BeterBed holding

Annual Report 2018

Financial Statements

Consolidated balance sheet

At 31 December

in thousand €	Notes	2018	2017
Fixed assets			
Tangible assets	1. 12.		
Land		**7,385**	7,090
Buildings		**3,352**	3,679
Other fixed operating assets		**30,520**	33,467
		41,257	44,236
Intangible assets	2. 12.		
Intangible operating assets		**11,311**	9,030
Financial assets	3.		
Deferred tax assets		**13,273**	2,353
Deposits		**94**	526
		13,367	2,879
Total fixed assets		**65,935**	56,145
Current assets			
Inventories	4.		
Finished products and goods for resale		**55,679**	65,697
Receivables	5.		
Trade accounts receivable		**3,014**	3,014
Other receivables		**9,243**	9,669
Income tax receivable	17.	**636**	4,536
		12,893	17,219
Cash and cash equivalents	6.	**6,173**	17,669
Total current assets		**74,745**	100,585
Total assets		**140,680**	156,730

At 31 December

in thousand €	Notes	2018	2017
Equity			
Equity attributable to equity holders of the parent	7.		
Issued share capital		**439**	439
Share premium account		**18,434**	18,434
Revaluation reserve		**3,200**	2,797
Reserve for currency translation differences		**548**	673
Other reserves		**47,265**	38,316
Retained earnings		**(23,250)**	9,525
Total equity		**46,636**	70,184
Liabilities			
Non-current liabilities			
Provisions	8.	**1,003**	44
Deferred tax liabilities	9.	**3,452**	3,383
		4,455	3,427
Current liabilities	10. 11.		
Credit institutions	6.	**22,998**	17,481
Trade payables		**24,409**	30,629
Income tax payable	17.	**2,050**	1,482
Taxes and social security contributions		**10,931**	9,667
Other liabilities		**29,201**	23,860
		89,589	83,119
Total liabilities		**94,044**	86,546
Total equity and liabilities		**140,680**	156,730

Consolidated profit and loss account

in thousand €	Notes	2018		2017	
Continuing operations					
Sales	12.	**396,331**		408,785	
Cost of sales		**(175,424)**		(172,924)	
Gross profit		**220,907**	**55.7%**	235,861	57.7%
Personnel expenses	13.	**(110,255)**		(105,820)	
Depreciation and amortisation	15.	**(16,187)**		(12,559)	
Other operating expenses	16.	**(118,152)**		(101,754)	
Total operating expenses		**(244,594)**	**(61.7%)**	(220,133)	(53.9%)
Operating profit (loss) (EBIT)		**(23,687)**	**(6.0%)**	15,728	3.8%
Finance income		**268**		104	
Finance costs		**(1,424)**		(510)	
Profit (loss) before taxation		**(24,843)**	**(6.3%)**	15,322	3.7%
Income tax	17.	**6,239**		(4,494)	
Net profit (loss) from continuing operations		**(18,604)**	**(4.7%)**	10,828	2.6%
Loss from discontinued operations, net of tax	18.	**(4,646)**		(1,303)	
Net profit (loss)		**(23,250)**	**(5.9%)**	9,525	2.3%
Earnings per share	20.				
Earnings per share in €		**(1.06)**		0.43	
Diluted earnings per share in €		**(1.06)**		0.43	
Earnings per share from continuing operations	20.				
Earnings per share in €		**(0.85)**		0.49	
Diluted earnings per share in €		**(0.85)**		0.49	

Consolidated statement of comprehensive income

in thousand €	2018			2017		
	Gross	**Tax**	**Net**	Gross	Tax	Net
Profit (loss)	**(29,489)**	**6,239**	**(23,250)**	14,019	(4,494)	9,525
Non-recyclable:						
Change in revaluation reserve						
- due to revaluation of land	**295**	**108**	**403**	-	-	-
Recyclable:						
Movements in reserve for						
currency translation differences	**(125)**	**-**	**(125)**	(240)	-	(240)
Total comprehensive income	**(29,319)**	**6,347**	**(22,972)**	13,779	(4,494)	9,285

Consolidated cash flow statement

in thousand €	2018[1]	2017[1]
Cash flow from operating activities		
Operating profit (loss) from continued operations	**(23,687)**	15,728
Operating loss from discontinued operations	**(4,198)**	(1,303)
Net finance costs	**(1,604)**	(406)
Income tax paid	**(145)**	(8,865)
Depreciation and amortisation	**17,745**	12,847
Costs share-based compensation	**83**	268
Movements in:		
– Inventories	**10,018**	(3,813)
– Receivables	**426**	309
– Provisions	**959**	(154)
– Current liabilities (excl. credit institutions)	**385**	1,179
– Other	**36**	(104)
	18	15,686
Cash flow from investing activities		
Additions to (in)tangible assets	**(17,328)**	(21,384)
Disposals of (in)tangible assets	**524**	207
Changes in non-current receivables	**432**	134
	(16,372)	(21,043)
Cash flow from financing activities		
Dividend paid	**(659)**	(16,247)
	(659)	(16,247)
Change in net cash and cash equivalents	**(17,013)**	(21,604)
Net cash and cash equivalents at the beginning of the financial year	**188**	21,792
Net cash and cash equivalents at the end of the financial year	**(16,825)**	188

1 The cash flow statement above includes the cash flows from continued and discontinued operations. An overview of the cash flow from discontinued operations can be found in note 18.

