Half Year Financial Report 2019

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1. Management Report

1.1. Key figures

CONSOLIDATED INCOME STATEMENT (in € million)	30 June 2018 Unaudited*	30 June 2019 Unaudited
Sales	341,5	312,5
Gross profit	102,3	92,8
Gross-margin (%)	29,9%	29,7%
EBITDA	36,4	29,4
Adjusted EBITDA	36,5	30,2
EBIT	21,4	9,3
Net profit	7,5	(1,2)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in € million)	31 December 2018 Audited	30 June 2019 Unaudited
Equity	255,6	248,0
Net debt	93,7	150,2
Total Assets	590,0	605,6
Capital expenditure	62,1	16,0
Working capital	92,3	105,5
Capital employed	396,3	443,3

RATIOS	30 June 2018 Unaudited	30 June 2019 Unaudited
Net profit/sales	2,2%	(0,4%)
Adjusted EBITDA/sales	10,7%	9,7%
Net debt/LTM Adjusted EBITDA	1,80	2,12
EBIT/Capital employed	5,4%	2,1%

HEADCOUNT	31 December 2018 Audited	30 June 2019 Unaudited
Total Full Time Equivalents (FTE)	3.976	3.765

(*) As from 2nd half 2018 profits and losses resulting from the conversion of monetary assets and liabilities in foreign currencies into the local currency of the entity are recognized In the consolidated income statement as financial exchange result. As a result 30 June 2018-figures have been adjusted. The impact for the first half of 2018 amounts to € 342 thousand.

1.2. Analysis of the results

H1 2019 highlights

- **Sales:** H1 2019 sales decreased by 8.5% to € 312.5m (H1 2018: € 341.5m) primarily due to the downturn of the Turkish economy.
- **Adjusted EBITDA:** On a like for like basis[1], the Adj. EBITDA decreased to € 25.9m or 8.3% on sales (H1 2018: € 36.5m or 10.7% on sales). This is primarily explained by the lower volumes and increased investments in marketing, partially compensated by the increased use of recycled PVC. The reported Adj. EBITDA, including the positive impact (+ € 4.3m) of the new IFRS 16 lease accounting standard, amounted to € 30.2m (or 9.7% on sales).
- **Net profit**: Net profit decreased to € (1.2)m (H1 2018: € 7.5m), mainly as a result of the downturn in Turkey. The net effect of the new IFRS16 leasing standard on net profit is limited to €(0.4)m.
- **Net debt and leverage:** On a like for like basis[1], the net debt on 30 June 2019 decreased to € 112.4m (30 June 2018: € 126.3m), thanks to structural working capital improvements and the drop in volumes. This is entirely offset by € 37.8m lease commitments considered as financial debt following the implementation of IFRS 16, resulting in a reported net debt of € 150.2m. Leverage amounted to 2.12x, including the negative impact of IFRS16 which is expected to fluctuate around 0.4x.
- **Strategic projects** including the strengthening of the Deceuninck brand, the optimization of our product range and the integration of Western and Central Europe are on track. The recycling plant in Diksmuide is ramping up.
- **Financing**: a new € 60.0m Sustainability Linked Revolving Credit Facility maturing 2024 has been signed on July 9th replacing the 2015 € 50.0m credit facility which was to mature in 2020.

Francis Van Eeckhout, CEO, comments:

"The effects of the economic downturn in Turkey which were already visible in the second half of 2018 continued into 2019. We remain absolutely convinced about the long term potential of Turkey, both because of its large and dynamic domestic market and its potential as export hub, however the timing of the recovery remains difficult to predict. In Europe we are making good progress with the integration of Western and Central Europe and the launch of our new product ranges. We are also happy that our new recycling plant is ramping up as this is a key element in our sustainability commitment."

Markets and sales

Consolidated H1 2019 sales decreased by 8.5% to € 312.5m, compared to € 341.5m in H1 2018.

Sales in **Europe** stabilized at € 170.8m (H1 2018: € 170.6m). Strong business development in Spain, the UK and Poland was offset by weaker demand in France, due to low consumer confidence and changes in renovation subsidies, and Belgium. Sales in Germany were broadly in line with H1 2018.

