions of euros)*	Flooring: EMEA	Flooring: North America	Flooring: CIS, APAC and Latin America	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 sales	*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 sales	*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 sales	*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 sales	*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

2017 *(in millions of euros)*	Flooring			Sports Surfaces	Central	Group
	EMEA	North America	CIS, APAC and Latin America			
Net revenue	926.4	783.4	619.0	512.3	-	2,841.1
Gross profit	274.4	218.2	124.4	87.1	(1.1)	703.0
% of net sales	*29.6%*	*27.8%*	*20.1%*	*17.0%*		*24.7%*
Adjusted EBITDA	126.8	95.0	88.5	51.5	(46.7)	315.1
% of net sales	*13.7%*	*12.1%*	*14.3%*	*10.0%*		*11.1%*
Of which adjustments [1]	(168.5)	(2.4)	(1.8)	(2.6)	(4.8)	(180.1)
EBITDA	(41.7)	92.6	86.7	48.9	(51.5)	135.0
% of net sales	*(4.5)%*	*11.8%*	*14.0%*	*9.5%*		*4.8%*
Result from operating activities (EBIT)	(73.7)	25.3	42.6	30.1	(11.6)	12.7
% of net sales	*(8.0)%*	*3.2%*	*6.9%*	*5.9%*		*0.4%*
Ongoing capital expenditures	36.5	30.8	17.3	16.1	10.2	110.9

(1) EMEA: includes the adjustment of €165 million recorded following the decision by the French Competition Authority.

Information on activity in France and in other significant countries

The Group's activity in France represented less than 10% of revenue in 2018 and in 2017.

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 2018 and in 2017.

Tarkett considers the threshold for significance to be 25% of revenue. Only the United States is above that threshold, with 41.0% of the Group's consolidated revenue in 2018 (40.0% in 2017).

The United States represents 50.0% of the Group's total non-current assets as of December 31, 2018 (40.0% on December 31, 2017).

None of Tarkett's customers represents more than 10% of its sales. In 2018, the largest customer represented 3% of the Group's consolidated net revenues, as compared with 3% in 2017.

3.3 Other operating income and expense

(in millions of euros)	2018	2017
Gains on disposal of fixed assets	0.5	0.3
Other operating income	12.7	29.8
Other operating income	13.2	30.1
Losses on disposal of fixed assets	-	-
Other operating expenses [1]	(12.9)	(177.1)
Other operating expenses	(12.9)	(177.1)
Total other operating income and expenses	**0.3**	**(147.0)**

(1) In 2017, includes the €165 million penalty recorded following the decision by the French Competition Authority.

3.4 Breakdown of working capital requirements

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, 2018**	**December 31, 2017**
Raw materials and supplies	148.0	132.7
Work in progress	75.5	66.1
Finished goods	264.0	239.1
Samples	2.4	1.0
Displays	(2.3)	-
Consumables and spare parts	22.8	22.4
Total Gross Value	510.4	461.3
Provision for inventory depreciation	(61.1)	(57.1)
Total net inventory	**449.3**	**404.2**

Detail of the provision for inventory depreciation

(in millions of euros)	**Dec. 31, 2017**	**Allowance**	**Decrease**	**Foreign exchange gain & loss**	**Other**	**Dec. 31, 2018**
Raw materials and supplies	(10.5)	(2.4)	2.8	(0.2)	(0.1)	(10.4)
Work in progress	(5.7)	(2.7)	0.9	(0.1)	(0.2)	(7.8)
Finished goods	(33.8)	(10.2)	8.3	(0.4)	0.0	(36.1)
Samples	(0.3)	(0.1)	0.1	(0.0)	-	(0.3)
Consumables and spare parts	(6.8)	(0.7)	0.9	0.1	-	(6.5)
Total provision for inventory depreciation	**(57.1)**	**(16.1)**	**13.0**	**(0.6)**	**(0.3)**	**(61.1)**

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

Cost of raw materials was €1,181.7 million in 2018, as compared with €1,164.7 million in 2017.

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 allowance for doubtful accounts is based on management's assessment of the recoverability of specific customer accounts and the aging of the accounts receivable.

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.

Doubtful receivables are identified and provisioned in this manner:

- 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, 2018	December 31, 2017
Related party receivables	8.1	7.8
Trade receivables	360.1	368.1
Total Gross Value	368.2	375.9
Provisions for doubtful receivables	(17.7)	(19.7)
Total net receivables	**350.5**	**356.2**

The variation of the provision for doubtful receivables amounts to €2.00 million and is mainly explained as follows:

- -7.00 million of allowance;
- 8.80 million of reversals;
- 0.20 million of foreign exchange impact.

Detail of unimpaired overdue receivables

(in millions of euros)	December 31, 2018	December 31, 2017
Receivables, trade overdue 0-180 days	54.0	39.5
Receivables, trade overdue 181-270 days	1.0	0.6
Receivables, trade overdue 271-360 days	0.2	0.1
Receivables, trade overdue >360 days	0.8	1.2
Receivables, bankruptcy procedure/legal cases	1.4	0.9
Total unimpaired overdue Receivables	**57.4**	**42.3**

3.4.3 Other receivables

(in millions of euros)	December 31, 2018	December 31, 2017
Other receivables non-current	**-**	**-**
Prepaid expenses current	19.6	15.5
Income tax receivable current	24.6	23.9
VAT and other taxes	16.9	18.6
Other accounts receivable and other assets current	23.0	18.9
Other receivables current	**84.1**	**76.9**

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 €5.9 million in deferred income are discounted to net present value.

(in millions of euros)	December 31, 2018	December 31, 2017
Trade payables	281.5	284.6
Trade notes payable	2.1	4.3
Trade payables	**283.6**	**288.9**

3.4.5 Other liabilities

(in millions of euros)	December 31, 2018	December 31, 2017
Liabilities related to employees	96.4	96.5
Current tax	13.3	19.7
VAT and other taxes	15.7	16.8
Sales rebates	39.9	41.2
Other liabilities	27.8	22.9
Other liabilities	**193.1**	**197.4**

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 sale of property, plant and equipment.

	2018	2017
Operating cash flow before working capital changes	218.5	128.1
Changes in working capital requirement	(12.3)	(37.0)
Net interest paid	(17.2)	(11.3)
Net income taxes paid	(25.3)	(37.8)
Miscellaneous operational items paid	(0.7)	(1.0)
Acquisitions of intangible assets and property, plant and equipment	(128.2)	(111.1)
Proceeds from sale of property, plant and equipment	1.5	4.5
Free cash flow	**36.4**	**(65.6)**

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, 2018, the Group's largest retirement plans were in the United States, Germany, Sweden, Canada and the United Kingdom. Those five countries represent more than 90% of total commitments 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 France and Italy.