Consolidated statement of changes in equity

in thousand €	Total	Issued share capital	Share premium reserve	Revaluation reserve	Reserve for currency translation	Other reserves	Retained earnings
Balance on 1 Jan 2017	**76,878**	**439**	**18,434**	**2,812**	**913**	**35,265**	**19,015**
Net profit 2017	9,525	-	-	-	-	-	9,525
Other components of comprehensive income 2017	(240)	-	-	-	(240)	-	-
Profit appropriation 2016	-	-	-	-	-	19,015	(19,015)
Final dividend 2016	(8,782)	-	-	-	-	(8,782)	-
Interim dividend 2017	(7,465)	-	-	-	-	(7,465)	-
Transfer to other reserves	-	-	-	(15)	-	15	-
Costs of share-based compensation	268	-	-	-	-	268	-
Balance on 31 Dec 2017	**70,184**	**439**	**18,434**	**2,797**	**673**	**38,316**	**9,525**
Net loss 2018	**(23,250)**	**-**	**-**	**-**	**-**	**-**	**(23,250)**
Other components of comprehensive income 2018	**278**	**-**	**-**	**403**	**(125)**	**-**	**-**
Profit appropriation 2017	**-**	**-**	**-**	**-**	**-**	**9,525**	**(9,525)**
Final dividend 2017	**(659)**	**-**	**-**	**-**	**-**	**(659)**	**-**
Costs of share-based compensation	**83**	**-**	**-**	**-**	**-**	**83**	**-**
Balance on 31 Dec 2018	**46,636**	**439**	**18,434**	**3,200**	**548**	**47,265**	**(23,250)**

General notes

General

Beter Bed Holding N.V. operates in the European bedroom furnishings market. Its activities include retail trade through the chains Beter Bed, Matratzen Concord, Beddenreus, Sängjätten and El Gigante del Colchón (until 1 November 2018). Beter Bed Holding N.V. is also active in the field of developing and wholesaling branded products in the bedroom furnishing sector via its subsidiary DBC International. The registered office of Beter Bed Holding N.V. is in Uden, the Netherlands.

The consolidated financial statements have been prepared on a historical cost basis, except for land, which is carried at fair value. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) as adopted in the European Union and their interpretations as approved by the International Accounting Standards Board (IASB). Furthermore, the consolidated financial statements have been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code. Unless explicitly stated otherwise, the amounts stated in these notes refer to the consolidated figures. The consolidated financial statements have been prepared in euros and all amounts have been rounded off to thousands (€ 000), unless stated otherwise.

The 2018 consolidated financial statements of Beter Bed Holding N.V. have been prepared by the Management Board and discussed in the meeting of the Supervisory Board on 28 February 2019.

Extraordinary items in 2018

Throughout 2018, Beter Bed Holding N.V. has gone through a major and necessary restructuring and transformation. This has had significant influence on a number of accounts within the financial statements. The 2018 net result includes four items that will be further explained in the paragraphs below. These four items are specifically selected and, consequently, this section should not be seen as a fully comprehensive analysis of the 2018 results.

Restructuring of Matratzen Concord

In the fourth quarter of 2018 Beter Bed Holding N.V. decided to restructure its Matratzen Concord business. This included, amongst others, the following:

- Closure of 172 Matratzen Concord stores in Germany, Austria and Switzerland.
- Headcount reduction of the Matratzen Concord support organisation by 64 FTE.
- Inventory reduction by more than € 8 million.

The restructuring had a one-off cost impact of € 7.6 million which is within the communicated plan. These costs mainly related to the termination of rental contracts, termination of employee contracts and impairment of assets. These costs have been presented in the respective categories within the consolidated profit and loss account.

Discontinuation of Spanish operations

The evaluation of the performance of El Gigante del Colchón in Spain, as part of the Beter Bed Holding Group, led to the conclusion that sufficiently profitable operations were unlikely to be achieved in the short to medium term. Effective 1 November 2018 the operations have been successfully transferred to a third party via an asset deal. In the course of 2019 the legal entities in Spain will be liquidated which will result in a tax gain of € 4.9 million that, after the liquidation of all entities in Spain, will be realised in the Netherlands under the liquidation loss regulation as part of the Dutch Corporate Income Tax laws and regulations. Results of the Spanish activities are disclosed as discontinued operations (see note 18 (see page 78)). The 2018 result of discontinued operations mainly consists of the operating result up to and including 31 October 2018 as well as the impairment of fixed assets and write-off of inventories.

Corporate Income Tax
Beter Bed Holding N.V. successfully settled two open tax items. Firstly, the tax gain in relation to the anticipated liquidation of the Spanish legal entities of € 4.9 million as mentioned before is recognised. Secondly, the settlement with the German tax authorities on the structure of the intercompany loans and its interest rates over the period 2011-2016 amounts to a tax charge of € 3.0 million. Both amounts are part of the effective tax rate calculation as disclosed in note 17 (see page 77).

Financing agreements and progress on the related covenants
At the Capital Markets Day on 26 October 2018, Beter Bed Holding N.V. presented its mid-term strategy with five strategic pillars. During the development of this new strategy a thorough analysis on the rapidly changing market and consumer dynamics was conducted. It became apparent that a severe transformation and restructuring of the Group had to be undertaken to ensure a future proof business model. This new strategy contains clear ambitions that are captured in the performance framework. The ambitions are set at a financial level, as well as at a customer, operational and commercial level. All ambitions are expected to be delivered in the mid-term and there is a clear plan for each of the elements how to get there. For some ambitions immediate steps have been taken, such as, the € 15 million cost reduction as key part of the cost leadership pillar. Other ambitions are expected to be achieved in a more gradual manner within the mid-term timing range, such as the 20% online channel share.

Beter Bed Holding N.V. developed a 2019 budget that aims to deliver a good first step towards these mid-term ambitions. The pace to deliver these ambitions will be accelerated as much as possible, but, given all restructuring efforts that had to be executed during Q4 2018, the company realistically expects to only gradually grow towards the mid-term ambitions, including the key financial ambitions of sales growth of 4-5% and an EBITDA margin of 7-9%.

In order to gradually grow towards the financial ambitions, Beter Bed Holding N.V. reached an agreement with their two main banks on the conditions of the existing credit facility. The agreements are based on the key assumption that the existing cash and credit facilities are sufficient for both executing the 2018 restructuring and delivering all mid-term ambitions. The agreements included an amendment of the net debt/EBITDA covenant to an absolute EBITDA measure per 31 December 2018 as a consequence of the business performance in the second half of 2018 and the restructuring during Q4 2018. The 2018 results were within the proactively amended agreement with the banks.