Sales in **Turkey & Emerging Markets** decreased 28.1% to € 77.6m (H1 2018: € 107.9m), primarily due to the economic downturn in Turkey. This has been partially compensated by strong further growth in Emerging Markets, albeit on a relatively small basis. Price increases necessary to compensate for the inflation and devaluation of the TRY have been implemented.

[1] Not taking into account the effect of IFRS 16 (Leasing) applicable since 1 January 2019.

In **North America** sales increased 1.9% to € 64.2m (H1 2018: € 63.0m). Although demand seems to remain strong, volumes have been negatively impacted by harsh winter conditions and the loss of a customer , while new signed customers will only start to materially contribute as of the end of 2019.

Sales (in € million & % yoy)	**Total**	**Europe**	**Turkey & Emerging Markets**	**North America**
H1 2018	**341,5**	**170,6**	**107,9**	**63,0**
Volume	(12,9%)	(1,2%)	(32,3%)	(6,5%)
Exchange rate	(4,3%)	(0,1%)	(17,3%)	6,6%
Other (price & mix)	8,7%	1,5%	21,5%	1,7%
Total	**(8,5%)**	**0,1%**	**(28,1%)**	**1,9%**
H1 2019	**312,5**	**170,8**	**77,6**	**64,2**

Operating and financial results

Adjusted EBITDA: On a like for like basis[2], the Adj. EBITDA decreased to € 25.9m or 8.3% on sales (H1 2018: € 36.5m or 10.7% on sales). This is primarily explained by the lower volumes and to a lesser extent by the one-off negative EBITDA impact resulting from the reduction of inventory levels and higher marketing expenses. These effects are to some extent compensated by better margins, partially thanks to the increased use of recycled PVC. The reported Adj. EBITDA, including the positive impact (+ € 4.3m) of the new IFRS 16 lease accounting standard, amounted to € 30.2m (or 9.7% on sales). The evolution of raw material prices differs between regions however remained on average stable.

Depreciations and impairments increased to € (20.1)m (H1 2018: € (15.0)m) as a result of the implementation of IFRS 16 (€ 3.6m) and the high level of capital expenditures in previous years.

Operating Result (EBIT) as a consequence of the above decreased to € 9.3m (H1 2018: € 21.4m).

The **Financial result** decreased from € (10.3)m to € (11.1)m which is mainly explained by the implementation of IFRS 16 (€ 1.1m). The negative effect of higher interest rates and more commercial finance in Turkey is entirely offset by lower net financial debt.

Income tax expenses were € 0.6m positive due to the recognition of deferred tax assets.

As a consequence of the above, **Net Profit** decreased from € 7.5m in H1 2018 to € (1.2)m in H1 2019 representing a loss per share of € 0.01 (H1 2018: gain of € 0.05). The net effect of IFRS16 on net profit is limited (€ (0.4)m).

Balance Sheet

Total assets on 30 June 2019 increased to € 605.6m and include € 37.3m leased assets because of the adoption of the IFRS 16 leasing standard.

Working capital on 30 June 2019 decreased to 16.4% of LTM sales compared to 20.3% on 30 June 2018. Compared to June 30, 2018, trade receivables shrunk by € 35.4m, explained by the lower volumes in Turkey and by continued efforts to reduce DSO’s. Inventories decreased by € 11.0m, due to the lower volumes in Turkey as well as to inventory optimization efforts in all regions. Trade payables decreased by € 11.7m primarily as a consequence of the lower inventory levels.

[2] Not taking into account the effect of IFRS 16 (Leasing) applicable since 1 January 2019.

Capital expenditures in H1 2019 amounted to € 16.0m (H1 2018: € 28.7m) and include besides maintenance capex mainly investments in tools for new products and for increased use of recycled material.

Net debt and leverage: On a like for like basis[1], the net debt on 30 June 2019 decreased to € 112.4m (30 June 2018: € 126.3m), thanks to structural working capital improvements and the drop in volumes. This is entirely offset by € 37.8m lease commitments considered as financial debt following the implementation of IFRS 16, resulting in a reported net debt of € 150.2m. Leverage amounted to 2.12x, including the negative impact of IFRS16 which is expected to fluctuate around 0.4x.