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

Special Events

In 2018 the Group decided to freeze the rights of the participants in the pension plan in Canada. Active participants now contribute to a multi-employer plan that does not generate benefit liabilities. Some employees also decided to transfer their vested rights into the new plan.

No other special events occurred in 2018.

Assumptions

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

	December 31, 2018		December 31, 2017	
	Pensions	Post-employment healthcare benefits	Pensions	Post-employment healthcare benefits
Weighted discount rate	3.10%		3.06%	
Including:				
United States	4.25%	4.25%	3.75%	3.75%
Germany	1.50%		1.50%	
Sweden	2.50%		2.75%	
United Kingdom	2.75%		2.40%	
Canada	3.75%/4.00%		3.75%	
Salary increases	2.60%		2.87%	
Inflation	2.16%		2.40%	

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.

Amounts recognized in the statement of financial position *(in millions of euros)*	**December 31, 2018**			**December 31, 2017**		
	Pensions	**Post-employment healthcare benefits**	**Total**	**Pensions**	**Post-employment healthcare benefits**	**Total**
Defined Benefit Obligation	220.6	1.8	222.4	232.1	2.0	234.1
Current service cost	(92.6)	-	(92.6)	(98.7)	-	(98.7)
Net liability booked in the statement of financial position	**128.0**	**1.8**	**129.8**	**133.4**	**2.0**	**135.4**

Pension obligations *(in millions of euros)*	**December 31, 2018**			**December 31, 2017**		
	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	232.1	(98.7)	133.4	246.2	(100.6)	145.6
Current service cost	3.8	-	3.8	4.2	-	4.2
Past service cost	(1.1)	-	(1.1)	(0.1)	-	(0.1)
(Gain)/loss on new retirement plans	(0.4)	-	(0.4)	-	-	-
Financial cost (effect of discount)	6.8	(3.2)	3.6	7.2	(3.2)	4.0
Update to other post-employment commitments	-	-	-	-	-	-
Administrative expenses and taxes (expenses paid)	(0.2)	1.7	1.5	(0.2)	1.6	1.4
Expense (income) for the period	8.9	(1.4)	7.5	11.1	(1.6)	9.5
Benefit payments from employer	(5.2)	-	(5.2)	(4.8)	-	(4.8)
Benefit payments from plan	(10.9)	10.9	-	(7.7)	7.7	-
Plan participants' contributions	0.2	(0.2)	-	0.3	(0.3)	-
Employer contributions	-	(5.1)	(5.1)	-	(4.7)	(4.7)
Changes in demographic assumptions	(1.1)	-	(1.1)	(1.7)	-	(1.7)
Changes in financial assumptions	(5.5)	-	(5.5)	3.7	-	3.7
Effect of experience adjustments	(0.2)	-	(0.2)	(0.9)	-	(0.9)
(Return) on plan assets (excluding interest income)	-	4.4	4.4	-	(8.4)	(8.4)
Total pension cost/(income) recognized in the OCI	(6.8)	4.4	(2.4)	1.1	(8.4)	(7.3)
Changes in scope	-	-	-	-	-	-
Foreign exchange differences	2.3	(2.5)	(0.2)	(14.1)	9.2	(4.9)
As of December 31	**220.6**	**(92.6)**	**128.0**	**232.1**	**(98.7)**	**133.4**

Other benefit obligations *(in millions of euros)*	December 31, 2018			December 31, 2017		
	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	2.0	-	2.0	8.5	-	8.5
Current service cost	-	-	-	0.3	-	0.3
Past service cost	-	-	-	(5.9)	-	(5.9)
(Gain)/loss on new retirement plans	-	-	-	-	-	-
Financial cost (effect of discount)	0.1	-	0.1	(0.0)	-	(0.0)
Update to other post-employment commitments	-	-	-	-	-	-
Administrative expenses and taxes (expenses paid)	-	-	-	-	-	-
Expense (income) for the period	0.1	-	0.1	(5.6)	-	(5.6)
Benefit payments from plan	-	-	-	-	-	-
Benefit payments from employer	(0.3)	-	(0.3)	(0.1)	-	(0.1)
Plan participants' contributions	-	-	-	-	-	-
Employer contributions	-	-	-	-	-	-
Changes in demographic assumptions	(0.0)	-	(0.0)	-	-	-
Changes in financial assumptions	(0.1)	-	(0.1)	-	-	-
Effect of experience adjustments	(0.0)	-	(0.0)	(0.3)	-	(0.3)
(Return) on plan assets (excluding interest income)	-	-	-	-	-	-
Total pension cost/(income) recognized in the OCI	(0.1)	-	(0.1)	(0.3)	-	(0.3)
Changes in scope	-	-	-	-	-	-
Foreign exchange differences	0.1	-	0.1	(0.5)	-	(0.5)
As of December 31	**1.8**	**-**	**1.8**	**2.0**	**-**	**2.0**

Allocation of plan assets by type of investment

	December 31, 2018	December 31, 2017
Shares	36.7%	47.7%
Bonds	39.2%	28.3%
Insurance contracts	14.0%	12.7%
Cash & cash equivalent	7.1%	8.5%
Real Estate	3.0%	2.8%

Sensitivity to discount rate assumptions

(in millions of euros)	December 31, 2018	December 31, 2017
Increase of 50 basis points Increase (Decrease) in Defined Benefit Obligation Increase (decrease) of 50 basis points Increase/(Decrease) in Defined Benefit Obligation	(13.5)	(14.5)
Decrease of 50 basis points Increase (Decrease) in Defined Benefit Obligation Increase (decrease) of 50 basis points Increase/(Decrease) in Defined Benefit Obligation	14.9	15.9

Sensitivity to inflation rate assumptions

(in millions of euros)	**December 31, 2018**	**December 31, 2017**
Increase of 50 basis points Increase (Decrease) in Defined Benefit Obligation Increase (decrease) of 50 basis points Increase/(Decrease) in Defined Benefit Obligation	4.8	3.2
Decrease of 50 basis points Increase (Decrease) in Defined Benefit Obligation Increase (decrease) of 50 basis points Increase/(Decrease) in Defined Benefit Obligation	(4.4)	(3.2)

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:

(in millions of euros)	**December 31, 2018**	**December 31, 2017**
2018	-	12.3
2019	11.8	11.7
2020	11.0	11.5
2021	11.2	10.7
2022	11.1	11.1
2023	11.4	-
Total	**56.5**	**57.3**

4.2 Personnel costs and compensation of senior management

(in millions of euros)	**December 31, 2018**	**December 31, 2017**
Wages and salaries	(668.6)	(671.5)
Pension costs	(2.3)	1.5
Total Personnel costs	**(670.9)**	**(670.0)**
Employees (average number)	12,907	12,764

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, 2018**	**December 31, 2017**
Short-term employee benefits	6.2	11.2
Retirement benefits	0.1	-
Other long-term benefits	-	-
Lump-sum termination payments	0.9	-
Share-based payments	3.2	2.9
Total	**10.4**	**14.1**

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 LTIP 2018 plan is also conditional on a market performance condition.