Beter Bed Holding N.V. and the banks agreed to return to the original covenant of operating within the net debt/EBITDA ratio with a maximum of 2.5 as of 1 January 2019. All activities that are taken as part of the new strategy lead to an assumed financial result that remains within the maximum ratio for the mid-term future. For the specific next measurement on 30 June 2019, Beter Bed Holding N.V. is confident that the commercial, operational and restructuring initiatives that have been conducted already foresee in operating within this ratio. In order to deliver this, Beter Bed Holding N.V. continuously reviews all internal and external sensitivities. These sensitivities include several opportunities, but also some business and market challenges. Beter Bed Holding N.V. estimates that the net impact of all these opportunities and challenges will have a positive effect on the leverage ratio measured on 30 June 2019. In the unlikely event that none of the opportunities materializes within the first six months of 2019, but all challenges become real in that same period, the net impact could lead to a net debt/EBITDA ratio exceeding the maximum ratio of 2.5.
Beter Bed Holding N.V. carefully monitors the development of this ratio and remains in frequent and constructive contact with the banks to ensure that, when needed, appropriate actions are taken accordingly.

Applications of new standards

A number of new standards, amendments to and interpretations of existing standards entered into effect in 2018, like IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers.

IFRS 9 Financial instruments, effective 1 January 2018

IFRS 9 is the new standard voor reporting financial instruments and replaces IAS 39 'Financial instruments'. This standard has been implemented within Beter Bed Holding N.V. per 1 January 2018 based on the modified retrospective approach. This standard comprises specific requirements for recognition and valuation of financial assets as well as financial liabilities. Compared to the prior standard, the main changes for Beter Bed Holding N.V. are related to the classification and valuation of financial assets and liabilities and the determination of the provision for expected credit losses. Previously, financial assets and liabilities were valued at amortised cost and consequently, the implementation of IFRS 9 has no significant impact on the classification and valuation of these positions. Given the non-significant size of the debtor balance and associated provision, the implementation of IFRS 9 also has no material impact on the determination of the provision for expected credit losses. In summary, the implementation of IFRS 9 per 1 January 2018 has had no significant impact on the consolidated financial statements of Beter Bed Holding N.V.

IFRS 15 Revenue from contracts with customers, effective 1 January 2018

IFRS 15 is the new standard for reporting revenue from contracts with customers, and as such it is replacing IAS 18 Revenue. This standard has been implemented by Beter Bed Holding N.V. per 1 January 2018. Beter Bed Holding N.V. has analysed the five steps within IFRS 15, which are: identify the contract, identify the 'performance obligation' within the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue. Following this analysis, it has been concluded that the new standard has no significant impact on the consolidated financial statements of Beter Bed Holding N.V.

The following standard and its related interpretations were issued on the date of publication of the financial statements, but was not yet applicable for the 2018 financial statements. Only those standards and its related interpretations are listed below, of which Beter Bed Holding N.V. reasonably expects to have an impact on the disclosures, the financial position or the results of the company upon future application.
Beter Bed Holding N.V. intends to apply this standard and its interpretations as soon as it becomes effective.

IFRS 16 Leases, effective 1 January 2019

IFRS 16 Leases is the new reporting standard for lease accounting and as such replaces reporting under IAS 17 Leases.

Beter Bed Holding N.V. has a large portfolio of around 1,000 rented stores. The Group has adopted IFRS 16 through application of the ‘modified retrospective approach’ and applies the standard to its rented stores, car and truck leases in countries in which Beter Bed Holding N.V. is active.

In accordance with the practical expedients the standard proposes, Beter Bed Holding N.V. has made no specific distinction in type of costs for car and truck leases and subsequently full lease costs will be capitalised. Also, all lease contracts for which the underlying asset value is defined to be below € 5,000 are exempted from capitalisation as lease assets.

Beter Bed Holding N.V. has implemented a software tool which enables transparent, efficient and effective reporting of lease contracts under the new IFRS 16 standard. This tool provides insights in leased assets and its associated liabilities per country and per category. Lease contracts will be capitalised for the duration of non-cancellable periods and renewal periods are only taken into account if deemed reasonably certain. The discount rates (incremental borrowing rates) to value the lease contracts are between 0% and 1.5%, depending on their duration and associated country.

Aforementioned variables and applied practical expedients have resulted in an identification of right of use assets in a range between € 120 million and € 150 million and will therefore result in an increase of the total balance sheet of this magnitude per 1 January 2019. Moreover, the profit and loss statement will display a shift from operational lease costs to depreciation costs and interest charges. Adoption of this standard also has an inevitable and significant impact on several ratios, including solvency and the net interest-bearing debt/EBITDA. However, the covenants with credit institutions are not impacted, given the fact that the covenants include conditions stating that ratios concerned are calculated excluding the impact of new reporting standards.

Principles of consolidation

The consolidated financial statements comprises of the financial statements from Beter Bed Holding N.V. and its group entities. Group entities are defined as entities controlled by the company, meaning the company is exposed to or is entitled to the variable results following the company's involvement and ability to influence these results in her power to steer on the activities of that entity. Group entities are included in the consolidation at the date when the entities are identified as such. As of the date an entity does not meet the afore mentioned criteria of a group entity, the entity is no longer included in the consolidation.

For consolidation purposes, the Group has applied the full consolidation method. Financial relations and results between consolidated companies are eliminated.The following companies are included in the consolidation of Beter Bed Holding N.V.:

Name	Registered office	Interest (%)
BBH Beteiligungs GmbH[1]	Cologne, Germany	100
BBH Services GmbH & Co K.G.[1]	Cologne, Germany	100
Bedden & Matrassen B.V.	Uden, The Netherlands	100
Beter Bed B.V.	Uden, The Netherlands	100
Beter Bed Holding N.V. y Cia S.L.	Barcelona, Spain	100
Beter Beheer B.V.	Uden, The Netherlands	100
DBC International B.V.	Uden, The Netherlands	100
DBC Nederland B.V.	Uden, The Netherlands	100
El Gigante del Colchón S.L.	Barcelona, Spain	100
Linbomol S.L.	Barcelona, Spain	100
M Line Bedding S.L.	Barcelona, Spain	100
Matratzen Concord (Schweiz) AG	Malters, Switzerland	100
Matratzen Concord GmbH[1]	Cologne, Germany	100
Matratzen Concord GesmbH	Vienna, Austria	100
Procomiber S.L.	Barcelona, Spain	100
Sängjätten Sverige AB	Göteborg, Sweden	100
Sängjätten Sverige Wholesale AB	Göteborg, Sweden	100

1 These statutory interests make use of the exemption in accordance with article 264 (3) en 264b of the German Commercial Code.

