

Summary Interim Consolidated Financial Statements

Six-month period ended June 30, 2019



THE ULTIMATE FLOORING EXPERIENCE

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1. Summary Interim Consolidated Financial Statements

All figures are presented in millions of Euros unless stated otherwise.

Consolidated income statement

<i>(in millions of euros)</i>	Note	Jan.-June 2019	Jan.-June 2018
Net revenue		1,412.3	1,317.3
Cost of sales		(1,084.9)	(995.8)
Gross profit		327.4	321.5
Other operating income		7.2	5.8
Selling and distribution expenses		(178.5)	(162.6)
Research and development		(18.1)	(19.9)
General and administrative expenses		(93.3)	(89.1)
Other operating expenses		(11.6)	(7.3)
Result from operating activities	(3)	33.1	48.4
Financial income		0.7	0.4
Financial expenses ⁽¹⁾		(20.4)	(12.1)
Financial income and expense	(6)	(19.7)	(11.7)
Share of profit of equity accounted investees (net of income tax)		(1.5)	0.4
Profit before income tax		11.9	37.1
Total income tax	(8)	(3.8)	(8.0)
Profit from continuing operations		8.1	29.1
Net profit for the period		8.1	29.1
Attributable to:			
Owners of Tarkett		7.7	28.7
Non-controlling interests		0.4	0.4
Net profit for the period		8.1	29.1
Earnings per share:			
Basic earnings per share <i>(in euros)</i>	(9)	0.12	0.45
Diluted earnings per share <i>(in euros)</i>	(9)	0.12	0.45

(1) Of which 1.9 million euros due to IFRS 16, as of June 30, 2019.

Consolidated statement of comprehensive income

<i>(in millions of euros)</i>	Jan.-June 2019	Jan.-June 2018
Net profit for the period	8.1	29.1
Other comprehensive income (OCI)		
Foreign currency translation differences for foreign operations	6.5	5.5
Changes in fair value of cash flow hedges	(0.9)	(0.1)
Income tax on other comprehensive income	0.3	-
First application of IFRS 9	-	(0.3)
OCI to be reclassified to profit and loss in subsequent periods	5.9	5.1
Defined benefit plan actuarial gain (losses)	(14.8)	1.4
Other comprehensive income (OCI)	-	-
Income tax on other comprehensive income	3.3	(0.2)
OCI not to be reclassified to profit and loss in subsequent periods	(11.5)	1.2
Other comprehensive income for the period, net of income tax	(5.6)	6.3
Total comprehensive income for the period	2.5	35.4
Attributable to:		
Owners of Tarkett	2.3	35.3
Non-controlling interests	0.2	0.1
Total comprehensive income for the period	2.5	35.4

Consolidated statement of financial position

Assets

<i>(in millions of euros)</i>	Note	June 30, 2019	Dec. 31, 2018
Goodwill	(5)	641.5	662.0
Intangible assets	(5)	159.4	133.3
Property, plant and equipment ⁽¹⁾	(5)	606.0	514.8
Other financial assets		24.2	24.1
Deferred tax assets		94.8	76.6
Other non-current assets		-	-
Non-current assets		1,525.9	1,410.8
Inventories		487.0	449.3
Trade receivables		372.5	350.5
Other receivables		92.1	84.1
Cash and cash equivalents	(6)	119.9	95.7
Current assets		1,071.5	979.6
Total Assets		2,597.4	2,390.4

Equity and liabilities

<i>(in millions of euros)</i>	Note	June 30, 2019	Dec. 31, 2018
Share Capital	(9)	318.6	318.6
Share premium and reserves		145.8	145.8
Retained earnings		294.6	290.9
Net result for the period		7.7	49.3
Equity attributable to equity holders of the parent		766.7	804.6
Non-controlling interests		2.6	2.4
Total equity		769.3	807.0
Interest-bearing loans ⁽²⁾	(6)	900.4	839.1
Total other liabilities		5.2	4.1
Deferred tax liabilities		37.3	35.7
Employee benefits	(4)	139.9	129.8
Provisions and other non-current liabilities	(7)	43.7	46.4
Non-current liabilities		1,126.5	1,055.1
Trade payables		382.2	283.6
Total other liabilities		203.1	193.1
Interest-bearing loans and borrowings ⁽³⁾	(6)	29.9	10.2
Other financial liabilities ⁽⁴⁾		42.4	10.0
Provisions and other current liabilities	(7)	44.0	31.4
Current liabilities		701.6	528.3
Total equity and liabilities		2,597.4	2,390.4

(1) Of which 95.8 million euros in rights of use due to the application of IFRS 16, as of June 30, 2019.

(2) Of which 74.7 million euros in lease liability due to the application of IFRS 16, as of June 30, 2019.

(3) Of which 22.7 million euros in lease liability due to the application of IFRS 16, as of June 30, 2019.

(4) Of which 0.2 million euros in lease liability due to the application of IFRS 16, as of June 30, 2019.

Consolidated statement of cash flows

<i>(in millions of euros)</i>	Note	Jan.-June 2019	Jan.-June 2018
Cash flows from operating activities			
Net profit before tax		11.9	37.1
Adjustments for:			
Depreciation and amortization ⁽¹⁾		77.0	59.1
(Gain) loss on sale of fixed assets		(0.4)	-
Net finance costs ⁽²⁾		19.7	11.7
Change in provisions and other non-cash items		7.4	(0.4)
Share of profit of equity accounted investees (net of tax)		1.5	(0.4)
Operating cash flow before working capital changes		117.1	107.1
Increase (-) / Decrease (+) in trade receivables		(20.1)	(109.4)
Increase (-) / Decrease (+) in other receivables		(8.0)	(3.1)
Increase (-) / Decrease (+) in inventories		(38.1)	(71.1)
Increase (+) / Decrease (-) in trade payables		99.1	74.7
Increase (+) / Decrease (-) in other payables		2.5	(9.8)
Changes in working capital		35.4	(118.7)
Cash generated from operations	(3)	152.5	(11.6)
Net interest paid		(21.0)	(9.4)
Net income taxes paid		(11.6)	(8.2)
Miscellaneous		(4.6)	(2.0)
Other operating items		(37.2)	(19.6)
Net cash (used in) / from operating activities		115.3	(31.2)
Cash flows from investing activities			
Acquisition of subsidiaries net of cash acquired	(2)	(2.3)	(10.0)
Acquisitions of intangible assets and property, plant and equipment	(5)	(58.0)	(52.3)
Proceeds from sale of property, plant and equipment	(5)	(0.5)	0.8
Effect of changes in the scope of consolidation		0.0	-
Cash flows from investing activities		(60.8)	(61.5)
Net cash from / (used in) financing activities			
Acquisition of NCI without a change in control		-	-
Proceeds from loans and borrowings		477.8	121.6
Repayment of loans and borrowings		(493.1)	(39.0)
Payment of principal (lease agreements) ⁽³⁾		(15.3)	(0.4)
Acquisitions/Sales of treasury shares		(0.0)	(4.9)
Dividends		0.0	-
Net cash from (used in) financing activities		(30.4)	77.3
Net increase / (decrease) in cash and cash equivalents		24.1	(15.4)
Cash and cash equivalents, beginning of period		95.7	114.7
Effect of exchange rate fluctuations on cash held		0.1	(0.5)
Cash and cash equivalents, end of period		119.9	98.7

(1) Including €14.2 million in depreciation of right-of-use assets (IFRS 16), as of June 30, 2019.