In 2018, the LTI 2015 plan resulted in a payment of 300,973 shares.

	LTIP 2016	LTIP 2017	LTIP 2018
Grant date	December 1, 2016	September 25, 2017	July 25, 2018
End of the vesting period	June 30, 2019	June 30, 2020	June 30, 2021
Number of shares	243,575	277,715	334,088
Estimated value as of the plan's start date *(in euros)*	32.00	37.00	19.85
Estimate of number of shares to be delivered as of December 31, 2018	121,788	138,858	334,088
Form of settlement	Distribution of shares		
Expenses 2018 *(in millions of euros)*	(0.7)	(2.0)	(1.2)
Expenses 2017 *(in millions of euros)*	(3.1)	(1.4)	-
Expenses 2016 *(in millions of euros)*	(0.4)	-	-

Note 5 > Tangible and intangible assets

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.

The changes in goodwill can be analyzed as follows:

(in millions of euros)	December 31, 2018	December 31, 2017
Opening carrying amount	510.5	550.4
Goodwill on acquisitions during the period	132.4	0.5
Adjustment to initial purchase price allocation	-	-
Foreign exchange gain & loss	19.1	(40.4)
Closing carrying amount	**662.0**	**510.5**

Purchase accounting for lexmark acquisition

On October 1, 2018, the Group completed the acquisition of Lexmark Carpet Mills in the United States. Lexmark produces high-quality carpet, primarily for the North American hospitality market, and is well recognized among leading hospitality chains for its state-of-the-art products and services. The company had revenue of approximately USD 120 million in 2017, employs 460 people, and operates one plant in the United States.

Total consideration paid for the acquisition was €222.6 million, of which €104.4 million was allocated to the repayment of Lexmark's debt.

As of December 31, 2018, goodwill from Lexmark totaled €128.2 million:

(in millions of euros)	
Consideration paid(+)	222.6
Fair Value of assets acquired (-)	94.4
Total Goodwill recognized	128.2

The amount of goodwill recorded as of December 31, 2018 is provisional and may be adjusted within 12 months following the acquisition, as provided for by the revised IFRS 3.

This goodwill is explained primarily by the following:

- Specific technology and know-how;
- Market share acquired in the hospitality and residential 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 acquisition of Grassman expands FieldTurf's presence in the Australian market, in particular in the hockey, tennis, and landscape sectors, thus complementing its football and rugby offerings. This acquisition will also provide a strong platform for serving field builders and installers throughout Australia.

As of December 31, 2018, goodwill from Grassmann totaled €7.8 million, and can be broken down as follows :

(in millions of euros)	
Consideration paid	9.3
Fair value of the acquired assets	(1.5)
Total goodwill recorded	7.8

The amount of goodwill recorded as of December 31, 2018 is provisional and may be adjusted within 12 months following the acquisition, as provided for by the revised IFRS 3.

5.1.1 Allocation of goodwill between the various CGUs

The allocation of goodwill between the various CGU's is as follows:

(in millions of euros)	December 31, 2018		December 31, 2017	
	Gross value	Net value	Gross value	Net value
Resilient and miscellaneous	70.4	69.8	70.9	70.3
Carpet	33.5	33.5	33.5	33.5
Wood	-	-	-	-
Laminate	-	-	-	-
EMEA	**103.9**	**103.3**	**104.4**	**103.8**
Commercial (excluding carpet)	72.8	55.8	70.5	53.5
Tandus & Centiva	312.9	312.9	175.7	175.7
Residential	-	-	-	-
North America	**385.7**	**368.7**	**246.2**	**229.2**
CIS	96.5	95.5	96.5	95.5
APAC	(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	39.1	33.4	36.0	30.5
Synthetic grass & other	61.4	61.0	51.8	51.4
Sports Surfaces	**100.5**	**94.4**	**87.8**	**81.9**
Total goodwill	**686.7**	**662.0**	**535.0**	**510.5**

5.2 Tangible and intangible assets

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.

Depreciation

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:

- leased buildings: 20 – 30 years;
- machines and equipment: 6$^{2/3}$ – 10 years;
- printing cylinders: 2 years;
- other equipment and supplies: 3 – 5 years.

Finance leases

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases.

Assets acquired under finance leases are recognized as items of property, plant and equipment at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease.

Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The bases of depreciation and subsequent measurement of the related assets are similar to those applying to other tangible fixed assets, except in the case where the lease period is shorter than the asset's estimated useful life and it is not reasonably certain that transfer of title will take place at the end of the lease.

Leases for which a significant portion of the risks and rewards incidental to ownership of the leased assets remains with the lessor are classified as operating leases, with lease payments recognized as an expense on a straight-line basis over the lease term. Lease payments are recorded in profit and loss as expenses and allocated on a straight-line basis over the term of the lease.

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

(in millions of euros)	December 31, 2018	December 31, 2017
Research and development	5.1	6.0
Patents	11.2	14.5
Trademarks	29.1	31.8
Software licenses	24.9	28.9
Other intangible assets	51.5	3.5
Advance payments and fixed assets in progress	11.4	6.7
Intangible Assets	**133.2**	**91.4**
Goods and real property	197.0	203.2
Technical equipment and machinery	230.7	210.5
Leased equipment	2.9	2.9
Advance payments and fixed assets in progress	84.2	50.8
Property, plant and equipment	**514.8**	**467.4**