1.3. Strategic projects

The **strengthening of the Deceuninck brand** in Europe is gaining momentum, supported by the numerous wins in the first half of the season by the cycling team Deceuninck – Quick Step. Although it is too early to make a full evaluation of the cycling sponsorship, it is clear that it has been very well received by our partners.

The roll out of the **One Europe** and **One Brand** strategy is on schedule. The regions Western Europe and Central Europe have been merged under one management team. Preparations for the integration of product ranges and platforms are going on, both from an operational and a commercial perspective. As a consequence, it has been decided to investigate a further optimization of our production capacity in Europe.

Through a joint venture with So Easy Holding BVBA, we **broadened our product range** with innovative aluminium profiles. Business development started well.

The new **recycling** plant in Diksmuide (BE) is ramping up.

The **rollout of SAP** in Western Europe has been finalized. The implementation in other regions is on track.

1.4. Outlook 2019

Some of our end markets remain challenging as a result of increased geopolitical uncertainty. This however does not change the more long term attractiveness of our industry and we will continue to focus on the realisation of our operating plan.

1.5. Risks and uncertainties

With reference to the risks and uncertainties, management refers to the following sections of the Annual Report 2018:

- Internal control and risk management systems (pp. 44 - 48)
- Consolidated financial statements and notes: Note 24. Risk Management (pp. 139 - 142)

These risks remain valid for the first half of the financial year 2019.

2. Interim condensed consolidated financial statements

2.1 Consolidated income statement

FOR THE 6 MONTH PERIOD ENDED 30 JUNE (in € thousand)	Notes	H1 2018 Unaudited*	H1 2019 Unaudited
SALES	**2**	**341.516**	**312.512**
Cost of goods sold		(239.248)	(219.665)
GROSS PROFIT		**102.269**	**92.848**
Marketing, sales and distribution expenses		(54.750)	(56.265)
Research and development expenses		(4.317)	(3.888)
Administrative and general expenses		(22.336)	(23.419)
Other net operating result		509	20
OPERATING PROFIT (EBIT)		**21.375**	**9.296**
Financial charges		(16.016)	(20.802)
Financial income		5.739	9.734
PROFIT BEFORE TAXES (EBT)		**11.098**	**(1.772)**
Income taxes	4	(3.602)	552
NET PROFIT		**7.496**	**(1.220)**

(*) As from 2nd half 2018 profits and losses resulting from the conversion of monetary assets and liabilities in foreign currencies into the local currency of the entity are recognized In the consolidated income statement as financial exchange result. As a result 30 June 2018-figures have been adjusted. The impact for the first half of 2018 amounts to € 342 thousand.

EBIT includes depreciation and amortization for a total amount of € 20.1 million (H1 2018: € 15.0 million). The increase in depreciations is largely explained by the application of IFRS 16 leading to 3.6 million additional depreciations. EBITDA (€ 29.4 million, € 36.4 million for H1 2018) is calculated as EBIT (€ 9.3 million, € 21.4 million for H1 2018) excluding the depreciation and amortization expenses.

THE NET PROFIT IS ATTRIBUTABLE TO (in € thousand)			H1 2018	H1 2019
Shareholders of the parent company			7.132	(1.280)
Non-controlling interests			364	60

EARNINGS PER SHARE DISTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY (in €)			H1 2018	H1 2019
Basic earnings per share			0,05	(0,01)
Diluted earnings per share			0,05	(0,01)

2.2 Consolidated statement of comprehensive income

FOR THE SIX MONTH PERIOD ENDED 30 JUNE (in € thousand)	**2018 Unaudited**	**2019 Unaudited**
NET PROFIT	**7.496**	**(1.220)**
Currency translation adjustments	(9.410)	(2.576)
Income tax impact	(362)	-
Net other comprehensive income potentially to be reclassified to profit or loss in subsequent periods	**(9.772)**	**(2.576)**
Actuarial gains / (losses) on defined benefit plans	2.029	(365)
Income tax impact	(77)	(119)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**1.952**	**(484)**
OTHER COMPREHENSIVE INCOME (+) / LOSS (-)	**(7.819)**	**(3.059)**
TOTAL COMPREHENSIVE INCOME (+) / LOSS (-)	**(323)**	**(4.280)**