(2) Including €1.9 million in financial expenses on lease liabilities (IFRS 16), as of June 30, 2019.

(3) In 2019, concerned lease agreements within the scope of IFRS 16, and in 2018, concerned financial leases within the scope of IAS 17.

Consolidated statement of changes in equity

<i>(in millions of euros)</i>	Share Capital	Share premium and reserves	Translation reserves	Reserves	Total equity (Group Share)	Non-controlling interests	Total equity
January 1, 2018	318.6	145.8	(55.4)	369.4	778.4	2.2	780.6
Net profit for the period	-	-	-	28.7	28.7	0.4	29.1
Other comprehensive income, net of income tax	-	-	5.8	1.1	6.9	(0.3)	6.6
Restatement for IFRS 9	-	-	-	(0.3)	(0.3)	-	(0.3)
Total comprehensive income for the period	-	-	5.8	29.5	35.3	0.1	35.4
Dividends	-	-	-	(37.9)	(37.9)	-	(37.9)
Own shares (acquired) / sold	-	-	-	(4.9)	(4.9)	-	(4.9)
Share-based payments	-	-	-	2.1	2.1	-	2.1
Restatement for IFRS 9	-	-	-	0.3	0.3	-	0.3
Acquisition of NCI without a change in control	-	-	-	0.1	0.1	-	0.1
June 30, 2018	318.6	145.8	(49.6)	358.6	773.4	2.3	775.7
Net profit for the period	-	-	-	20.6	20.6	0.4	21.0
Other comprehensive income, net of income tax	-	-	6.8	2.4	9.2	(0.3)	8.9
Total comprehensive income for the period	-	-	6.8	23.0	29.8	0.1	29.9
Dividends	-	-	-	-	-	-	-
Own shares (acquired) / sold	-	-	-	(0.4)	(0.4)	-	(0.4)
Share-based payments	-	-	-	1.8	1.8	-	1.8
Miscellaneous	-	-	-	-	-	-	-
December 31, 2018	318.6	145.8	(42.8)	383.0	804.6	2.4	807.0
First application of IFRS 23 ⁽¹⁾	-	-	-	(4.3)	(4.3)	-	(4.3)
January 1, 2019	318.6	145.8	(42.8)	378.7	800.3	2.4	802.7
Net profit for the period	-	-	-	7.7	7.7	0.4	8.1
Other comprehensive income, net of income tax	-	-	6.7	(12.1)	(5.4)	(0.2)	(5.6)
Total comprehensive income for the period	-	-	6.7	(4.4)	2.3	0.2	2.5
Dividends	-	-	-	(37.9)	(37.9)	-	(37.9)
Own shares (acquired) / sold	-	-	-	0.4	0.4	-	0.4
Share-based payments	-	-	-	1.6	1.6	-	1.6
Miscellaneous	-	-	-	-	-	-	-
June 30, 2019	318.6	145.8	(36.1)	338.4	766.7	2.6	769.3

(1) See Note 1.2.

Note 1 > Basis of preparation

1.1 General information

Tarkett's summary Consolidated Financial Statements for the six-month period ending June 30, 2019 reflect the financial condition of Tarkett and its subsidiaries (the "Group") as well as its interests in associates and joint ventures.

The Group is a leading global flooring and sports surfaces company, providing integrated solutions to professionals and end-users in the residential and commercial markets.

The Group completed its initial public offering on November 21, 2013.

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

The interim summary Consolidated Financial Statements were authorized for issue by the Management Board on July 23, 2019.

1.2 Significant accounting principles

1.2.1 Statement of compliance and applicable standard

The condensed interim Consolidated Financial Statements of the Group have been prepared in accordance with International Accounting Standard 34 ("IAS 34"), "Interim Financial Reporting". In accordance with IAS 34, the accompanying notes relate only to significant events for the six-month period ended June 30, 2019 and do not include all of the information required for complete annual financial statements. They should therefore be read in conjunction with the Consolidated Financial Statements as at December 31, 2018.

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

The following new published standards were adopted by the Group during the period:

> IFRS 16: Leases

Standard applicable as of January 1, 2019

Presentation and general principles

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

This new standard, adopted by the European Union on October 31, 2017 and applicable for fiscal years beginning on or after January 1, 2019, eliminates the distinction for the lessee between operating leases and finance leases for agreements entered into for a term of greater than one year. It provides in principle for recording lease agreements on the lessee's balance sheet, recognizing:

- > an asset representing the right to use the leased asset;
- > a liability representing the obligation to make payments; and
- > depreciation of right-of-use assets and interest charges on lease liabilities.

Application by the Group

The Group classifies an agreement as a lease if it gives the lessee the right to control the use of a given asset.

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

The Group has implemented a dedicated IT tool to collect contractual data and make the calculations required by the standard, including:

- > data entry and calculations for all lease agreements;
- > updating of information in real time;
- > generating accounting entries;
- > managing forecast data; and
- > analyzing financial impacts.

The Group uses the modified retrospective approach, in which a liability is recorded on the transition date in the amount of the present value of the remaining lease payments, and a right-of-use asset is recorded, adjusted for the lease payments paid in advance or in expenses to be paid. The entry into force of IFRS 16 had no impact on shareholders' equity.

In addition, this transition method does not allow restating the comparative information provided for fiscal year 2018 in the 2019 Consolidated Financial Statements.

It provides for several simplification measures and recognition exemptions at the time of the transition.

The Group is applying measures providing the following general recognition exemptions:

- > leases with an initial term of less than 12 months;
- > leases of low-value items (underlying asset has a replacement value of less than five thousand euros or dollars).

The Group opted for the following transition measures:

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

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

Thus, for each contract, in order to calculate the right-of-use asset and the lease liability, the Group is applying the discount rate as of January 1, 2019 (the date of the standard's entry into force). This rate corresponds to the average borrowing rate of the entity concerned for the remaining term of the lease as of that date.

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

The term of the lease refers to period during which it cannot be terminated, plus, where applicable, renewal or termination options that the Group is reasonably certain to exercise. For certain types of leased goods (principally vehicles), the Group believes that there is no option to extend that it is reasonably certain to exercise; as a result, the term used is the first possible exit date.

Impact of applying the standard to principal financial indicators

Right-of-use asset

As of the transition date, the right-of-use assets were valued on the basis of the lease liability as of January 1, 2019, adjusted, where applicable, by advance payments as they appeared in the Group's statement of financial position as of December 31, 2018.

In the absence of significant initial direct costs, the right-of-use asset corresponds to the discounted value of the lease payments. The right is depreciated and is also subject to impairment if there is an indication of a possible loss of value.