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

Acquisition costs *(in millions of euros)*	Dec. 31, 2017	Acquisitions	Disposals	Change in scope	Transfer	Foreign exchange differences	Dec. 31, 2018
Research and development	15.4	1.2	(0.0)	-	-	(0.3)	16.3
Patents	134.1	0.8	-	-	0.0	6.1	141.0
Trademarks	54.5	-	-	-	-	0.7	55.2
Software licenses	129.7	6.9	(0.5)	(0.0)	7.9	2.0	146.0
Other intangible assets	7.2	0.0	(0.0)	60.1	0.0	0.9	68.2
Advance payments and fixed assets in progress	6.7	11.2	(0.1)	-	(6.6)	0.2	11.4
Intangible Assets	**347.6**	**20.1**	**(0.6)**	**60.1**	**1.3**	**9.6**	**438.1**
Goods and real property	512.5	8.6	(0.2)	1.5	5.0	1.8	529.2
Leased buildings	0.3	-	-	-	-	-	0.3
Technical equipment and machinery	1,298.0	23.6	(14.6)	51.0	36.0	2.4	1,396.4
Leased equipment	8.3	1.0	(1.8)	-	0.3	(0.1)	7.7
Advance payments and fixed assets in progress	50.8	75.9	(0.2)	-	(43.2)	0.9	84.2
Property, plant and equipment	**1,869.9**	**109.1**	**(16.8)**	**52.5**	**(1.9)**	**5.0**	**2,017.8**

Accumulated depreciation and amortization *(in millions of euros)*	Dec. 31, 2017	Allowance	Disposals/ reversals	Change in scope	Transfer	Foreign exchange differences	Dec. 31, 2018
Research and development	(9.4)	(2.0)	0.0	-	0.0	0.2	(11.2)
Patents	(119.6)	(4.6)	0.0	-	-	(5.5)	(129.7)
Trademarks	(22.7)	(3.4)	-	-	-	(0.0)	(26.1)
Software licenses	(100.8)	(18.9)	0.5	0.0	(0.1)	(1.8)	(121.1)
Other intangible assets	(3.7)	(0.7)	-	(12.0)	-	(0.3)	(16.7)
Intangible Assets	**(256.2)**	**(29.6)**	**0.5**	**(12.0)**	**(0.1)**	**(7.4)**	**(304.8)**
Goods and real property	(309.3)	(21.9)	0.2	(0.5)	(0.1)	(0.6)	(332.2)
Leased buildings	(0.3)	-	-	-	-	(0.0)	(0.3)
Technical equipment and machinery	(1,087.5)	(68.8)	13.8	(23.3)	0.9	(0.8)	(1,165.7)
Leased equipment	(5.4)	(1.2)	1.8	-	(0.2)	0.2	(4.8)
Property, plant and equipment	**(1,402.5)**	**(91.9)**	**15.8**	**(23.8)**	**0.6**	**(1.2)**	**(1,503.0)**

5.3 Impairment of assets

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.

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 2018:

	Discount rate after tax	Perpetual growth rate
EMEA	7.8%	2%
North America	7.8%	2%
CIS	10.2%	4%
APAC	8.3%	4%
Latin America	10.1%	4%
Sports Surfaces	7.8%	2%

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 2018, 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 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 testing
Impairment losses recognized during 2018 and 2017 can be broken down as follows:

(in millions of euros)	December 31, 2018	December 31, 2017
North America	(2.8)	(3.9)
Total	**(2.8)**	**(3.9)**

5.4 Lease commitments

The Group's operating lease commitments are mainly commitments for buildings, vehicles, computer hardware and software, and offices.

Operating lease payments
Minimum lease payments under operating leases are recorded as expenses on a straight-line basis over the term of the lease. (See Note 5.2.2 for more information on the rules for categorizing leases as operating or financial leases.)

Capital lease payments
Minimum lease payments under a finance lease are apportioned between the finance charge and the reduction in the outstanding liability. (See Note 5.2.2 for more information on the rules for categorizing leases as operating or financial leases.)

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, 2018	December 31, 2017
Less than 1 year	28.1	25.9
1 to 5 years	69.9	53.9
More than 5 years	16.2	11.8
Total future minimum lease payments	**114.2**	**91.6**

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 and a weighting of all possible outcomes against their associated probabilities.

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

(in millions of euros)	Dec. 31, 2017	Allowance	Decrease	Change in scope	Transfer	Foreign exchange gain & loss	Dec. 31, 2018
Product warranty provision	3.7	0.5	(1.1)	-	-	0.0	3.1
Restructuring provisions	-	-	-	-	-	0.0	-
Claims & litigation provisions	2.9	0.1	(0.5)	-	-	(0.2)	2.3
Other provisions	5.2	0.0	(0.6)	-	3.0	-	7.6
Provision for additional tax assessments	1.2	0.0	(1.1)	-	-	0.0	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	0.0	(0.7)	0.0	-	0.0	1.3
Claims & litigation provisions	8.1	5.5	(3.5)	(0.2)	1.0	0.1	11.0
Other provisions	0.2	0.0	(0.0)	-	-	(0.0)	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**

(in millions of euros)	Dec. 31, 2016	Allowance	Decrease	Change in scope	Transfer	Foreign exchange gain & loss	Dec. 31, 2017
Product warranty provision	3.7	0.8	(0.5)	-	-	(0.3)	3.7
Restructuring provisions	-	-	-	-	-	-	-
Claims & litigation provisions	3.1	0.2	(0.1)	-	-	(0.3)	2.9
Other provisions	4.9	0.5	(0.2)	-	-	-	5.2
Provision for additional tax assessments	0.6	0.8	(0.2)	-	-	-	1.2
Financial provisions (1)	46.4	-	(4.4)	-	-	(5.3)	36.7
Total Provisions – long-term	**58.7**	**2.3**	**(5.4)**	**-**	**-**	**(5.9)**	**49.7**
Product warranty provision	25.6	7.4	(11.0)	-	(0.6)	(2.3)	19.1
Restructuring provisions	3.8	0.8	(2.6)	-	-	-	2.0
Claims & litigation provisions	8.6	3.5	(4.2)	-	0.6	(0.4)	8.1
Other provisions	-	0.2	-	-	-	-	0.2
Total Provisions – short-term	**38.0**	**11.9**	**(17.8)**	**-**	**-**	**(2.7)**	**29.4**
Total Provisions	**96.7**	**14.2**	**(23.2)**	**-**	**-**	**(8.6)**	**79.1**

(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 Accounting principles

Non-derivative 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 rate instruments qualified as fair value hedges (FVH) are recognized in profit and loss. 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; or (ii) amortized in profit or loss over the duration of the hedge, where the hedged item is related to a period of time.

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 expense

Financial expense includes, in particular, bank fees and 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, 2018**	**December 31, 2017**
Interest income on loan assets & cash equivalents	0.7	1.0
Other financial income	0.3	0.3
Total financial income	**1.0**	**1.3**
Other financial liabilities	(15.2)	(10.2)
Leasehold & similar rights	(0.2)	(0.2)
Commission expenses on financial liabilities	(3.5)	(4.0)
Cost of loans and debt renegotiation	(1.0)	(1.0)
Interest on provisions for pensions	(5.1)	(5.6)
Foreign exchange gains or losses	(4.8)	(2.6)
Impairment on financial assets	(0.0)	(0.1)
Changes in value of interest rate derivative instruments to hedge debt	(1.2)	(0.9)
Other financial liabilities	(0.1)	(0.1)
Total financial expenses	**(31.1)**	**(24.7)**
Financial result	**(30.1)**	**(23.4)**

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 lease.