THE TOTAL COMPREHENSIVE INCOME (+) / LOSS (-) IS ATTRIBUTABLE TO (in € thousand)	**2018 Unaudited**	**2019 Unaudited**
Shareholders of the parent company	(308)	(4.014)
Non-controlling interests	(15)	(266)

2.3 Consolidated statement of financial position

(in € thousand)	Notes	31 December 2018 Audited	30 June 2019 Unaudited
Assets			
Intangible fixed assets		5.500	4.679
Goodwill		10.639	10.630
Tangible fixed assets		268.817	303.532
Financial fixed assets		64	64
Investment in a joint venture		9.434	9.515
Deferred tax assets		8.563	8.735
Long-term receivables		1.046	1.047
Non-current assets		**304.063**	**338.202**
Inventories		117.382	125.212
Trade receivables		88.749	82.113
Other receivables		10.945	11.295
Cash and cash equivalents	5	65.831	45.645
Fixed assets held for sale		3.030	3.127
Current assets		**285.937**	**267.393**
Total assets		**590.001**	**605.595**

Equity and liabilities			
Issued capital		53.901	53.925
Share premiums		88.193	88.261
Consolidated reserves		218.591	213.630
Actuarial gains / losses		(4.288)	(4.759)
Treasury shares		(75)	(75)
Treasury shares held in subsidiaries		(669)	(315)
Currency translation adjustments		(102.637)	(104.899)
Equity excluding non-controlling interest		**253.018**	**245.768**
Non-controlling interest		2.613	2.236
Equity including non-controlling interest		**255.631**	**248.005**
Interest-bearing loans including lease liabilities		124.192	143.517
Other long term liabilities		7.653	5.173
Long-term provisions		24.457	24.876
Deferred tax liabilities		3.171	2.412
Non-current liabilities		**159.473**	**175.978**
Interest-bearing loans including lease liabilities		35.317	52.310
Trade payables		113.872	101.873
Tax liabilities		5.199	4.867
Employee related liabilities		11.653	13.901
Short-term provisions		1.250	1.250
Other liabilities		7.605	7.412
Current liabilities		**174.896**	**181.612**
Total equity and liabilities		**590.001**	**605.595**

2.4 Consolidated statement of changes in equity

(in € thousand)	Issued capital	Share premiums	Consolidated reserves	Actuarial gains / losses	Treasury shares	Treasury shares held in subsidiaries	Currency translation adjustments	Total equity attributable to shareholders of the parent company	Non-controlling interest	Total
AS PER 31 DECEMBER 2017 (Audited)	**53.788**	**87.887**	**207.923**	**(6.291)**	**(115)**	**(210)**	**(87.957)**	**255.025**	**2.601**	**257.626**
Net income (loss) for the current period			7.132					7.132	364	7.496
Other comprehensive income / loss			(804)	1.952			(8.588)	(7.440)	(380)	(7.820)
TOTAL COMPREHENSIVE INCOME (+) / LOSS (-)			**6.328**	**1.952**			**(8.588)**	**(308)**	**(16)**	**(324)**
Capital increase	80	232	15					328	36	364
Own shares purchased			163			(266)		(103)		(103)
Exercise of options					31			31		31
Non-controlling interest due to business combinations			(14)					(14)	14	(0)
Share based payments			371					371	11	383
Dividend paid			(4.089)					(4.089)		(4.089)
Transfer								0		0
AS PER 30 JUNE 2018 (Unaudited)	**53.868**	**88.120**	**210.698**	**(4.339)**	**(84)**	**(476)**	**(96.545)**	**251.242**	**2.647**	**253.888**