Lease liability

As of January 1, 2019, the Group's lease liability totaled €104.0 million (including the €3.3 million already recognized in respect of the finance leases), to compared with lease commitments of €114.2 million as of December 31, 2018.

A reconciliation of off-balance sheet commitments and liabilities as of the beginning of the year is presented in Note 5.4 – Lease commitments.

The lease liability recognized corresponds to the discounted amount of the remaining lease payments due to the lessors.

This liability is included in the Group's financial liabilities. On the other hand, for purposes of calculating the ratio of net debt to adjusted EBITDA (see Note 6.2.3), the financial lease debt and the cancellation of lease expenses will be excluded.

Income statement and cash flows statements

In addition to the statement of financial position, there are impacts to the income statement and to the statement of cash flows. Thus:

- operating lease payments, which were previously recognized in a linear manner in EBITDA, will be replaced by depreciation of the right-of-use assets as well as an interest expense in financial income and expense;
- the right-of-use assets are depreciated linearly over the term of the lease;
- cash flows due to operating lease payments (excluding variable lease payments based on the use or performance of the underlying asset) will be replaced by cash flows due to the repayment of liabilities and interest.

See Note 5.2 – Tangible and Intangible Assets.

➤ IFRIC 23: Uncertainty over Tax Treatments

On June 7, 2017, the IASB published its interpretation IFRIC 23, "Uncertainty over Tax Treatments." The interpretation, adopted by the European Union on October 23, 2018, is applicable as from January 1, 2019. IFRIC 23 clarifies the application of IAS 12, "Income Tax," with respect to recognition and valuation where uncertainty exists as to income tax treatment.

The interpretation provides several clarifications, including with respect to:

- the unit of account, meaning the level of tax risk at which the principles for recognition and valuation of the asset or liability should be applied: either grouped together (by tax entity, jurisdiction, or group), or at the level of each risk taken individually.

- the detection risk, which must be taken fully into account in the recognition and valuation of tax risk. It should be assumed that the tax authorities will conduct an audit and that they will have access to all information needed to identify the error or incorrect interpretation of the tax standard.
- the principle of recognition that relies on an estimate of the probability (in the sense of "more likely than not") that the uncertain tax position will be acceptable. Thus, if it is more likely than not (probability of over 50%) that the tax authorities will not accept the company's position with respect to tax treatment, the uncertain tax position must be reflected in the financial statements as income tax payable and/or deferred tax.
- the valuation principle concerning the provision, which relies on the estimate of the amount that the entity expects to pay to or recover from the tax authorities. Two valuation methods may be used on a case by case basis: the most probable amount, or the weighted average of the various possible scenarios.

The Group has chosen to apply the "modified retrospective" approach, which involves recognizing the cumulative impact in the opening shareholders' equity as of January 1, 2019, and permits it not to restate the comparable period.

With respect to IFRIC 23, and more specifically after taking into account 100% of the detection risk, the Group now believes that there are uncertainties as to the acceptability of its tax treatment of certain specific intragroup cash flows. As a result, shareholders' equity has been decreased by €4.3 million as of January 1, 2019 against tax accounts in the balance sheet.

➤ Other amendments

In addition, the Group applies the following amendments:

- amendment to IAS 19: plan amendment, curtailment, or settlement;
- amendment to IFRS 9: prepayment features with negative compensation;
- amendment to IAS 28: long-term interests in associates and joint ventures;
- amendment to IFRS 3: acquisition of control of a business previously classified as a joint operation;
- amendment to IAS 12: tax consequences of dividend distributions within the meaning of IFRS 9;
- amendment to IAS 23: borrowing costs.

None of these amendments, which are applicable as of January 1, 2019, has a significant impact as of June 30, 2019.

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

The Group has not implemented early application of any new standards or interpretations during the period.

C) New standards and interpretations not yet adopted

The following new published standards have not yet been adopted by the Group:

> IFRS 17: Insurance contracts

On May 18, 2017, the IASB published IFRS 17, "Insurance Contracts," on the recognition and valuation of insurance contracts, and which will replace IFRS 4. As the European Union has, to date, not adopted the standard, and in light of the IASB's decision to postpone by one year, the first application will be in 2022.

1.3 Seasonality

The Group's business is significantly affected by seasonality. The first half of the year is structurally smaller than the second, due to weather conditions that are more favorable to the construction industry and exterior installations, as well as to the increased availability of certain buildings, such as schools and universities, for renovation.

Consequently, the operating results for the first half of 2019 are not necessarily indicative of results to be expected for the full year 2019.

1.4 Significant development

On February 19, 2019, Tarkett and Sonae Arauco announced their intention to end their joint venture, LaminatePark GmbH & Co. KG, by closing the Eiweller plant in Germany by the end of 2019.

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

Tarkett intends to transfer all of its production activities in Waterloo, Ontario (Canada) and in Truro, Nova Scotia (Canada) to production sites located in the United States. These transfers will result in the closure of the Waterloo plant, which manufactures flooring accessories, as well as the Truro plant, which manufactures commercial carpet rolls.

Note 2 > Changes in scope of consolidation

The Tarkett Group's scope of consolidation is as follows.

Number of companies	Dec. 31, 2018	Mergers	Acquisitions	Liquidations	June 30, 2019
Fully consolidated companies	78	(2)	-	-	76
Equity-accounted companies	2	-	-	-	2
Total	80	(2)	-	-	78

2.1.1 Transactions completed in 2019

A) Acquisitions

In 2019 in the United States, through its subsidiary FieldTurf USA, Inc., Tarkett acquired the assets of Beyond the Turf.

Additionally, in Germany, Tarkett acquired the shares of DENUS, which is accounted for as non-consolidated subsidiaries.

B) Mergers

In 2019 in the United States, Tandus Centiva Inc. and Tandus Centiva US LLC were merged into Tarkett USA Inc.

2.1.2 Transactions completed in 2018

A) Acquisitions

In late 2017, FieldTurf Tarkett SAS had 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, Tarkett had acquired, through its subsidiary FieldTurf Tarkett SAS, the assets of Grass Manufacturers Pty Limited (Grassman), an Australian leader in the production of synthetic turf (see Note 5.1, Goodwill).

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

In September 2018, Tarkett USA Inc. had acquired Lexmark Carpet Mills, which manufactures high quality carpeting, principally for the hotel industry in North America (see Note 5.1, Goodwill).

In November 2018, through FieldTurf Inc., Tarkett had 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 had been merged into Tarkett Sport BV, and in Belgium, Tarkett Belux had been merged into Tarkett NV.