Principles for the translation of foreign currencies

The consolidated financial statements have been prepared in euros. The euro is the functional currency of Beter Bed Holding N.V. and is the Group's reporting currency. Assets and liabilities in foreign currencies are converted at the rate of exchange on the balance sheet date; profit and loss account items are converted at the rate of exchange at the time of the transaction. The resulting exchange differences are credited or debited to the profit and loss account. Exchange differences in the financial statements of foreign group companies included in the consolidation are taken directly to equity through other comprehensive income. The results and assets and liabilities of consolidated foreign participations are translated into euros at the average exchange rate per month and the closing rate for the year under review respectively. Upon a disposal of a foreign entity, the deferred accumulated amount recognised in equity of that foreign entity concerned is taken to the profit and loss account.

Principles of valuation

Tangible assets

Tangible assets other than land are valued at the cost of purchase or construction less straight-line depreciation and impairments (if applicable) based on the expected economic life or lower recoverable amount. Land is carried at fair value on the basis of periodic valuations by an external expert. Any revaluations are recognised in equity through other comprehensive income, with a provision for deferred taxation being formed at the same time. Land and other tangible assets under construction are not depreciated.

Tangible assets are derecognised in the event of disposal or if no future economic benefits are expected from its use or disposal. Any gains or losses arising from its derecognition (calculated as the difference between the net proceeds on disposal and the carrying amount of the asset) are taken to the profit and loss account for the year in which the asset is derecognised. Any residual value of an asset, its useful life and valuation methods are reviewed and if deemed necessary, adapted at the end of the financial year.

Leases

The determination whether an arrangement forms or contains a lease is based on the substance of the agreement and requires an assessment to determine whether the execution of the agreement is dependent upon the use of a certain asset or certain assets and whether the agreement provides the right to actually use the asset. Beter Bed Holding only has operating lease agreements up to and including financial year 2018. Operational lease payments are recorded as expenses in the profit and loss statement.

Intangible assets

Initial measurement of intangible assets is at acquisition cost. The cost of intangible assets obtained through an acquisition is equal to the fair value as at the date of acquisition. Thereafter, valuation is at cost minus accumulated amortisation and impairments. Development costs are capitalised when they are likely to generate future economic benefits.

Intangible assets are assessed in order to determine whether they have a finite or indefinite useful life.

Intangible assets are amortised over their useful life and tested for impairment if there are indications that the intangible asset might be impaired. The amortisation period and method for an intangible asset with a finite useful life are assessed at least at the end of each period under review. Any changes in the expected useful life or expected pattern of the future economic benefits from the asset are recognised by means of a change in the amortisation period or method and must be treated as a change in accounting estimate. Amortisation charges on intangible assets with a finite useful life are recognised in the profit and loss account.

Any gains or losses arising from the derecognition of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account when the asset is derecognised.

Impairment of assets

The Group reviews at each reporting date whether there are indications that an asset has been impaired. If there is any such indication or if the annual impairment testing of an asset is required, the Group estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of the fair value of an asset or the cash-generating unit (after deduction of the selling costs) and the value in use. If an asset's carrying amount exceeds the recoverable amount, the asset is deemed to have been impaired and its value is written down to the level of the recoverable amount. When assessing the value in use, the present value of the estimated future cash flows is determined, applying a discount rate before tax that takes into account the current market assessment of the time value of money and the specific risks associated with the asset.

On each reporting date an assessment is made whether there are indications that an impairment loss recognised in prior periods no longer exists or has decreased. If there is any such indication, the recoverable amount is estimated. An impairment loss recognised in prior periods is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. In that case, the carrying amount of the asset is increased to the recoverable amount. This increased amount cannot exceed the carrying amount that would have been determined (net of amortisation) if no impairment loss had been recognised for the asset in prior years. Any such reversal is recognised in profit or loss.

Derecognition of financial assets and liabilities

A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is derecognised if the group is no longer entitled to the cash flows from that asset or if substantially all risks and rewards of the asset have been transferred or – if substantially all risks and rewards of the asset have not been transferred – the entity has transferred 'control' of the asset.

A financial liability is derecognised when the obligation has been discharged or cancelled or has expired. If an existing financial liability is replaced by another from the same lender, under substantially different terms, or if substantial modifications are made to the terms of the existing liability, the replacement or modification is accounted for through recognition of the new liability in the balance sheet and derecognition of the original liability. The difference between the relevant carrying amounts is accounted for through profit or loss.

Taxes

Tax liabilities for current or prior years are valued at the amount that is expected to be paid to the tax authorities. The amount is calculated on the basis of the tax rates set by law and enacted tax laws.

A provision is formed for deferred tax liabilities based on the temporary differences on the balance sheet date between the tax base of assets and liabilities and the carrying amount in these financial statements. Deferred tax liabilities are recognised for all taxable temporary differences. The deferred tax liabilities are valued at nominal value.

Deferred tax assets are recognised for available tax loss carry forwards and deferred tax assets arising from temporary differences at the balance sheet date between the tax base of assets and liabilities and the carrying amount in the financial statements. Deferred tax assets are valued at nominal value. Deferred tax assets arising from future tax loss carry forwards are only recognised to the extent that it is probable that sufficient future taxable profit will be available against which these can be utilised.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on enacted tax laws.

Inventories

Inventories are valued at the lower of cost and net realisable value. The cost consists of the latest purchase price less purchase discounts and plus additional direct costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs for settling the sale. Unrealised intercompany gains and losses are eliminated from the inventory valuation.

Cash and cash equivalents

Cash and cash equivalents on the balance sheet consist of bank balances and cash.

Provisions

Provisions are recognised for legal or constructive obligations existing at the balance sheet date for which it is probable that an outflow of resources will be required and the amount can be reliably estimated. Provisions are carried at the best estimate of the amounts required to settle the obligation at the balance sheet date, being the nominal value of the expected expenditures, unless stated otherwise.

Financial instruments

Non-derived financial instruments

Non-derived financial instruments include other financial fixed assets, trade and other accounts receivables, cash and cash equivalents, liabilities to credit institutions, trade and other payables. Initial recognition of non-derived financial instruments is at fair value. Thereafter, these non-derived financial assets are valued at amortised cost.

Impairments of financial assets

Beter Bed Holding N.V. applies a model of the impairments of financial assets against amortised cost. In order to determine the provision, Beter Bed Holding N.V. applies a general or simplified method.