(in € thousand)	Issued capital	Share premiums	Consolidated reserves	Actuarial gains / losses	Treasury shares	Treasury shares held in subsidiaries	Currency translation adjustments	Total equity attributable to shareholders of the parent company	Non-controlling interest	Total
As per 31 December 2018 (Audited)	**53.901**	**88.193**	**218.592**	**(4.287)**	**(75)**	**(669)**	**(102.637)**	**253.019**	**2.614**	**255.633**
Net income (loss) for the current period			(1.280)					(1.280)	60	(1.221)
Other comprehensive income (+) / loss (-)				(472)			(2.262)	(2.733)	(326)	(3.059)
Total comprehensive income (+) / loss (-)			**(1.280)**	**(472)**			**(2.262)**	**(4.014)**	**(266)**	**(4.280)**
Capital increase								0		0
Own shares purchased/sold						354		354	15	369
Exercise of options	24	68						92		92
Non-controlling interest due to business combinations								0		0
Share based payments			420					420		420
Dividends paid			(4.100)					(4.100)	(126)	(4.226)
Transfer								0		0
As per 30 June 2019 (Unaudited)	**53.925**	**88.261**	**213.630**	**(4.759)**	**(75)**	**(315)**	**(104.899)**	**245.768**	**2.236**	**248.005**

2.5 Consolidated statement of cash flows

For the 6 month period ended per 30 June (in € million)	2018 Unaudited*	2019 Unaudited
Profit (+) / loss (-)	7.496	(1.220)
Depreciations & Impairment	15.036	20.089
Net financial charges	10.277	11.068
Income taxes	3.602	(552)
Inventory write-off (+ = cost / - = inc)	351	365
Trade AR write-off (+ = cost / - = inc)	(483)	71
Long term provisions (+ = cost / - = inc)	(277)	385
Gain / Loss on disposal of (in)tang. FA (+ = cost / - = inc)	(135)	(71)
Fair value adjustments equity accounted investees	-	(90)
GROSS OPERATING CASH FLOW	**35.867**	**30.045**
Decr / (incr) in inventories	(26.403)	(8.200)
Decr / (incr) in trade AR	(18.725)	5.075
Incr / (decr) in trade AP	29.287	(6.196)
Decr / (incr) in other operating assets/liabilities	2.795	5.711
Income taxes paid (-) / received (+)	(781)	(2.603)
Interest received (+)	555	3.232
CASH FLOW FROM OPERATING ACTIVITIES	**22.594**	**27.064**
Purchases of (in)tangible FA (-)	(28.666)	(16.046)
Acquisitions of investment in joint venture	-	-
Proceeds from sale of (in)tangible FA (+)	356	276
CASH FLOW FROM INVESTMENT ACTIVITIES	**(28.310)**	**(15.770)**
Capital incr (+) / decr (-)	57	549
Dividends paid (-) / received (+)	(4.063)	(4.073)
Interest paid (-)	(3.120)	(5.123)
Net financial result, excl interest	69	(17.601)
New (+) / repayments (-) of long-term debts	6.559	(9.951)
New (+) / repayments (-) of short-term debts	7.392	8.787
CASH FLOW FROM FINANCING ACTIVITIES	**6.894**	**(27.411)**
Net increase / (decrease) in cash and cash equivalents	**1.178**	**(16.117)**
Cash and cash equivalents as per beginning of period	**41.993**	**65.831**
Net increase / (decrease) in cash and cash equivalents	1.178	(16.117)
Impact of exchange rate fluctuations	(1.122)	(4.070)
Cash and cash equivalents as per end of period	**42.049**	**45.645**

(*) As from 2nd half 2018 profits and losses resulting from the conversion of monetary assets and liabilities in foreign currencies into the local currency of the entity are recognized In the consolidated income statement as financial exchange result. As a result 30 June 2018-figures have been adjusted. The impact for 2018 was disclosed in the Annual report of 2018 (Note 1).

Notes to the interim condensed consolidated financial statements

1. Basis of presentation

These interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34, Interim Financial Reporting.

The interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as in the 31 December 2018 annual financial statements, except for the new standards and interpretations which have been adopted as of 1 January 2019 (see "New amended IFRS standards and IFRIC interpretations" below) and which had an impact on the interim condensed consolidated financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New amended IFRS standards and IFRIC interpretations

The Group applies, for the first time, IFRS 16 Leases. As required by IAS 34, the nature and effect of these changes are disclosed below.

The Group applies, for the first time, IFRIC 23 Uncertainty over income tax treatment. The application of IFRIC 23 has an immaterial impact on the interim condensed consolidated financial statements of the Group.