Note 3 > Operating Data

3.1 Components of the income statement

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)

	Jan.- June 2019	Of which adjustments:					Jan.- June 2019 adjusted
		Restruc- turing	Gains/losses on asset sales/ impairment	Business combinations	Share-based payments	Other	
Net revenue	1,412.3	(0.0)	-	-	-	-	1,412.3
Cost of sales	(1,084.9)	7.4	-	(0.2)	-	0.5	(1,077.3)
Gross profit	327.4	7.4	-	(0.2)	-	0.5	335.0
Selling and distribution expenses	(178.5)	0.2	-	-	-	-	(178.3)
Research and development	(18.1)	0.3	-	-	-	-	(17.8)
General and administrative expenses	(93.3)	0.8	0.4	0.1	2.0	1.0	(89.1)
Other operating income and expenses	(4.4)	4.6	-	-	-	-	0.2
Result from operating activities (EBIT)	33.1	13.3	0.4	(0.1)	2.0	1.5	50.0
Depreciation and amortization	77.0	-	(0.4)	-	-	-	76.6
EBITDA	110.1	13.3	-	(0.1)	2.0	1.5	126.7

(in millions of euros)

	Jan.- June 2018	Of which adjustments:					Jan.- June 2018 adjusted
		Restruc- turing	Gains/losses on asset sales/ impairment	Business combinations	Share-based payments	Other	
Net revenue	1,317.3	-	-	-	-	-	1,317.3
Cost of sales	(995.8)	2.6	-	-	-	-	(993.2)
Gross profit	321.5	2.6	-	-	-	-	324.1
Other operating income	5.8	-	-	-	-	-	5.8
Selling and distribution expenses	(162.6)	0.5	-	-	-	(0.2)	(162.3)
Research and development	(19.9)	2.1	-	-	-	-	(17.8)
General and administrative expenses	(89.1)	0.3	0.3	0.5	2.1	1.0	(84.9)
Other operating expenses	(7.3)	0.1	-	0.3	-	-	(6.9)
Result from operating activities (EBIT)	48.4	5.6	0.3	0.8	2.1	0.8	58.0
Depreciation and amortization	59.1	(0.7)	(0.3)	-	-	-	58.1
EBITDA	107.5	4.9	-	0.8	2.1	0.8	116.1

3.2 Segment information

By operating segment

Jan.-June 2019 <i>(in millions of euros)</i>	Flooring			Sports surfaces	Central	Group
	EMEA	North America	CIS, APAC and Latin America			
Net revenue	470.5	429.2	255.7	257.0	-	1,412.3
Gross profit	127.4	106.8	46.1	47.2	(0.1)	327.4
<i>% of net sales</i>	27.1%	24.9%	18.0%	18.4%		23.2%
Adjusted EBITDA	55.9	41.4	32.5	18.1	(21.2)	126.7
<i>% of net sales</i>	11.9%	9.6%	12.7%	7.0%		9.0%
Adjustments	(2.1)	(10.7)	(0.1)	(0.2)	(3.6)	(16.6)
EBITDA	53.9	30.7	32.4	17.9	(24.8)	110.1
<i>% of net sales</i>	11.5%	7.2%	12.7%	7.0%		7.8%
EBIT	29.7	(5.8)	12.1	7.4	(10.4)	33.1
<i>% of net sales</i>	6.3%	(1.3)%	4.8%	2.9%		2.3%
Capital expenditures	21.7	15.6	6.2	8.0	5.9	57.5

Jan.-June 2018 <i>(in millions of euros)</i>	Flooring			Sports surfaces	Central	Group
	EMEA	North America	CIS, APAC and Latin America			
Net revenue	464.3	378.3	261.7	213.0	-	1,317.3
Gross profit	135.2	99.4	48.6	38.4	(0.0)	321.5
<i>% of net sales</i>	29.1%	26.3%	18.6%	18.0%		24.4%
Adjusted EBITDA	57.1	35.5	31.1	13.9	(21.5)	116.1
<i>% of net sales</i>	12.3%	9.4%	11.9%	6.5%		8.8%
Adjustments*	(1.4)	(0.2)	(0.1)	(1.0)	(5.9)	(8.6)
EBITDA	55.7	35.3	31.0	12.9	(27.4)	107.5
<i>% of net sales</i>	12.0%	9.3%	11.8%	6.1%		8.2%
EBIT	33.0	15.0	12.2	3.4	(15.2)	48.4
<i>% of net sales</i>	7.1%	4.0%	4.7%	1.6%		3.7%
Capital expenditures	16.8	13.5	8.9	5.7	5.5	50.4

By product category

	Jan.-June 2019		Jan.-June 2018	
	Revenue	%	Revenue	%
Vinyl & Linoleum	645.7	46%	644.6	49%
Commercial carpet	290.3	21%	646.9	19%
Wood and Laminate	104.6	7%	110.2	8%
Rubber & Accessories	114.7	8%	102.7	8%
Sport	257.0	18%	213.0	16%
Total	1,412.3	100%	1,317.3	100%

3.3 Changes in working capital requirement

As a result of seasonality effects, business is stronger during the second and third quarters of the year as compared with the first and last quarters. The result is an automatic increase in trade receivables and trade payables as of June 30, relating to

second-quarter activity. Inventories are also generally higher at the end of June, in preparation for peak activity in the third quarter.

In the first half of 2019, the Group entered into two significant agreements in order to sell a portion of its trade receivables to factoring companies. As of June 30, the amount of receivables sold totaled €109.2 million, recorded in cash and reducing the trade receivables line item by the same amount.

3.4 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 operating items paid;
- > acquisitions of intangible assets and property, plant and equipment;
- > proceeds from sale of property, plant and equipment;
- > payment of principal (lease payments).

Following the entry into force of IFRS 16, the change in lease liability previously presented in the line item "Repayment of principle (lease payments)" in the statement of cash flows is now included in the definition of free cash flow.

<i>(in millions of euros)</i>	Jan.-June 2019	Jan.-June 2018
Operating cash flow before working capital changes (A)	117.1	107.1
Payment of principal (lease payments) (B) ⁽¹⁾	(15.3)	(0.4)
Total (A+B)	101.8	106.7
Changes in working capital requirement	35.4	(118.7)
Net interest paid	(21.0)	(9.4)
Net income taxes paid	(11.6)	(8.2)
Miscellaneous operating items paid	(4.6)	(2.0)
Acquisitions of intangible assets and property, plant and equipment	(58.0)	(52.3)
Proceeds from sale of property, plant and equipment	(0.5)	0.8
Free cash flow	41.5	(83.1)

(1) In 2019, lease payments of contracts in the scope of IFRS 16 and in 2018, payment of finance leases in the scope of IAS 17.

3.5 Impact of the exceptions referred to in IFRS 16

The Group applies the exemptions provided for in IFRS 16 – Leases, by keeping lease payments on leases with terms of less than 12 months from their effective date as well as lease payments on leases in which the value of the underlying asset is less than €5,000 or USD 5,000 in other operating expense.

Such lease payments totaled €0.4 million and €1.3 million, respectively.

<i>(in millions of euros)</i>	< or equal to €/USD 5,000	< or equal to 12 months	Total
Cost of sales	(0.1)	(1.0)	(1.1)
Selling and distribution expenses	(0.1)	0.0	(0.1)
Research and development	-	-	-
General and administrative expenses	(0.2)	(0.3)	(0.5)
Other operating expenses	-	-	-
Result from operating activities	(0.4)	(1.3)	(1.7)

Note 4 > Employee benefits

Provisions for pensions and similar obligations

In accordance with the laws and practices of each country in which it operates, the Group participates in employee benefit plans providing retirement pensions, post-retirement health care, other long term benefits (jubilees) and post-employment benefits (retirement indemnities, pre-retirement) to eligible employees, former employees, retirees and their beneficiaries fulfilling the required conditions.