For the general method, the following is applied:

- A 12-month expected credit loss; or
- Lifetime expected credit losses for financial assets when the credit risk increases significantly due to certain circumstances. All credit losses for the expected lifetime are accounted for; or
- Lifetime expected credit losses for financial assets, whereby interest is calculated based on the net receivable less impairment loss.

Loans granted to subsidiaries and receivables against suppliers following the supplier model, as well as all other receivables go through the process of impairment testing based on the aforementioned general method.

The simplified method is applied to other receivables. For these, at inception, lifetime expected credit losses are processed, which are determined following a historical set of average irrecoverable amounts (based on historical debt collection details).

Determination of the result

Presentation

The presentation of the profit and loss account is based on the categorical classification. Gross profit is the result of sales less cost of goods sold. Personnel costs, depreciation, amortisation and impairments of fixed assets and other operating expenses are presented immediately after gross profit due to short term influenceability and the fact that these costs do not directly relate to the level of sales.

Sales

The sales is understood as the proceeds of the sale of goods and services to third parties less discounts and similar rebates, and sales taxes. Sales are recognised when mutual contractual obligations are met. In the circumstance when goods are instantly being taken by consumers, this is at the time of payment at the cash register. In the circumstance when goods are assembled and/or delivered, the sale is recognised at the moment when the transfer has led to a physical delivery of the goods to the customer.

Cost of sales

This comprises the cost and associated services of the goods sold, after deduction of any payment discounts and purchase bonuses received, added with directly attributable purchase and supply costs.

Expenses

The expenses are determined in accordance with the aforementioned accounting policies, and are allocated to the financial year to which they relate. Interest is recognised as an expense in the period to which it relates.

Pensions

A variety of pension schemes are in use within the company. In the Netherlands, the majority of the employees participated in the Wonen Industrial Pension Fund, which was transferred into the Detailhandel Industrial Pension Fund with effect from 1 January 2018. This is an average pay scheme with a maximum pension accrual on the income for social security contributions. This arrangement is currently considered a 'defined benefit' scheme. This pension fund is, however, at present not able to provide data that enables a strict application of IAS 19. The principal reason for this is that the company's share in the total of Detailhandel Industrial Pension Fund cannot be determined sufficiently reliable. Consequently this pension scheme is accounted for as a defined contribution scheme.

Virtually all other pension schemes are defined contribution schemes. The contributions paid to the Detailhandel Industrial Pension Fund and insurance companies respectively are recognised as expenses in the year to which they relate. There are no company-specific pension schemes in the other countries.

Depreciation and amortisation

Depreciation and amortisation are calculated using the straight-line method based on the expected economic life of the underlying assets. Additions in the year under review are depreciated and amortised from the date of purchase onwards.

Cash flow statement

The cash flow statement is prepared using the indirect method. The 'cash and cash equivalents' item stated in the cash flow statement can be defined as cash and cash equivalents less current bank overdrafts, to the extent that these do not relate to the current component of non-current loans. Current bank overdrafts are an integral part of cash flow management.

Share-based transactions

Members of the Management Board and a few other employees of the company receive remuneration in the form of payment transactions based on shares, whereby these employees provide certain services in return for capital instruments (transactions settled in equity instruments). The costs of the transactions settled with employees in equity instruments are valued at the fair value on the date of grant. Fair value is determined on the basis of a combined Black & Scholes model and Monte Carlo simulations. Performance conditions are taken into account when determining the value of the transactions settled in equity instruments.

The costs of the transactions settled in equity instruments are recognised, together with an equal increase in equity, in the period in which the conditions relating to the performance and/or services are met, ending on the date on which the employees concerned become fully entitled to the grant (the date upon which it vests). The accumulated costs for transactions settled in equity instruments on the reporting date reflect the degree to which the vesting period has expired and also reflects the company's best estimate of the number of equity instruments that will eventually vest. The amount that is charged to the profit and loss account for a certain period reflects the movements in the accumulated expense.

Risks

The main financial risk consists of failing to achieve the budgeted sales and therefore the planned cash margins, mainly as a result of changes in consumer behaviour in response to changing economic conditions. Sales and order intakes for each format are reported on a daily basis to manage this risk. On a weekly basis, data on realised margins, numbers of visitors, conversion and average order values are added to them and commented on.

Based on the analyses, adjustments are made in the marketing mix, including pricing policy and the use of advertising. In addition, cost budgets are periodically reviewed and adjusted if necessary. Economic and macroeconomic information from the market, including sector-specific reports, is also utilised.

Currency risks, arising mainly from purchases in dollars, are not hedged. A 5% change in the average dollar exchange rate would, on the basis of the purchasing volumes in the financial year, result in an effect of approximately € 83 (2017: € 97) on the operating profit (EBIT) if sales prices remain the same. There are virtually no financial instruments in foreign currencies. The currency risks owing to the presence and/or transactions in Sweden and Switzerland and the potential volatility of the Swedish krona and the Swiss franc are considered to be limited due to the fact that the majority of goods purchases takes place in euros.

Interest rate risk resulting from the current capital structure of the company is very limited. The effect on the result following a change (increase or decrease) in the interest rate of 50 basis points would be € 0.2 million before taxation (2017: € 0.1 million), on the basis of the use of the credit facilities at year-end 2018. The carrying amount of the financial liabilities is virtually equal to the fair value.

Credit risk is limited to the wholesale operations and trade receivables under bonus agreements. No specific measures are required for this, in addition to standard credit control. The fair value of receivables is equal to their carrying amount. The maximum credit risk equals the carrying amount of the receivables.

Liquidity risk is insignificant, resulting from the nature of the company's operations and financial composition, of which a large portion is current stock. A description of the available credit facilities can be found in the chapter current liabilities (see page 73). For an explanation of the other risks, please refer to the related section of the Report of the Management Board (see page 25).

Capital management

The company has a target solvency (equity/total assets) of at least 30% in accordance with the dividend policy. In addition, the ratio of net interest-bearing debt/EBITDA must not exceed two. The item inventories is by far the most important in the working capital. Targets have been defined for this for each format. These variables are included in the weekly reports.

Solvency at year-end 2018 was 33.2% (2017: 44.8%). The net interest-bearing debt was € 16.8 million in 2018. The EBITDA based on continuing operations, corrected for one-offs, was € 0.6 million.