(in millions of euros)	December 31, 2018		December 31, 2017	
	Long-term	Short-term	Long-term	Short-term
Bank loans	240.9	0.7	-	3.2
Private placements	595.5	-	591.3	-
Other loans	0.2	0.9	0.2	0.1
Bank overdrafts	-	7.8	-	8.1
Finance leases	2.5	0.8	2.6	1.0
Interest-bearing loans and borrowings	839.1	10.2	594.1	12.4
Total interest bearing loans and borrowings	849.3		606.5	
Cash and cash equivalents	(95.7)		(114.7)	
Net Debt	**753.6**		**491.8**	

The change in net debt during the period relates primarily to the acquisitions of Lexmark Carpet Mills in the U.S. on September 28, 2018 and of the assets of Grass Manufacturers Pty Ltd in Australia on January 31, 2018.

All of the interest-bearing loans and borrowings are unsecured, except for the assignment of receivables line of credit, and include mainly:

- a "Schuldschein" for €252.5 million and $50 million entered into on April 13, 2017 and of which €150.5 million matures in April of 2024, with the remainder maturing in April 2022;
- a "Schuldschein" of €250.0 million and $56.5 million concluded on June 21, 2016 and maturing in June 2023 for €126 million and in June 2021 for the rest;
- a multi-currency revolving syndicated loan with a capacity of €650.0 million subscribed in June 2015, maturing in June 2020, and which at December 31, 2018 has been used in the amount of €235.8 million;
- a €50.0 million French, German, and Spanish accounts receivable line of credit maturing on December 31, 2021, which at December 31, 2018 has not been used.

7.3.2 Details of loans and borrowings

December 31, 2018 *(in millions of euros)*	Currency of draw-down	Interest rate	Total	12 months or less until 12/31/2019	2 years until 12/31/2020	3 to 5 years until 12/31/2023	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	-
Sub-total 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	-	-	-
Finance lease obligations			3.3	0.8	0.8	1.6	0.1
Interest-bearing loans and borrowings			**849.3**	**10.2**	**238.2**	**450.3**	**150.6**

December 31, 2017 *(in millions of euros)*	**Currency of draw-down**	**Interest rate**	**Total**	**12 months or less until 12/31/2018**	**2 years until 12/31/2019**	**3 to 5 years until 12/31/2022**	**More than 5 years**
Bank loans							
Term facilities Europe	EUR	0.40%	2.3	2.3	-	-	-
Other bank loans	EUR-BRL	25.6%	0.9	0.9	-	-	-
Sub-total Bank loans			3.2	3.2	-	-	-
Private placements Europe	EUR	1.15% – 1.722%	502.5	-	-	502.5	-
Private placements Europe	USD	2.96% – 3.39%	88.8	-	-	88.8	-
Other loans	EUR	0.25%	0.3	0.1	0.1	0.1	-
Bank overdrafts			8.1	8.1	-	-	-
Finance lease obligations			3.6	1.0	1.0	1.1	0.5
Interest-bearing loans and borrowings			**606.5**	**12.4**	**1.1**	**592.5**	**0.5**

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, and the ratio of EBIT to net interest may not be lower than 2.5.

The Group is in compliance with all of its banking commitments as of December 31, 2017, as well as with the financial ratio covenants, as detailed below:

Net debt/Adjusted EBITDA [(1)] *(in millions of euros)*	**December 31, 2018**	**December 31, 2017**
Net debt	753.6	491.8
Adjusted EBITDA[(1)]	267.4	315.1
Ratio [(2)]	2.8	1.6

(1) Pursuant to definition applicable to financing agreements. As of December 31, 2018, proforma adjusted EBITDA was considered to include 12 month activity for Lexmark.
(2) Must be below 3.0.

Adjusted EBIT/Net interest [(1)] *(in millions of euros)*	**December 31, 2018**	**December 31, 2017**
Adjusted EBIT[(1)]	145.7	196.3
Net interest	14.6	9.5
Ratio [(2)]	10.0	20.7

(1) Pursuant to definition applicable to financing agreements. As of December 31, 2018, proforma adjusted EBIT was considered to include 12 month activity for Lexmark.
(2) Must be above 2.5.

7.3.4 Cash and cash equivalent by nature

(in millions of euros)	**December 31, 2018**	**December 31, 2017**
Current cash	31.4	32.4
Remunerated cash balances	56.4	80.7
Short term treasury notes and Money Market funds	7.9	1.6
Cash and cash equivalents	**95.7**	**114.7**

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:

(en millions d'euros)	Dec. 31, 2017	Cash Flow	Restated	Non-cash change			Dec. 31, 2018
				Acquisitions	Currency difference	Fair value change	
Long-term financial debt	594.6	245.8	-	-	(0.8)	-	839.6
Short-term financial debts	13.7	(20.7)	-	-	17.1	-	10.1
Long-term financial assets [1]	(36.6)	3.5	-	-	(0.6)	-	(33.7)
Short-term financial assets	(0.2)	0.4	-	(1.4)	-	-	(1.2)
Other	-	(8.9)	-	-	-	-	-
Total changes in financing activities [2]		**220.1**					
Cash-flow from financing activities [2]		**220.1**					

(1) Excluding shares accounted for by the equity method.
(2) Excluding dividends, acquisition of treasury shares and acquisition of non-controlling interests.

7.4 Other financial assets and liabilities

7.4.1 Other financial assets

(in millions of euros)	December 31, 2018	December 31, 2017
Long-term investments	-	-
Financial investments and receivables – long-term [1]	24.1	31.7
Loan receivables – long-term	-	-
Security deposit – long-term	-	-
Other financial assets	**24.1**	**31.7**

(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)*	Dec. 31, 2017	Increases	Decreases	Transfer	Foreign exchange differences	Dec. 31, 2018
Long-term investments	-	-	-	-	-	-
Financial investments and receivables – long-term	34.4	0.9	(11.9)	3.0	0.2	26.6
Loan receivables – long-term	-	-	-	-	-	-
Security deposit – long-term	-	-	-	-	-	-
Other financial assets	**34.4**	**0.9**	**(11.9)**	**3.0**	**0.2**	**26.6**