Amounts recognized in respect of employee benefit obligations in the statement of financial position as of June 30, 2019 are generally determined by adjusting the opening statement of financial position for the current service cost, interest cost, and benefits paid as projected by the actuaries in 2018 for 2019. However, where material changes occur, such as significant changes in market conditions, provisions for retirement and similar benefits and the value of the plans are adjusted as of June 30, 2019 through the use of the sensitivity analyses.

Assumptions:

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

	June 30, 2019		Dec. 31, 2018	
	Pensions	Post-employment healthcare benefits	Pensions	Post-employment healthcare benefits
Discount rate	2.50%		3.10%	
Including:				
United States	3.50%/4.25%	4.25%	4.25%	4.25%
Germany	0.75%/1.00%		1.50%	
Sweden	2.00%		2.50%	
United Kingdom	2.25%		2.75%	
Canada	3.00%/3.75%		3.75%/4.00%	
Russia	7.50% / 9.00%		9.00%	
Salary increases	2.66%		2.60%	
Inflation	2.19%		2.16%	

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

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

Change in net liabilities recognized in the balance sheet <i>(in millions of euros)</i>	June 30, 2019			Dec. 31, 2018		
	Pensions	Post-employment healthcare benefits	Total	Pensions	Post-employment healthcare benefits	Total
Balance sheet liability at beginning of year	128.0	1.8	129.8	133.4	2.0	135.4
Total expenses (income) recognized in income statement	8.9	0.0	8.9	7.5	0.1	7.6
Amounts recognized in OCI in the financial year	14.9	0.1	15.0	(2.4)	(0.1)	(2.5)
Business combinations / divestitures / transfers	-	-	-	-	-	-
Employer contributions	(2.3)	(0.1)	(2.4)	(5.1)	-	(5.1)
Benefit payments from employer	(2.4)	(0.1)	(2.5)	(5.2)	(0.3)	(5.5)
Transfer ⁽¹⁾	(8.1)	-	(8.1)	-	-	-
Exchange rate adjustment (gain) / loss	(0.8)	0.0	(0.8)	(0.2)	0.1	(0.1)
Balance sheet liability at end of year	138.2	1.7	139.9	128.0	1.8	129.8

(1) Following the announcement of the closure of Truro site, the pension commitments of the site were transferred to restructuring provisions. Cf. Notes 7.1 – Provisions.

Note 5 > Tangible and intangible assets

5.1 Goodwill

The changes in goodwill can be analyzed as follows:

<i>(in millions of euros)</i>	June 30, 2019	Dec. 31, 2018
Opening carrying amount	662.0	510.5
New goodwill	1.7	132.4
Adjustment to initial purchase price allocation	(24.6)	-
Foreign exchange gain & loss	2.4	19.1
Closing carrying amount	641.5	662.0

The change was primarily the result of a foreign exchange effect, due to the evolution of exchange rates between the euro and the U.S. dollar, as well as of the updating of the Lexmark goodwill.

As a reminder, on October 1, 2018, the Group finalized the acquisition of Lexmark Carpet Mills in the United States. Lexmark specializes in the production of high quality carpeting, principally for the hotel industry in North America.

In 2018, Lexmark's revenues totaled €101 million, and its operating income was €16 million. Its consolidated revenue in the fourth quarter was €24 million, with operating income of €1 million.

Consideration paid totaled €222.6 million, and included repayment of Lexmark's debt in the amount of €104.4 million.

As of June 30, 2019, goodwill from Lexmark totaled €109.2 million and was broken down as follows:

Consideration paid (+)	222.6
Fair value of assets acquired (-)	113.4
Total goodwill recorded	109.2

As of June 30, 2019, the change in the goodwill mainly comes from the change in customer relationship.

The amount of goodwill recorded as of June 30, 2019 is provisional and may be adjusted within 12 months following the acquisition, as provided for by the revised IFRS 3.

This goodwill consists principally of:

- > specific technologies and know-how; and
- > market shares in the hotel and residential carpet segments in the United States;
- > sales and logistics synergies are expected and rely on cross-sales of Lexmark and Tarkett products.

In addition, on January 31, 2018, Tarkett acquired through its subsidiary FieldTurf Tarkett SAS the assets of Grass Manufacturers Pty Limited (Grassman), an Australian leader in the manufacture of synthetic turf. The acquisition of Grassman extends FieldTurf's

presence in the Australian market, particularly in the field of hockey, tennis and landscaping, in addition to football and rugby activities. This acquisition also provides a solid platform to support builders and installers of land throughout Australia.

As of June 30, 2019, goodwill totaled €2.3 million and was broken down as follows:

Consideration paid (+)	9.3
Fair value of assets acquired (-)	7.0
Total goodwill recorded	2.3

As of June 30, 2019, the change in the goodwill mainly comes from the change in customer relationship.

5.2 Tangible and intangible assets

Ongoing capital expenditures are defined as investments in tangible and intangible assets other than factory construction and acquisitions of companies or activities.

During the first half of 2019, in connection with its ongoing capital expenditures, the Group capitalized assets totaling €64.9 million (as of the first half 2018: €50.4 million).

Asset sales during the first half of 2019 totaled €0.4 million (first half of 2018: €0.8 million).

During the first half of 2019, depreciation and amortization totaled €77.0 million (first half of 2018: €59.1 million).

The remaining variation in assets corresponds primarily to the impacts of foreign currency translation differences for €1.9 million.

IFRS 16 – Leases

The right-of-use assets resulting from leases are recognized in property, plant and equipment and broken down by category for the amount corresponding to the current value of the payments, adjusted by advance payments if applicable.

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

The allocation of the net value of tangible and intangible property is as follows:

<i>(in millions of euros)</i>	June 30, 2019	Dec. 31, 2018
Research and development	4.7	5.1
Patents	11.1	11.2
Trademarks	29.2	29.1
Software licenses	20.6	24.9
Other intangible assets	72.6	51.6
Advance payments and fixed assets in progress	21.2	11.4
Intangible assets	159.4	133.3
Goods and real property	272.5	197.0
<i>of which right to use goods and real property</i>	78.7	0.0
Technical equipment and machinery	242.2	230.7
<i>of which right to use technical equipment and machinery</i>	17.1	0.0
Leased equipment	0.0	2.9
Advance payments and fixed assets in progress	91.3	84.2
Property, plant and equipment	606.0	514.8