Several other amendments and interpretations apply for the first time in 2019, but do not have a material impact on the interim condensed consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The Group adopted IFRS 16 using the modified retrospective approach of adoption with the date on initial application of 1 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:
- Tangible fixed assets increased by k€ 38.993
- Interest bearing loans including lease liabilities (current and non-current) increased by the same amount k€ 38.993

a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under other receivables and other payables, respectively. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Reconciliation operating lease commitments 31/12/18 to lease liabilities as at January 1, 2019	**(in € thousand)** **Impact IFRS 16**
Operating lease commitments as at 31 December 2018	**45.199**
Weighted average incremental borrowing rate as at 1 January 2019	6,72%
Discounted operating lease commitments as at 1 January 2019	**39.953**
Less:	
Commitments relating to short-term leases	**(959)**
Commitments relating to leases of low-value assets	**(1)**
Add	
Commitments relating to leases previously classified as finance leases	**448**
Lease liabilities as at 1 January 2019	**39.441**

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption over all categories of underlying assets (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases over all categories of underlying assets that are considered of low value (i.e., below €5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

c) Amounts recognized in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

(in € thousand)	Right-of-use assets				Lease liabilities
	Land and buildings	Machines and equipment	Vehicles	Total	
As at 1 January 2019	**32.222**	**3.358**	**4.045**	**39.625**	**39.441**
Additions	507	546	599	**1.652**	1.652
Depreciation expense	(2.177)	(833)	(643)	**(3.653)**	
Interest expense					1.095
Payments					(4.299)
CTA	243	37	31	**299**	288
As at 30 June 2019	**30.795**	**3.108**	**4.032**	**37.923**	**38.177**

The above table includes the new IFRS 16 leases as well as the finance leases identified under IAS 17. Per June 30, 2019 the implementation of IFRS 16 increased tangible fixed assets by k€ 37.307, and increased lease liabilities by k€ 37.756.

The Group recognized rent expense from short-term leases, leases of low-value assets and variable lease payments of k€ 1.181 for the six months ended 30 June 2019.

The impact of the application of IFRS 16 for the 6-months period ended per June 30, 2019 resulted in an impact on:

- (Adjusted) EBITDA of +k€ 4.282
- Additional depreciations: k€ 3.638
- EBIT of +k€ 644
- Financial result (interest costs): -k€ 1.092
- Net profit of –k€ 449

2. Segment information

An operating segment is a separate business unit in the Group, which produces goods or provides specific services within a defined economic environment, whose risks and profitability differ from those of the other operating segments.

Three segments[3] have been defined based on the location of legal entities. They include the following entities:
1. Europe: Benelux, France, Italy, Spain, the United Kingdom, Bosnia, Bulgaria, Croatia, Czech Republic, Germany, Lithuania, Poland, Russia and Serbia;
2. North America: United States and Canada;
3. Turkey & Emerging Markets: Australia, Brazil, Chile, Colombia, India, Mexico, Romania, Thailand and Turkey.

[3] In 2019 the reported segments have changed compared to 2018, by combining the segments “Western Europe” and “Central and Eastern Europe” into the segment “Europe”. This change is the consequence of the operational and commercial reorganization into a single region within Europe (“One Europe”).

There are no segments aggregated in order to establish the above segments.

Transfer prices between the operational segments are based on an “at arm’s length basis” equal to transactions with third parties.

The accounting policies for the operational segments are equal to these of the consolidated financial statements.

The Group identified the Executive Team as its Chief Operating Decision Maker. The segments have been defined based on the information provided to the Executive Team.

The Executive Team monitors the performance of its operational segments based on sales and adjusted EBITDA per segment and makes decisions about resource allocation on this geographical segmentation basis.

Segment information includes results, assets and liabilities that can be attributed directly to a segment.