Accumulated depreciation and amortization *(in millions of euros)*	Dec. 31, 2017	Allowance	Disposals	Decrease	Impairment losses	Transfer	Foreign exchange differences	Dec. 31, 2018
Security deposit – long-term	-	-	-	-	-	-	-	-
Financial investments and receivables – long-term	(2.7)	(0.1)	-	-	-	-	0.3	(2.5)
Other financial assets	**(2.7)**	**(0.1)**	**-**	**-**	**-**	**-**	**0.3**	**(2.5)**

7.4.2 Other financial liabilities

(in millions of euros)	December 31, 2018	December 31, 2017
Fair value of derivatives non-current	-	-
Other financial liabilities non-current	4.1	0.5
Other financial liabilities non-current	**4.1**	**0.5**
Accrued interest expenses current	2.1	1.5
Fair value of derivatives non-current	2.0	0.2
Other financial liabilities current	5.9	5.3
Other financial liabilities current	**10.0**	**7.0**

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, 2018	Fair Value Category	Assets at amortized cost	Liabilities at amortized cost	Fair value through profit and loss	Fair value of hedging derivatives	Carrying amount	Fair value
Other financial liabilities non-current	Level 2	7.6	-	16.5	-	24.1	24.1
Other financial assets, current	Level 2	-	-	-	3.1	3.1	3.1
Accounts receivable	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 financial liabilities, non-current	Level 2	-	4.1	-	-	4.1	4.1
Other financial liabilities, current	Level 2	-	8.0	-	2.0	10.0	10.0
Trade payables	Level 2	-	283.6	-	-	283.6	283.6

December 31, 2017	Fair Value Category	Assets at amortized cost	Liabilities at amortized cost	Fair value through profit and loss	Fair value of hedging derivatives	Carrying amount	Fair value
Other financial liabilities non-current	Level 2	9.3	-	22.3	-	31.6	31.6
Other financial assets, current	Level 2	-	-	-	0.7	0.7	0.7
Accounts receivable	Level 2	356.2	-	-	-	356.2	356.2
Cash and cash equivalents	Level 2	-	-	114.7	-	114.7	114.7
Interest-bearing loans and borrowings	Level 2	-	606.5	-	-	606.5	606.5
Other financial liabilities, non-current	Level 2	-	0.5	-	-	0.5	0.5
Other financial liabilities, current	Level 2	-	7.0	-	-	7.0	7.0
Trade payables	Level 2	-	288.9	-	-	288.9	288.9

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, 2017.

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 risk management policies approved by the Group's executive board.

The portfolio of derivative instruments is broken down as follows:

December 31, 2018 *(in millions of euros)*	**Accounting classification**	**Maturity**	**Fair value**	**Counterpart in OCI**
Currency swaps	FVH	< June 2019	0.4	
Exchange rate derivative instruments			0.4	
Forward exchange contracts	CFH	< March 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	< Apr 2024	(0.3)	(0.5)
Interest rate derivatives			(0.3)	(0.5)
Total			**1.1**	**0.2**

December 31, 2017 *(in millions of euros)*	**Accounting classification**	**Maturity**	**Fair value**	**Counterpart in OCI**
Currency swaps	FVH	< June 2018	0.1	
Exchange rate derivative instruments			0.1	
Forward exchange contracts	CFH	< Feb 2019		
Options	CFH	< March 2019	0.2	0.1
Exchange rate derivatives related to commercial transactions			0.2	0.1
Caps	CFH	< May 2020	0.1	
Interest rate derivatives			0.1	0.0
Total			**0.4**	**0.1**

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

(in millions of euros)	**December 31, 2018**					**December 31, 2017**			
Currency of exposure	**USD**	**PLN**	**GBP**	**CAD**	**NOK**	**USD**	**PLN**	**GBP**	**NOK**
Exchange rate derivatives relating to financing	102.5	33.6	4.5	30.1	-	86.5	38.8	2.7	-
Exchange rate derivatives related to commercial transactions	-	-	35.3	-	10.3	-	-	34.6	10.2
Nominals hedging the main currencies *(in euros)*	**102.5**	**33.6**	**39.8**	**30.1**	**10.3**	**86.5**	**38.8**	**37.3**	**10.2**

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, 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**

(in millions of euros)	Fixed rate	Floating rate	December 31, 2017
Interest-bearing loans and borrowings	337.8	268.7	606.5
Cash and cash equivalents	(1.6)	(113.1)	(114.7)
Net debt before hedging	**336.2**	**155.6**	**491.8**
Effect of hedging	41.7	(41.7)	-
Net debt after hedging	**377.9**	**113.9**	**491.8**

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, 2018	December 31, 2017
Increase of 100 basis points Increase (Decrease) in financial charges	3.2	1.4
Decrease of 100 basis points [1] Increase (Decrease) in financial charges	(3.0)	(0.3)

(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 US dollar, the British pound, the Norwegian crown, 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, 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 financial liabilities, non-current	4.1	4.1	-	-	4.1	-	-	-	-	-
Other financial liabilities, current	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**

Financial liabilities	December 31, 2017		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	3.2	3.3	3.2	0.1	-	-	-	-	-	-
Private placements	591.3	644.6	-	11.9	-	11.9	314.8	25.3	276.5	4.2
Other loans	0.3	0.5	0.1	0.2	0.1	-	0.1	-	-	-
Bank overdrafts	8.1	8.4	8.1	0.3	-	-	-	-	-	-
Finance leases	3.6	3.6	1.0	-	1.0	-	1.1	-	0.5	-
Total	606.5	660.4	12.4	12.5	1.1	11.9	316.0	25.3	277.0	4.2
Other financial liabilities										
Trade payables	288.9	288.9	288.9	-	-	-	-	-	-	-
Other financial liabilities, non-current	0.5	0.5	-	-	0.5	-	-	-	-	-
Other financial liabilities, current	7.0	7.0	7.0	-	-	-	-	-	-	-
Total	296.4	296.4	295.9	-	0.5	-	-	-	-	-
Total financial liabilities	**902.9**	**956.8**	**308.3**	**12.5**	**1.6**	**11.9**	**316.0**	**25.3**	**277.0**	**4.2**

b) Liquidity position

The Group's debt capacity is €1,382.8, of which €849.3 million has been used (see Note 7.3.1). Including cash and cash equivalents, the liquidity position of the Group amounts to €629.2 million.

(in millions of euros)	December 31, 2018	December 31, 2017
Amount available on credit facilities	533.5	791.6
Cash and cash equivalents	95.7	114.7
Total	**629.2**	**906.3**

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; and
- 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 9.0% of total accounts receivable as of December 31, 2018 (8.0% of total accounts receivable as of December 31, 2017).