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

Acquisition costs

<i>(in millions of euros)</i>	Dec. 31, 2018	Impact of IFRS 16 as of Jan. 1, 2019	Acquisitions	Disposals	Change in scope	Transfer	Exchange rate adjustment (gain)/loss	June 30, 2019
Research and development	16.3	0.0	0.3	0.0	0.0	0.0	0.3	16.9
Patents	141.0	0.0	0.4	(0.1)	0.0	0.0	1.0	142.3
Trademarks	55.2	0.0	0.0	0.0	0.0	1.6	0.2	57.0
Software licenses	146.0	0.0	0.5	(10.1)	0.0	2.3	0.4	139.1
Other intangible assets	68.2	0.0	0.0	0.0	0.0	14.5	0.4	83.0
Advance payments and fixed assets in progress	11.4	0.0	11.8	0.0	0.0	(2.1)	0.0	21.1
Intangible assets	438.1	0.0	13.0	(10.2)	0.0	16.4	2.3	459.6
Goods and real property	529.2	84.5	6.5	(1.0)	0.0	3.5	1.1	623.8
<i>of which right to use goods and real property</i>	0.0	84.5	3.9	(0.3)	0.0	0.0	0.2	88.3
Leased buildings	0.3	0.0	0.0	0.0	0.0	(0.3)	0.0	0.0
Technical equipment and machinery	1,396.4	16.1	11.0	(9.8)	0.0	(1.8)	1.2	1,413.1
<i>of which right to use technical equipment and machinery</i>	0.0	16.1	2.7	(0.6)	0.0	(0.3)	0.0	17.9
Leased equipment	7.7	0.0	0.0	0.0	0.0	0.0	0.0	7.7
Advance payments and fixed assets in progress	84.2	0.0	34.4	0.0	0.0	(27.0)	0.1	91.7
Property, plant and equipment	2,017.8	100.7	51.9	(10.8)	0.0	(25.6)	2.4	2,136.3

Cumulative depreciation, amortization, and impairment <i>(in millions of euros)</i>	Dec. 31, 2018	Allowance	Disposals/reversals	Change in scope	Transfer	Exchange rate adjustment (gain)/loss	June 30, 2019
Research and development	(11.2)	(1.0)	0.0	0.0	0.0	(0.2)	(12.4)
Patents	(129.7)	(0.5)	0.1	0.0	0.0	(0.9)	(131.0)
Trademarks	(26.1)	(1.7)	0.0	0.0	0.0	(0.1)	(27.9)
Software licenses	(121.1)	(7.0)	10.0	0.0	0.0	(0.4)	(118.5)
Other intangible assets	(16.7)	(6.0)	0.0	0.0	12.4	(0.1)	(10.4)
Intangible assets	(304.8)	(16.2)	10.1	0.0	12.4	(1.7)	(300.2)
Goods and real property	(332.2)	(19.2)	0.7	0.0	(0.2)	(0.6)	(351.5)
<i>of which right to use goods and real property</i>	<i>0</i>	<i>(9.9)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.1</i>	<i>0.0</i>	<i>(9.8)</i>
Leased buildings	(0.3)	0.0	0.0	0.0	0.0	0.0	(0.3)
Technical equipment and machinery	(1,165.7)	(41.6)	9.8	0.0	24.3	(0.5)	(1,173.7)
<i>of which right to use technical equipment and machinery</i>	<i>0</i>	<i>(4.3)</i>	<i>0.6</i>	<i>0.0</i>	<i>0.3</i>	<i>0.0</i>	<i>(3.2)</i>
Leased equipment	(4.8)	0.0	0.0	0.0	0.0	0.0	(4.8)
Property, plant and equipment	(1,503.0)	(60.8)	10.5	0.0	24.1	(1.1)	(1,530.3)

5.3 Impairment

As of June 2019, specific tests were realized and did not lead to the recognition of addition impairment.

Testing of the value of goodwill and other intangible assets will be performed systematically during the second half of the year.

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.

Such lease commitments totaled €114.2 million as of December 31, 2018. The difference between that amount and lease liabilities under IFRS 16 is due to the following:

- ▶ lease liabilities do not include leases signed on or earlier than December 31, 2018 but for which the effective date is on or after January 1, 2019, contrary to off-balance sheet commitments;
- ▶ lease liabilities do not include leases with an initial term of one year or less, pursuant to the exemptions provided for in paragraph 5 (a) of IFRS 16, contrary to off-balance sheet commitments;
- ▶ lease liabilities do not include leases in which the underlying asset is considered to be of lower value pursuant to paragraph 5 (b) of IFRS 16, contrary to off-balance sheet commitments;
- ▶ the estimate of the terms of certain leases in accordance with IFRS 16 may differ from that for off-balance sheet commitments, in the case of leases with respect to which the Group is reasonably certain to exercise an early renewal or termination option, as the case may be;
- ▶ the effect of discounting lease liabilities to present value does not apply to off-balance sheet commitments.

A reconciliation of off-balance sheet commitments for operating leases and IFRS 16 liabilities is shown below.

<i>(in millions of euros)</i>	January 1, 2019
Off-balance sheet commitments relating to operating leases as of December 31, 2018	114.2
Lease agreements signed as of December 31, 2018 and entering into force for the 2019 fiscal year	4.0
Service agreements (and share of services in lease agreements)	(2.0)
Exemption for short-term leases (< 12 months)	(0.7)
Exemption for leases of low-value items (< 5,000 euros or dollars)	(1.0)
Effects of renewal or termination options taken into account	0.0
Other	0.2
Gross lease liabilities January 1, 2019	114.7
<i>Effect of discounting</i>	<i>(14.0)</i>
Lease liabilities January 1, 2019	100.7

Note 6 > Financing and Financial Instruments

6.1 Financial income and expense

<i>(in millions of euros)</i>	Jan.-June 2019	Jan.-June 2018
Interest income on loan assets & cash equivalents	0.6	0.3
Other financial income	0.1	0.1
Total financial income	0.7	0.4
Interest expenses on loans and overdrafts	(10.7)	(6.3)
Financial expenses on leases	(1.9)	(0.1)
Commission expenses on financial liabilities	(2.2)	(1.5)
Cost of loans and debt renegotiation	(0.7)	(0.5)
Financial expense on provisions for pensions	(2.5)	(2.2)
Foreign exchange gains and losses	(0.0)	(1.1)
Impairment on financial assets	(0.0)	-
Results on sales of shares	-	-
Changes in value of interest rate derivative instruments to hedge debt	(2.3)	(0.4)
Other financial expenses	(0.1)	-
Total financial expenses	(20.4)	(12.1)
Financial result	(19.7)	(11.7)

6.2 Net debt – interest-bearing loans and borrowings

6.2.1 Net debt

(in millions of euros)	June 30, 2019		Dec. 31, 2018	
	Long-term	Short-term	Long-term	Short-term
Bank loans	208.5	1.4	240.9	0.7
Private placements	617.0	-	595.5	-
Other loans	0.2	-	0.2	0.9
Bank overdrafts	-	5.3	-	7.8
Leases ⁽¹⁾	2.5	0.8	2.5	0.8
Interest bearing loans and borrowings⁽¹⁾	828.2	7.5	839.1	10.2
Total interest bearing loans and borrowings⁽¹⁾	835.7		849.3	
Cash and cash equivalents	(119.9)		(95.7)	
Net debt⁽¹⁾	715.8		753.6	
Leases ⁽²⁾	71,5	22,7	-	
Net debt⁽²⁾	810.0		753.6	

(1) Leases recorded under the former IAS 17 – Leases.