FOR THE 6 MONTH PERIOD ENDED 30 JUNE (in € thousand)	EUROPE		NORTH AMERICA		TURKEY & EMERGING MARKETS		INTERSEGMENT ELIMINATIONS		CONSOLIDATED	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
External sales	170.635	170.780	62.990	64.159	107.893	77.574	(1)	-	**341.516**	**312.512**
Intersegment sales	927	444	440	136	1.344	1.424	(2.711)	(2.004)	**-**	**-**
Total sales	171.562	171.223	63.430	64.295	109.237	78.998	(2.712)	(2.004)	**341.516**	**312.512**
EBITDA	9.061	13.237	7.761	6.197	19.875	10.188	(287)	(237)	**36.411**	**29.385**
Adjusted EBITDA	9.139	13.237	7.761	6.197	19.875	10.188	(307)	553	**36.468**	**30.175**
Financial result		-	-	-	-	-	-	-	**(10.277)**	**(11.068)**
Income taxes		-	-	-	-	-	-	-	**(3.602)**	**552**
Depreciations & Impairment	9.031	11.169	3.126	4.739	2.879	4.400	-	(219)	**15.036**	**20.089**
Capital expenditures (Capex)	(16.313)	(11.247)	(10.556)	(3.325)	(2.371)	(1.636)	574	162	**(28.666)**	**(16.046)**

The difference between the adjusted EBITDA and EBITDA of € 0.8 million relates to non-recurring restructuring and rebranding costs which are included in the consolidated income statement in:

- Cost of goods sold (€ 0.1 million)
- Marketing, sales and distribution expenses (€ 0.4 million)
- Administrative and general expenses (€ 0.3 million)

Assets:

(in € thousand)	31 Dec 2018	CONSOLIDATED 30 Jun 2019
Europe	300.517	325.482
North America	88.230	106.848
Turkey & Emerging Markets	145.923	138.731
INTERSEGMENT ASSETS	**534.670**	**571.061**
Cash and cash equivalents	65.831	45.645
Intersegment eliminations	(10.501)	(11.111)
TOTAL GROUP ASSETS	**590.001**	**605.595**

Liabilities:

(in € thousand)	31 Dec 2018	CONSOLIDATED 30 Jun 2019
Europe	83.901	107.038
North America	20.367	21.847
Turkey & Emerging Markets	93.470	66.203
INTERSEGMENT LIABILITIES	**197.738**	**195.088**
Equity including non-controlling interest	255.631	248.005
Long-term interest-bearing loans	124.192	143.517
Other long term liabilities	7.653	5.173
Short-term interest-bearing loans	14.962	24.460
Intersegment eliminations	(10.176)	(10.647)
TOTAL GROUP LIABILITIES	**590.001**	**605.595**

Sales by product group is presented in the table below (in %):

FOR THE 6 MONTH PERIOD ENDED 30 JUNE (in %)	EUROPE		NORTH AMERICA		TURKEY & EMERGING MARKETS		CONSOLIDATED	
	2018	2019	2018	2019	2018	2019	2018	2019
Window and door systems	79,9%	79,0%	100,0%	100,0%	95,8%	95,9%	**88,6%**	**87,5%**
Outdoor living	10,8%	12,2%	0,0%	0,0%	0,1%	0,1%	**5,4%**	**6,7%**
Home protection	9,3%	8,8%	0,0%	0,0%	4,2%	4,1%	**6,0%**	**5,8%**
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

There is no significant concentration of sales (>10%) with one or a limited number of Customers.

3. Seasonality of operations

Due to the seasonal nature of the construction industry, demand is higher during the spring and summer period.

4. Income taxes

The major components of income tax expense in the interim consolidated income statement are:

FOR THE 6 MONTH PERIOD ENDED 30 JUNE (in € thousand)	**2018 Unaudited**	**2019 Unaudited**
Current income tax expense	(1.949)	(400)
Deferred income tax expense	(1.652)	951
INCOME TAX REPORTED IN THE INCOME STATEMENT	**(3.602)**	**552**
Income tax recognized in other comprehensive income	(439)	(119)
INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME	**(439)**	**(119)**
TOTAL	**(4.040)**	**432**

5. Cash and cash equivalents

(in € thousand)	**31 December 2018 Audited**	**30 June 2019 Unaudited**
Cash and current bank accounts	24.498	20.513
Short term deposits	41.333	25.132
TOTAL	**65.831**	**45.645**

6. Other financial assets and financial liabilities

The Group uses the following hierarchical classification in determining and explaining the fair value of financial instruments by valuation technique.

- Level 1: quoted (not adjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques that use input with a significant impact on the recorded fair value that is not based on observable market data.