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 55.8 million;
- 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 194.7 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 €1.2 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 €4.2 million has been used as of the balance sheet date;
- has granted sureties on special purpose bank accounts to the bank operating a credit line by factoring of European receivables, of which none was drawn down at year end. In addition, Tarkett has granted its guarantee as parent company to the lenders of Tarkett Limited (UK), Desso Holding (Netherlands), Tarkett Asia Pacific (Shanghai) Management Co Ltd (China), and Tarkett Industrial (Beijing) Co Ltd. to obtain overdraft facilities or letters of credit for a maximum amount equal to €41.8 million, of which €11.6 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 €10.1 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 contributions based on a net of products and costs, even though that amount may differ from accounting net income.

Following the 2017 U.S. tax reform, a €2.5 million expense was recognized in net profit. Tarkett had 12 months to adjust that amount. Over the course of 2018, income was recorded for €0.6 million.

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

(in millions of euros)	2018	2017
Current tax	(18.6)	(28.7)
Deferred tax	0.1	(1.6)
Total income tax	**(18.5)**	**(30.3)**

Theoretical income taxes determined using the French corporate income tax rate of 34.43% for 2018 and 2017 can be reconciled as follows to the actual income tax charge:

(in millions of euros)	2018	2017
Pre-tax profit from continuing operations (a)	68.6	(7.7)
Profit from equity-accounted subsidiaries (b)	(7.9)	3.0
Pre-tax profit from fully consolidated activities (a-b)	76.5	(10.7)
Income tax at nominal French income tax rate	(26.3)	3.7
Effect of:		
Taxation of foreign companies at different rates	8.8	11.3
Exchange rate effects on non-monetary assets	(3.5)	(2.1)
Changes in unrecognized deferred tax assets	(1.3)	9.3
Permanent differences	3,6	2.7
Other permanent differences [1]	-	(56.8)
Taxes on dividends (Withholding at the source, 3% contribution)	(0.1)	6.1
Other items	0,3	(4.5)
Income tax expenses	**(18.5)**	**(30.3)**
Effective rate	**24.2%**	**-283.2%**

(1) Relates exclusively to the penalty assessed by the French Competition Authority (see Note 1.3).

In 2017, without the expense recorded in connection with the procedure with the French Competition Authority, the effective tax rate would have been 19.7%.

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 22%, the Canada, with a local tax rate of 26.68%, and Luxembourg, with a local income tax rate of 29%.

Exchange rate effects on non-monetary assets
The deferred tax income of €3.5 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 provisioned a net amount of €1.3 million in respect of the future taxable results of certain subsidiaries.

Tax effects relating to distributions
In 2017, tax effects related to distributions primarily relate to withholding tax, the portion of dividends taxable in France ("*quote-part de Frais et Charges*") and the French 3% contribution. Following the decision of the Conseil constitutionnel (French Constitutional Court) on October 6, 2017, which found the French 3% contribution to be unconstitutional, income of €9.2 million was recorded.

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)	**2018**	**2017**
Deferred tax on tax loss carryforwards	25.3	25.1
DTA for pensions and healthcare benefits	39.5	37.6
Other items temporarily non deductible	39.1	38.9
Provision for other deferred tax liabilities	(1.6)	(1.9)
Internal profit eliminations	2.5	1.6
Netted against deferred tax assets	(28.2)	(21.2)
Total Deferred tax assets	**76.6**	**80.1**
Fixed assets revaluation	39.8	40.8
Other deferred tax liabilities	24.1	18.2
Netted against deferred tax assets	(28.2)	(21.2)
Total Deferred tax liabilities	**35.7**	**37.8**

The Group had €25.3 million in deferred tax assets related to tax loss carryforwards and unused tax credits, of which €12.3 million related to Luxembourg, €8.5 million related to the Group's North American (United States) tax consolidation group, and €1.1 million related to Serbia.

The €25.3 million can be broken down as follows: €15.7 million of net deferred tax assets for tax loss carryforwards, and €9.6 million of net unused tax credits.

As of December 31, 2018, unrecognized deferred tax assets related to loss carryforwards and unused tax credits amount to €182.4 million.

Note 9 > Shareholders' equity and earnings per share

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, 2018	December 31, 2017
Share capital *(in euros)*	318,613,480	318,613,480
Number of shares	63,722,696	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, 2018	December 31, 2017
Number of shares outstanding at year-end	63,723	63,723
Average number of treasury shares held by Tarkett during the year	(434)	(417)
Weighted average number of shares outstanding (undiluted)	**63,289**	**63,306**

Basic earnings per share
Basic earnings per share as of December 31, 2018 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).

	December 31, 2018	December 31, 2017
Profit for the period attributable to Tarkett shareholders *(in millions of euros)*	49.3	(38.7)
Weighted average number of shares outstanding (undiluted)	63,289	63,306
Basic earnings per share *(in euros)*	**0.78**	**(0.61)**

Weighted average number of shares outstanding during the period (diluted earnings)

(in thousands of shares)	December 31, 2018	December 31, 2017
Number of shares outstanding at year-end	63,723	63,723
Average number of treasury shares held by Tarkett during the year	(434)	(417)
Impact of share-based payment plans	370 (1)	382 (1)
Weighted average number of shares outstanding during the period (diluted earnings)	**63,659**	**63,688**

(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, 2018 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).

	December 31, 2018	December 31, 2017
Profit for the period attributable to Tarkett shareholders *(in millions of euros)*	49.3	(38.7)
Weighted average number of shares outstanding during the period (diluted earnings)	63,659	63,688
Diluted earnings per share *(in euros)*	**0.77**	**(0.61)**

Dividends
Tarkett paid dividends in the amount of €0.60 per share to its shareholders on July 5, 2018, in accordance with the decision of the General Shareholders' Meeting of April 26, 2018. In 2017, the Group had paid a dividend of €0.60 per share.

Note 10 > Related parties

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

1. Joint ventures;
2. The Group's principal shareholder, Société Investissement Deconinck ("**SID**");
3. 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 only two joint ventures of which, Laminate Park GmbH & Co KG, jointly controlled with the group Sonae in Germany.

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

(in millions of euros)	**December 31, 2018**	**December 31, 2017**
Joint ventures		
Sale of goods to Tarkett	24.1	27.8
Purchase of services from Tarkett	(1.0)	(1.0)
Loans from Tarkett	7.5	9.2

10.2 Principal shareholders

Société Investissement Deconinck holds 50.34% of Tarkett's share capital and as such controls and coordinates the Group's activities.

As of December 31, 2018, SID had invoiced a total of €300,000 in fees under the Assistance Agreement (€500,000 as of December 31, 2017).

As of December 31, 2018, Tarkett had invoiced a total of €55,000 to SID under the Service Agreement (€75,000 as at December 31, 2017).