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

- on May 24, 2019, Tarkett closed the early refinancing of its syndicated Revolving Credit Facility (RCF) of June 22, 2015, with a capacity of €650.0 million, which was to expire in June 2020. The new financing is a syndicated revolving multi-currency credit facility with a capacity of €700.0 million, expiring in May 2024, with an option to extend by one or two additional years;
- on June 17, 2019, Tarkett refinanced the floating tranches of €102.5 million and USD 56.6 million of the “Schuldschein” entered into on June 15, 2016. The new Schuldschein, which will be for a total of €144.0 million and USD 26.5 million, is broken down as follows as of June 30:
 - €48.0 million for five years,
 - USD 26.5 million for five years,
 - €45.0 million for six years,
 - €26.0 million for seven years;

A last tranche of €25.0 million for 7 years was delivered at the beginning of July and therefore is not shown in the financial statements as of June 30.

- on June 18, 2019, Tarkett entered into a no-recourse factoring line of credit for certain of its European subsidiaries, as well as a no-recourse securitization line for certain American subsidiaries;

- on June 20, 2019, Tarkett terminated its French-law, German-law, and Spanish-law full assignment of receivables recourse line of credit in the amount of €50.0 million, which was not being used;
- as of June 30, 2019, all of the interest-bearing loans and borrowings are unsecured, and include mainly:
 - a “Schuldschein” for €119.0 million and USD 26.5 million entered into on June 17, 2019 and of which €48.0 million and USD 26.5 million matures in June 2024, €45.0 million matures in June 2025, and the remainder matures in June 2026,
 - a “Schuldschein” for €252.5 million and USD 50 million entered into on April 13, 2017 and of which €150.5 million matures in April 2024, with the remainder maturing in April 2022,
 - a “Schuldschein” for €147.5 million entered into on June 15, 2016 and of which €91.0 million matures in June 2023, with the remainder maturing in June 2021; and
 - the €700.0 million multicurrency revolving syndicated credit facility entered into on May 24, 2019, maturing in 2024, and of which €203.9 million had been drawn down as of June 30, 2019;
- as of June 30, 2019, Tarkett had used its non-recourse factoring and securitization lines in the amounts of €44.1 million and USD 68.8 million.

6.2.2 Details of loans and borrowings

June 30, 2019 (in millions of euros)	Currency of draw-down	Interest rate	Total	12 months or less until 06/30/2020	2 years until 06/30/2021	3 to 5 years until 06/30/2024	More than 5 years
Bank loans							
Term Facilities Europe	EUR	0.00%	-	-	-	-	-
Revolving Facilities Europe	USD	3.023%	203.8	-	-	203.8	-
Other bank loans	RMB	5.70%	6.1	1.4	1.7	3.0	-
Total bank loans	-	-	209.9	1.4	1.7	206.8	-
Private Placement Europe	EUR	1.15%-1.722%	541.0	-	70.5	399.5	71.0
Private Placement Europe	USD	3.93%-4.19%	76.0	-	8.8	67.2	-
Financing backed by business receivables	EUR	0.00%	-	-	-	-	-
Other loans			0.2	-	0.1	0.1	-
Bank overdrafts			5.3	5.3	-	-	-
Leases ⁽¹⁾			3.3	0.8	0.8	1.6	0.1
Interest bearing loans and borrowings⁽¹⁾			835.7	7.5	81.9	675.2	71.1
Leases ⁽²⁾			94.2	22.7	21.4	38.2	11.9
Interest bearing loans and borrowings⁽²⁾			929.9	30.2	103.3	713.4	83.0

(1) Leases recorded under the former IAS 17 – Leases.

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

Dec. 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							
Revolving Facilities Europe	USD	3.27%-3.55%	235.8	-	235.8	-	-
Other bank loans	RMB	5.2%	5.8	0.7	1.5	3.6	-
Total bank loans			241.6	0.7	237.3	3.6	-
Private Placement Europe	EUR	1.15%-1.722%	502.5	-	-	352.0	150.5
Private Placement 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	-	0.3%	0.2	-	0.1	0.1	-
Bank overdrafts	-	0.0%	7.8	7.8	-	-	-
Leases ⁽¹⁾	-	0.0%	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

(1) Leases recorded under IAS 17.

6.2.3 Covenants

The facilities mentioned above contain covenants binding on the borrower, including financial ratio covenants: the ratio of net debt to adjusted EBITDA excluding the impacts of IFRS 16 may not exceed 3.0 as of December 31 of each year, and 3.5 as of June 30 of each year, with leeway of an additional 0.5 in the event of a significant acquisition.

The Group is in compliance with all of its banking covenants as of June 30, 2019, as well as with the financial ratio covenants, as detailed below:

Net debt / Adjusted EBITDA (in millions of euros)	June 30, 2019	Dec. 31, 2018
Net debt ⁽¹⁾	715.8	753.6
Adjusted EBITDA for last 12 months ⁽²⁾	249.8	267.4
Ratio⁽³⁾	2.9	2.8

(1) Net debt excluding leases recorded under IFRS 16, but including 3.3 million euros related to leases recorded under IAS 17.

(2) Pro forma adjusted EBITDA was used to include Lexmark for 12 months and to exclude the impact of applying IFRS 16 (as of June 30, 2019).

(3) Must be less than 3.0 as of December 31 and less than 3.5 as of June 30.

As of December 31, 2018, the adjusted EBIT / net interest ratio was included in the contractual commitments.

As at June 30, 2019, this ratio is no longer part of the commitments of the new documentation required by the new syndicated loan documentation.

6.2.4 Fair value of financial assets and liabilities

The fair value of financial assets and liabilities remains at the same level as compared with December 31, 2018.

June 30, 2019	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
Non current financial assets	Level 2	7.6	-	16.6	-	24.2	24.2
Other current financial assets	Level 2	-	-	-	1.5	1.5	1.5
Accounts receivable		372.5	-	-	-	372.5	372.5
Cash and cash equivalents	Level 2	-	-	119.9	-	119.9	119.9
Interest-bearing loans and borrowings	Level 2	-	929.9	-	-	929.9	929.9
Other financial liabilities, non-current	Level 2	-	5.2	-	-	5.2	5.2
Other financial liabilities, current	Level 2	-	40.5	-	1.9	42.4	42.4
Accounts payable		-	382.2	-	-	382.2	382.2

Dec. 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
Non current financial assets	Level 2	7.6	-	16.5	-	24.1	24.1
Other current financial assets	Level 2	-	-	-	3.1	3.1	3.1
Accounts receivable		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
Accounts payable		-	283.6	-	-	283.6	283.6

6.2.5 Financial risk management

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

Note 7 > Provisions

7.1 Provisions

Changes in provisions can be analyzed as follows:

<i>(in millions of euros)</i>	Dec. 31, 2018	Allowance	Reversal	Change in scope	Transfer	Foreign exchange gain & loss	June 30, 2019
Product warranty provision	3.1	1.5	(0.1)	-	-	(0.0)	4.5
Restructuring provisions	-	1.3	-	-	-	(0.0)	1.3
Claims & litigation provisions	2.3	0.4	(0.0)	-	-	0.0	2.7
Other provisions	7.6	(0.0)	(0.1)	-	(3.0)	-	4.5
Provision for additional tax assessments	0.1	0.0	(0.0)	-	-	0.0	0.1
Financial provisions	33.3	-	(2.9)	-	-	0.2	30.6
Total Provisions – long-term	46.4	3.2	(3.1)	-	(3.0)	0.2	43.7
Product warranty provision	18.9	2.9	(6.1)	-	-	0.1	15.8
Restructuring provisions	1.3	3.6	(0.0)	-	12.6	0.0	17.5
Claims & litigation provisions	11.0	2.0	(2.4)	-	0.0	0.0	10.6
Other provisions	0.2	-	(0.1)	-	-	0.0	0.1
Total Provisions – short-term	31.4	8.5	(8.6)	-	12.6	0.1	44.0
Total Provisions	77.8	11.7	(11.7)	-	9.6	0.3	87.7

7.2 Potential liabilities

There were no significant changes in the guarantees granted by Tarkett to third parties in 2019.