EBITDA is defined as operating profit or loss before depreciation and amortisation of non-current assets and before disposals of non-current assets.

Information by segment

Various operating segments have been identified within the Group as these segments are reviewed by the decision-makers within the entity. These operating segments independently generate sales and incur expenses. The principal operating segments are comparable in each of the following aspects:

- Nature of the products and services
  The operating segments primarily sell mattresses, bedroom furnishings (including box springs), bed bases and bed textiles. The operating segments also provide the home delivery service.

- Customers for the products and services
  The operating segments sell directly to consumers, focusing specifically on customers in the 'value-for- money' segment.

- Distribution channels for the products and services
  The operating segments generate their sales in stores (the offline retail channel) and also have a webshop (online retail channel). Online sales compared with total sales is similar for the operating segments.

- Economic characteristics
  The operating segments have similar economic characteristics, e.g. in terms of sales, gross profit and inventory turnover rate.

In view of the comparability of above characteristics, the operating segments are aggregated into a single reportable segment.

Seasonal pattern

Owing to the seasonal pattern in consumer demand, sales and net result are usually lower in the second and third quarter than in the first and fourth quarter.

Estimates and judgements

In preparing the financial statements, the Management Board is required to exercise judgement, make assumptions and estimates that affect the application of the accounting standards and the valuation of the recognised assets and liabilities and income and expenses. Following those judgments, assumptions and estimates, the actual valuation may subsequently differ materially from the reported valuation.

The actual timing of the utilisation of amounts in provisions is uncertain when determining these at inception. Judgements, assumptions and estimates are continually reviewed and are based on historical experience and other factors, including future expectations. These future expectations are based on reasonable expectations concerning the relevant factors affecting the financial statement item concerned.

Adjustments of estimates are recognised in the period in which those adjustments are made and, where relevant, in the future periods concerned.

Where significant estimates are made when preparing the financial statements, an explanation is provided in the notes for each item in question.

Notes to the consolidated balance sheet and profit and loss account

in thousand €, unless otherwise stated

1. Tangible assets

	Land	Buildings	Other fixed operating assets	Total
Book value 1 January 2017	**7,132**	**3,983**	**26,955**	**38,070**
Additions	-	54	17,520	17,574
Revaluation	(20)	-	-	(20)
Currency adjustment	-	-	(67)	(67)
Disposals	(22)	(11)	(174)	(207)
Depreciation	-	(347)	(10,767)	(11,114)
Book value 31 December 2017	**7,090**	**3,679**	**33,467**	**44,236**
Accumulated depreciation	-	6,827	82,232	89,059
Accumulated revaluation	(3,730)	-	-	(3,730)
Purchase price	**3,360**	**10,506**	**115,699**	**129,565**
Book value 1 January 2018	**7,090**	**3,679**	**33,467**	**44,236**
Additions	**-**	**-**	**12,274**	**12,274**
Revaluation	**295**	**-**	**-**	**295**
Currency adjustment	**-**	**-**	**18**	**18**
Disposals	**-**	**-**	**(432)**	**(432)**
Depreciation	**-**	**(327)**	**(13,168)**	**(13,495)**
Impairment	**-**	**-**	**(1,639)**	**(1,639)**
Book value 31 December 2018	**7,385**	**3,352**	**30,520**	**41,257**
Accumulated depreciation and impairment	**-**	**7,154**	**84,541**	**91,695**
Accumulated revaluation	**(4,025)**	**-**	**-**	**(4,025)**
Purchase price	**3,360**	**10,506**	**115,061**	**128,927**

A further explanation of the investments is enclosed in the report of the Management Board (see page 23).

The cumulative revaluation relates to the land forming part of the properties owned. The land forming part of the properties was valued by an independent valuer in December 2018. The valuations have been performed using the GIY/NIY method.

In relation to the discontinuation of the operations in Spain, an impairment of € 1.2 million is recognised in 2018. Furthermore, an impairment of € 0.4 million is recognised in relation to the store closures in Germany, Austria and Switzerland following the restructuring of Matratzen Concord.

Both impairments are included in 'Other fixed operating assets' category.

The tangible assets are intended for own use.

2. Intangible assets

	2018	2017
Book value 1 January	**9,030**	7,002
Additions	**5,054**	3,810
Currency adjustment	**(70)**	(49)
Disposals	**(92)**	-
Amortisation	**(2,148)**	(1,733)
Impairment	**(463)**	-
Book value 31 December	**11,311**	9,030
Accumulated amortisation and impairment	**13,774**	12,917
Purchase price	**25,085**	21,947

A further explanation of the investments is enclosed in the report of the Management Board (see page 23).

The intangible assets are comprised of the acquired 'Sängjätten' brand name (€ 1.4 million) and licenses and software (€ 9.9 million).

In relation to the migration to one web shop platform in the Netherlands and Belgium an impairment of € 0.5 million is recognised for the old platform.

3. Financial assets

The financial assets consist on the one hand of deposits of € 94 (2017: € 526) and on the other hand of deferred tax assets of € 13,273 (2017: € 2,353).

The guarantee deposits are related to rental agreements for stores. These are classified under financial assets due to the non-current nature of these receivables.

The deferred tax assets at year-end can be broken down as follows:

	2018	2017
Tax loss carry-forwards	**12,758**	1,772
Difference tax and financial reporting valuation (in)tangible assets	**294**	312
Difference tax and financial reporting valuation pension	**221**	253
Difference tax and financial reporting valuation inventories	**-**	16
Balance at 31 December	**13,273**	2,353

At year-end 2018, a tax credit of € 12,758 (2017: € 1,772) for future loss carry-forwards was recognised under financial assets. This relates partly to losses available for carry-forward in Germany, Austria, Switzerland and Sweden. In addition, in this tax credit an amount of € 4.9 million is recognised in relation to the anticipated liquidation of the Spanish legal entities in 2019. As Beter Bed Holding N.V. expects, on the basis of the currently available information, to be able to set off these tax losses within five years, they have been capitalised in full.

An amount of € 10,356 (2017: € 10,790) in loss carry-forwards has not been recognised.
Beter Bed Holding N.V.'s policy is that tax losses available for carry-forward are capitalised only if reasonable possibilities for set-off are expected within five years on the basis of a substantiated forecast of the results for tax purposes. Set-off of these losses is insufficiently probable on the basis of the currently available information.