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	245	0	184	0
Controlled entities	145	1,230	78	643
Subtotal (A)	389	1,230	262	643
Services other than certification of the financial statements required by laws and regulations				
Tarkett	0	0	0	0
Controlled entities	9	0	0	0
Subtotal (B)	9	0	0	0
Services other than certification of the financial statements at the entity's request				
Tarkett	71	0	0	0
Controlled entities	0	4	0	2
Subtotal (C)	71	4	0	2
Services other than certification of the financial statements [1]				
Subtotal D = B + C	80	4	0	2
Subtotal E = A + D	**469**	**1,234**	**262**	**645**
Total	**1,703**		**907**	

Note 13 > Principal consolidated entities

Companies	Country	Consolidation method	Percentage interest as of December 31, 2018	Percentage interest as of December 31, 2017
G: Full consolidation E: Accounted for using the 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 Belux [(1)]	Belgium	G	0%	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	Turkey	G	70%	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	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%
FieldTurf Benelux BV [(1)]	Netherlands	G	0%	100%
Tarkett NV	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	Great Britain	G	100%	100%
AllSports construction and maintenance Ltd	Great Britain	E	30%	30%
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	G	100%	100%
Tandus Centiva Inc.	United States	G	100%	100%
Tandus Centiva US LLC	United States	G	100%	100%
Tarkett Enterprises Inc.	United States	G	100%	100%

Companies	Country	Consolidation method	Percentage interest as of December 31, 2018	Percentage interest as of December 31, 2017
Domco Products Texas Inc. (AZR)	United States	G	100%	100%
Tarkett Alabama Inc. (NAF)	United States	G	100%	100%
Tarkett Finance Inc.	United States	G	100%	100%
Tarkett USA Inc. (DUS)	United States	G	100%	100%
Texas Tile Manufacturing LLC	United States	G	100%	100%
L.E.R. Inc.	United States	G	100%	100%
Easy Turf	United States	G	100%	100%
Beynon Sport Surfaces Inc.	United States	G	100%	100%
FieldTurf Tarkett USA Holding	United States	G	100%	100%
FieldTurf USA Inc.	United States	G	100%	100%
Diamond W	United States	G	100%	100%
Desso (U.S.A.) Inc.	United States	G	100%	100%
Lexmark Carpet Mills [(1)]	United States	G	100%	0%
Tarkett Inc.	Canada	G	100%	100%
Tandus Centiva Limited	Canada	G	100%	100%
FieldTurf Inc.	Canada	G	100%	100%
Johnsonite Canada Inc.	Canada	G	100%	100%
Tarkett Tennis and Track Company [(1)]	États-Unis	G	100%	0%
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	Hungary	G	100%	100%
Tarkett Bel	Belorussia	G	100%	100%
Tarkett Flooring Singapore	Singapore	G	100%	100%
Tarkett Flooring India Private	India	G	100%	100%
Fieldturf Australia (Grassman) [(1)]	Australia	G	100%	0%

(1) See Note 2.4.

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

3. Statutory auditor's report

KPMG Audit
Tour EQHO
2 Avenue Gambetta
CS 60055
92066 Paris la Défense Cedex
France

Mazars
61, rue Henri Regnault
92075 Paris La Défense
France

Tarkett S.A.

Statutory auditors' report on the consolidated financial statements

For the year ended 31 December 2018
Tarkett S.A.
Tour Initiale - 1, terrasse Bellini - 92919 Paris La Défense

KPMG Audit
Tour EQHO
2 Avenue Gambetta
CS 60055
92066 Paris la Défense Cedex
France

Mazars
61, rue Henri Regnault
92075 Paris La DéfenseFrance

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.

Tarkett S.A.

Registered office: Tour Initiale - 1, terrasse Bellini - 92919 Paris La Défense
Share capital: €.318 613 480

Statutory auditors' report on the consolidated financial statements

For the year ended 31 December 2018

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 2018.

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 2018 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 2018 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) No537/2014 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 9 "Financial instruments" and IFRS 15 "Revenue from contracts with customers" as at 1st January 2018.

Justification of 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 and tangible assets have net book values at 31 December 2018 of 662,0M€, 133,3M€ and 514,8M€, 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 for long-term assets' testing.

We adapted our audit approach when impairment triggers events occured 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 77,8M€ at 31 December 2018 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, whether the positions held by Management are in the acceptable range ok risk assessment and the validity of the evolution over time of such positions.

Recognition of deferred tax assets on tax losses carried forward

Key audit matter

As indicated in note "8.2 – Deferred Tax" to the consolidated financial statements, the deferred tax assets amount to 76,6M€ at 31 December 2018, including 25,3M€ recognized on tax losses carried forward, out of which 12,3M€ relate to tax losses recognized in one entity of the Group, due to the assessment of management of its ability to generate taxable incomes in a foreseeable future. Unrecognized deferred taxes assets related to tax losses carried forward amounts to 162,9M€ at 31 December 2018.

A deferred tax asset is only recognized if it is likely that the Group will generate taxable future profits over the next five years on which this asset may be used.

The Group's ability to recover deferred tax assets is assessed by management at the close of each financial year taking into account forecasts of future taxable results.

We have considered the recoverability of such deferred tax assets on tax losses carried forward as a key audit matter due to the importance of management's estimation and judgment and the materiality of amounts at stake.

Audit approach

We reviewed the evaluation process of deferred tax assets on tax losses carried forward implemented by Group Management. We assessed the permanence of methods used, the relevance and consistency of underlying assumptions (budget and mid-term plan including growth in earnings and applicable tax rates) and tested the arithmetical accuracy.

We assessed the probability that the company may use in the future its deferred tax assets, particularly with regard to:

- the review of deferred tax liabilities existing in the same tax jurisdiction, that may be charged against existing tax losses carried forward before they expire;
- the ability of each affiliate to generate sufficient future taxable profits in a foreseeable future allowing the use of existing tax losses carried forward.

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.

Report on other legal and regulatory requirements

Appointment of the statutory auditors

We were respectively renewed for KPMG and appointed for Mazars, as statutory auditors of Tarkett by the combined annual general meeting held on 13 May 2014 to approuve accounts for the year ended 31 December 2013.

As at 31 December 2018, KPMG and Mazars were in the 5th year of uninterrupted engagement since securities of the Company were admitted to trading on a regulated market.

Responsibilities of Management and those charged with Governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit, Risks and Compliance Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

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 7 February 2019

The statutory auditors

French original signed by

Philippe Grandclerc	Renaud Laggiard	Juliette Decoux	Eric Schwaller
Partner	*Partner*	*Partner*	*Partner*