During the reporting period ending 30 June 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

As of 31 December 2018 the Group had the following financial instruments:

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(in € thousand)	31 December 2018 Audited		Level 1	Level 2	Level 3
FX forward contracts	526			526	
Assets at fair value	**526**	**-**	**-**	**526**	**-**
FX forward contracts	2.689			2.689	
Liabilities at fair value	**2.689**	**-**	**-**	**2.689**	**-**

As of 30 June 2019 the Group had the following financial instruments:

(in € thousand)	30 June 2019 Unaudited		Level 1	Level 2	Level 3
FX forward contracts	498			498	
Assets at fair value	**498**	**-**	**-**	**498**	**-**
FX forward contracts	922			922	
Liabilities at fair value	**922**	**-**	**-**	**922**	**-**

7. Related parties

During 2019, the Group made purchases valued at € 77 thousand (€ 47 thousand as per 30 June 2018), under normal market conditions, from companies of which directors of the company held a majority of the shares. In the same period, the Group made sales valued at € 80 thousand under normal market conditions, to companies of which directors of the company held a majority of the shares.

8. Events after the reporting date

No subsequent events after the reporting date occurred which could have a significant impact on the consolidated financial statements of the Group, for which the period ended 30 June 2019, except for the signing on July 9th of a 60 million euro Sustainability linked Revolving Credit Facility until 2024. This new credit facility replaces the 50 million euro credit facility from 2015.

3. Statement of the Board of Directors

Declaration regarding the information given in this interim financial report for the 6 month period ending 30 June 2019.

The undersigned declare that:

- the interim condensed consolidated financial statements have been prepared in conformity with the standards applicable for annual accounts, and that they give a true picture of the net assets, the financial position and of the results of the company and the consolidated companies.

- the half year financial report gives a fair overview of the developments and results of the issuer and the consolidated companies and also provides a fair description of the most important risks and uncertainties with which they are confronted.

Board of Directors
Deceuninck NV

4. Report of the statutory auditor

Report of the statutory auditor to the shareholders of Deceuninck NV on the review of the interim condensed consolidated financial statements as of 30 June 2019 and for the 6 month period then ended

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Deceuninck NV (the "Company"), and its subsidiaries (collectively referred to as "the Group") as at 30 June 2019 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the 6 month period then ended, and explanatory notes, collectively, the "Interim Condensed Consolidated Financial Statements". These statements show a consolidated statement of financial position total of € 605.595 thousand and a consolidated net loss for the 6 month period then ended of € 1.220 thousand. The board of directors is responsible for the preparation and presentation of these Interim Condensed Consolidated Financial Statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the European Union. Our responsibility is to express a conclusion on these Interim Condensed Consolidated Financial Statements based on our review.

Scope of Review

We conducted our review in accordance the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". 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 the International Standards on Auditing 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Interim Condensed Consolidated Financial Statements are not prepared, in all material aspects, in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.

Ghent, 14 August 2019

Ernst & Young Bedrijfsrevisoren BCVBA
Statutory auditor
represented by

Marnix Van Dooren
Partner*

* Acting on behalf of a BVBA/SPRL

GLOSSARY

1	**EBITDA**	Earnings before interest, taxes, depreciation/impairments of fixed assets as well as amortisation/impairment of goodwill and effect of negative goodwill = operating cash flow
2	**Adjusted EBITDA**	Recurring earnings before interest, taxes, depreciation/impairments of fixed assets as well as amortisation/impairment of goodwill and effect of negative goodwill = EBITDA excluding non-recurring costs/benefits, eg restructuring costs = recurring operating cash flow
3	**LTM Adjusted EBITDA**	Adjusted EBITDA for the prior twelve consecutive months
4	**EBITA**	Earnings before interest, taxes and amortization
5	**EBIT**	Earnings before interest and taxes = operational result
6	**EBT**	Earnings before taxes
7	**EPS (non-diluted)**	(Non-diluted) earnings per share
8	**EPS (diluted)**	(Diluted) earnings per share
9	**Net debt**	Financial debts – cash and cash equivalents
10	**Working capital**	Trade receivables + inventories – trade debts
11	**Capital employed (CE)**	The sum of goodwill, intangible, tangible and financial fixed assets and working capital
12	**Headcount (FTE)**	Total Full Time Equivalents including temporary and external staff