The tax losses available for carry-forward expire as follows:

Term	
1 year	-
2 to 5 years	-
6 to 10 years	2,759
11 to 15 years	-
Indefinite	7,597

Movements in deferred tax assets in 2018 and 2017 were as follows:

	2018	2017
Balance at 1 January	**2,353**	1,217
Through profit and loss account	**10,920**	1,136
Through equity	**-**	-
Balance at 31 December	**13,273**	2,353

4. Inventories

This comprises inventories held in stores of € 48,418 (2017: € 58,914) and inventories held in warehouses of € 7,261 (2017: € 6,783). The write-down for possible obsolescence included in this item can be broken down as follows:

	2018	2017
Balance at 1 January	**1,215**	1,874
Additions	**1,062**	1,236
Withdrawals	**(1,507)**	(1,895)
Balance at 31 December	**770**	1,215

In view of the amount of the gross profit, the turnover rate and the fact these products are generally not dependent on trends to any significant extent, the risk of obsolescence of inventories is comparatively low. The prices realised in sales of obsolescent inventories usually exceed their cost.

The provision for obsolete inventories mainly relates to returned goods that cannot be returned to suppliers, damaged products, showroom products, products that will no longer be carried and products with a very low turnover. The direct net realisable value is estimated for each of these categories. If the carrying amount exceeds the direct net realisable value, the inventories are written down by this difference.

The total carrying amount of inventories for which there is a risk of obsolescence is € 3,009 (2017: € 5,492). The direct net realisable value of these inventories is € 2,239 (2017: € 4,277). Therefore the percentage of inventories for which there is a risk of obsolescence compared with total inventories was 5.3% (2017: 8.2%).

5. Receivables

All receivables fall due within less than one year and are carried at amortised cost, which is equal to the nominal value. Sales in stores and deliveries are settled in cash. Receivables relate mainly to receivables due from wholesale customers and trade receivables arising from agreed bonuses.

A provision of € 8 (2017: € 13) has been recognised for receivables due from wholesalers. This is 2.6% (2017: 1.7%) of the overdue receivables.

6. Cash and cash equivalents

Cash and cash equivalents can be broken down as follows:

	2018	2017
Bank balances	**2,842**	15,557
Cash	**470**	407
Cash in transit	**2,861**	1,705
Cash and cash equivalents in the consolidated balance sheet	**6,173**	17,669
Bank overdrafts	**(22,998)**	(17,481)
Cash and cash equivalents in the consolidated cash flow statement	**(16,825)**	188

7. Equity

Movements in equity items are shown in the consolidated statement of changes in equity (see page 57). The company's authorised share capital amounts to € 2,000, divided into 100 million ordinary shares with a nominal value of € 0.02 each.

Movements in the number of issued and fully paid-up shares and movements in the number of treasury shares are shown below:

	2018	2017
Issued and paid-up shares as at 1 January	**21,955,562**	21,955,562
Share issue on exercise of employee stock options	**-**	-
Issued and paid-up shares as at 31 December	**21,955,562**	21,955,562
Shares in portfolio as at 1 January	**-**	-
Repurchased during the year	**-**	-
(Re)issue on exercise of options	**-**	-
Sale of shares in portfolio	**-**	-
Shares in portfolio as at 31 December	**-**	-

The revaluation reserve relates to land.

8. Provisions

In relation to the restructuring of Matratzen Concord in Germany, Austria and Switzerland, a provision of € 5.0 million was recognised. This amount relates to employee termination payments and to lease contract termination costs. The Group expects to settle the majority of these contracts in 2019.

The remaining provision relates to onerous contracts for long-term leases relating to discontinued retail operations. This provision is based on the rent and the remaining term, taking account of a subletting probability and a mark-up for service costs.

The provision can be broken down as follows:

	2018	2017
Balance at 1 January	**121**	275
Additions	**4,999**	-
Withdrawals	**(77)**	(154)
Balance at 31 December	**5,043**	121
Of which current (in other liabilities)	**4,040**	77
Total provisions	**1,003**	44

9. Deferred tax liabilities

The deferred tax liabilities relate mainly to the differences between the valuation of fixed assets and inventories in the Netherlands, Germany and Switzerland for tax and financial reporting purposes. These differences are long-term by nature.

The deferred tax liabilities at year-end can be broken down as follows:

	2018	2017
Difference tax and financial reporting valuation tangible assets	**1,743**	1,609
Revaluation of company land	**825**	932
Difference tax and financial reporting valuation inventories	**835**	770
Difference tax and financial accounting rental obligations	**49**	72
Total	**3,452**	3,383

Movements in this item in 2018 and 2017 were as follows:

	2018	2017
Balance at 1 January	**3,383**	2,154
Through profit and loss account	**177**	1,229
Through equity	**(108)**	-
Balance at 31 December	**3,452**	3,383

10. Current liabilities

To fund the Group the company has current account facilities totalling € 40.5 million at its disposal. Furthermore, facilities totalling € 7.9 million are available for providing guarantees.

For the purpose of the current account facilities, the company and its subsidiaries have undertaken not to encumber their assets with any security rights without the prior consent of the lenders.

These current account facilities include two committed facilities, amounting € 10.0 million each, which will expire on 10 July 2020 and 15 July 2020 respectively. No security has been provided for the committed facilities. The main conditions of the credit facilities are a minimum solvency of 25% and a maximum net interest-bearing debt/EBITDA ratio of 2.5. The net interest-bearing debt/EBITDA ratio was not measured at year-end 2018 due to the fact that the way of measuring was amended as agreed with the banks. Based upon discussions held with the banks the aforementioned ratio is amended into an absolute EBITDA measure per 31 December 2018. The amended agreements have been met and as of 30 June 2019 the original ratio of net interest-bearing debt/EBITDA with a maximum of 2.5 will be measured again.

At the end of the year under review, an amount of € 23.0 million (2017: € 17.5 million) was used under the current account facilities. These facilities were also used for providing bank guarantees for the purpose of rental payments amounting to € 0.7 million (2017: € 0.5 million). Of the facilities available specifically to provide guarantees, a total of € 6.8 million was used at year-end 2018 (2017: € 6.7 million).