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 8 > Total income tax

8.1 Income tax expense

<i>(in millions of euros)</i>	Jan.-June 2019	Jan.-June 2018
Current tax	(15.1)	(10.7)
Deferred tax	11.3	2.7
Total income tax	(3.8)	(8.0)

Theoretical income taxes determined using the French corporate income tax rate of 34.43% for 2019 and 32.00% for 2018, can be reconciled as follows to the actual income tax charge:

<i>(in millions of euros)</i>	Jan.-June 2019	Jan.-June 2018
Pre-tax profit from continuing operations (a)	11.9	37.1
Profit from equity-accounted subsidiaries (b)	(1.5)	0.4
Pre-tax profit from fully consolidated activities (a-b)	13.4	36.7
Income tax at nominal French income tax rate	(4.6)	(11.7)
Effect of:		
Taxation of foreign companies at different rates	2.3	4.0
Exchange rate effects on non-monetary assets	2.6	(1.3)
Changes in unrecognized deferred tax assets	0.8	1.3
Permanent differences	(3.2)	(1.3)
Taxes on dividends (Withholding at the source, 3% contribution)	0.1	-
Other items	(1.8)	1.0
Income tax expenses	(3.8)	(8.0)
Effective rate	28.2%	21.9%

Taxation of foreign companies at different rates:

The main contributing countries are Russia, with a local income tax rate of 20% and Sweden, with a local tax rate of 22%.

Exchange rate effects on tax bases:

The deferred income tax income of €2.6 million is due to the effect of changes in the exchange rate on non-monetary assets and liabilities of entities whose functional currency is different from the local currency. Recognition of this income is required by IFRS, even if the revalued tax basis does not generate any tax obligation in the future.

Note 9 > Shareholders' equity and earnings per share

9.1 Share capital

	June 30, 2019	Dec. 31, 2018
Share capital <i>(in €)</i>	318,613,480	318,613,480
Number of shares	63,722,696	63,722,696
Par value <i>(in €)</i>	5.0	5.0

9.2 Earnings per share & dividends

Weighted average number of shares outstanding (basic earnings)

<i>(in thousands of shares)</i>	Jan.-June 2019	Jan.-June 2018
Number of shares outstanding at the end of the period	63,723	63,723
Weighted average number of treasury shares held by Tarkett	(309)	(558)
Weighted average number of shares outstanding (undiluted)	63,414	63,165

Basic earnings per share

Basic earnings per share as of June 30, 2019 are calculated on the basis of the Group's share of net profit and on the weighted average number of shares outstanding during the period (and after deduction of the weighted average number of treasury shares).

	Jan.-June 2019	Jan.-June 2018
Profit for the period attributable to Tarkett shareholders <i>(in millions of euros)</i>	7.7	28.7
Weighted average number of shares outstanding (undiluted)	63,414	63,165
Basic earnings per share <i>(in euros)</i>	0.12	0.45

Weighted average number of shares outstanding (diluted earnings)

<i>(in thousands of shares)</i>	Jan.-June 2019	Jan.-June 2018
Number of shares outstanding at the end of the period	63,723	63,723
Weighted average number of treasury shares held by Tarkett	(309)	(558)
Impact of share-based payment plans	309 ⁽¹⁾	482 ⁽¹⁾
Weighted average number of shares outstanding (diluted)	63,723	63,647

(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 June 30, 2019 are calculated on the basis of the Group's share of net profit and on the weighted average number of shares outstanding during the period and the weighted average number of potential shares outstanding (and after deduction of the weighted average number of treasury shares).

	Jan.-June 2019	Jan.-June 2018
Profit for the period attributable to Tarkett shareholders <i>(in millions of euros)</i>	7.7	28.7
Weighted average number during the period (diluted earnings)	63,723	63,647
Diluted earnings per share <i>(in euros)</i>	0.12	0.45

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 first half of the year 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 one joint venture: 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:

	Jan.-June 2019	Jan.-June 2018
Joint ventures		
Sale of goods to Tarkett	11.7	12.3
Sale of goods by Tarkett	(0.4)	(0.7)
Purchase of services from Tarkett	7.5	7.5

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 June 30, 2019, SID had invoiced a total of €150,000 under the Assistance Agreement.

Tarkett is a party to a Service Agreement with SID providing for a lump-sum annual payment of €55,000.

As of June 30, 2019, Tarkett had invoiced a total of €27,500 under the Service Agreement.

10.3 Members of the Management Board and Supervisory Board

None.

Note 11 > Subsequent events

To date, there are no subsequent events to report.

2. Statutory Auditors' Review Report on the 2019 Half-yearly Financial Information For the period from 1st January 2019 to 30 June 2019

This is a free translation into English of the Statutory Auditors' review report on the 2019 half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional 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' Review Report on the 2019 Half-yearly Financial Information

For the period from 1st January 2019 to 30 June 2019

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meeting and in accordance with the requirements of article L.451-1-2 III of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- > the review of the accompanying condensed interim Consolidated Financial Statements of Tarkett S.A., for the period from 1st January 2019 to 30 June 2019,
- > the verification of the information presented in the half-yearly management report.

These condensed interim Consolidated Financial Statements are the responsibility of the Management Board. Our role is to express a conclusion on these financial statements based on our review.

I. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim Consolidated Financial Statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying our conclusion, we draw your attention on the note "1.2.1. Statement of compliance and applicable standard" to the condensed interim Consolidated Financial Statements which sets out the impacts of first application as at 1st January 2019 of IFRS 16 "Leases" and IFRIC 23 "Uncertainty over income tax treatments".

II. Specific verification

We have also verified the information presented in the half-yearly management report on the condensed interim Consolidated Financial Statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed interim Consolidated Financial Statements.

Paris-La Défense, on the 23 July 2019

The Statutory Auditors,

KPMG Audit
Department of KPMG S.A.
Renaud Laggiard
Partner

Mazars
Anne-Laure Rousselou
Partner

Éric Schwaller
Partner

Tarkett

Société anonyme with Management Board and Supervisory Board with a share capital of €318,613,480

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