The other liabilities can be broken down as follows:

	2018	2017
Prepayments	**12,050**	11,977
Accruals personnel and staff benefits	**8,512**	8,413
Provisions	**4,040**	77
Other	**4,599**	3,393
Total	**29,201**	23,860

The item accrual for staff costs and employee benefits includes a pension liability for a former employee. This liability of € 1.4 million (2017: € 1.4 million) has been calculated on an actuarial basis.

11. Financial liabilities

	up to 3 months	3 to 12 months	1 to 5 years
2018			
Accounts payable	**24,409**	**-**	**-**
Credit institutions	**22,998**	**-**	**-**
Total	**47,407**	**-**	**-**
2017			
Accounts payable	30,629	-	-
Credit institutions	17,481	-	-
Total	**48,110**	**-**	**-**

The market value of the financial liabilities approximates their amortised cost.

12. Information by geographical area

Sales by country	2018	%	2017	%
Germany	**185,523**	**47**	202,426	50
The Netherlands	**151,858**	**38**	149,052	36
Other countries	**60,385**	**15**	58,546	14
Intercompany adjustment	**(1,435)**	**-**	(1,239)	-
Total	**396,331**	**100**	408,785	100

(In)tangible fixed assets by country	2018	2017
The Netherlands	**25,969**	25,285
Germany	**17,650**	19,482
Other countries	**8,949**	8,499
Total	**52,568**	53,266

13. Personnel expenses

The operating expenses include the following wage and salary components:

	2018	2017
Wages and salaries	**90,234**	86,389
Social security costs	**16,526**	15,582
Pension costs	**3,412**	3,581
Employee stock options	**83**	268
Total	**110,255**	105,820

The pension contributions relate virtually exclusively to defined contribution schemes or schemes designated as such. Within the costs of employee stock options, € 28 relates to the current and former members of the company's Management Board (2017: € 116).

Average number of employees

The companies included in the consolidation had an average of 2,807 employees (FTE) in 2018 (2017: 2,728):

	2018	2017
Germany	**1,651**	1,667
The Netherlands	**749**	711
Austria	**155**	155
Switzerland	**133**	109
Sweden	**94**	68
Belgium	**25**	18
Total	**2,807**	2,728

14. Option program

The options are long-term in nature and can be exercised providing that the profit target has been met. With effect from 2013, the costs of the option program are calculated using a combined model of Black & Scholes and Monte Carlo simulations. An overview of the details of the options granted and still outstanding, as well as the values employed in the Black & Scholes model, is provided below.

With effect from the options series 2013, in the first three years after the award of the options granted, 33.3% of the options will vest annually if the 'Total Shareholder Return' (TSR = share price gains plus dividend distributed) of Beter Bed Holding N.V. exceeds the 'Total Shareholder Return of the AScX', based on the year of the award. In addition, the employee is required to continue to be employed by the company for three years. Options can only be exercised if these conditions are met after three years.

The design of the option program was modified in 2016. The options are vested in full three years after their award (in contrast to 33.3% vested annually). In addition, the TSR of Beter Bed Holding achieved after three years is compared with the TSR of nine relevant national and international listed companies that jointly form a peer group. The Management Board of Beter Bed Holding N.V. is under the obligation to retain shares awarded under the option program for a period of at least four years. The former option policy/option agreement continues to prevail for options already awarded until 2016.

From the 2013 series, this means that the calculation will be based on three different Black & Scholes values, risk-free interest rates and volatility percentages. The ranges of those percentages are set out in the table below.

	2018 Signing options	**2018**	2017	2016	2014
Number granted	**100,000**	**37,500**	128,500	197,500	166,700
Number outstanding	**100,000**	**27,500**	5,000	5,000	12,000
Value per option in €	**0.31**	**1.11**	1.54	2.44	1.78 - 1.93
Exercise from	**01-04-2021**	**26-04-2021**	18-05-2020	19-05-2019	19-05-2017
Exercise through	**31-03-2022**	**25-04-2023**	17-05-2022	18-05-2021	19-05-2019
TSR > AScX	**N/A**	**-**	-	-	Partly
TSR > Peer Group	**N/A**	**-**	-	-	33.3%
Share price in € on the allotment date	**9.31**	**9.04**	15.78	20.00	17.37
Exercise price in €	**13.06**	**8.24**	15.53	19.99	17.37
Expected life	**4 years**	**5 years**	5 years	5 years	5 years
Risk-free rate of interest (%)	**(0.25)**	**0.03**	(0.27)	(0.52)	0.78 - 0.46
Volatility (%)[1]	**23.17**	**22.80**	22.10	25.40	27.50 - 21.94
Dividend yield (%)	**4.71**	**4.70**	4.40	3.40	5.20

1 Expected volatility is based on end-of-month closing prices for the most recent period with a length equalling the expected term with a maximum of five years.

In 2018 204,066 options expired as a number of employees holding options left the company before the expiration dates. In addition, a total of 1,666 options expired in 2018 due to the expiry of their term. Furthermore, a portion of the options expired because the vesting conditions were not satisfied. It concerned the 2015 part III series. Lastly, 137,500 new options were granted in 2018.

15. Depreciation and amortisation

	2018	2017
Depreciation and impairment on tangible assets	**13,690**	10,833
Amortisation and impairment on intangible assets	**2,497**	1,726
Total of depreciation, amortisation and impairment	**16,187**	12,559

The depreciation and amortisation rates applied are based on expected economic life and are as follows:

Company land	0%
Buildings	3.33%
Other fixed operating assets	10% to 33%
Intangible assets	5% to 33%

16. Other operating expenses

The other operating expenses comprise € 54.1 million in rental and lease costs (2017: € 49.3 million), with the remainder relating mainly to marketing expenses of € 21.1 million (2017: € 15.0 million), general expenses of € 17.0 million (2017: € 13.9 million) and other housing expenses of € 15.2 million (2017: € 14.6 million).

17. Income taxes

The reconciliation between the effective tax rate and the results of the calculation of the profit before taxes, multiplied by the local tax rate in the Netherlands, was as follows on 31 December:

	2018	2017
Profit (loss) before taxes from continuing operations	**(24,843)**	15,322
Tax using the company's domestic tax rate: 25.0% (2017: 25.0%)	**6,211**	(3,830)
Adjustment profit tax previous years	**(2,438)**	(60)
Permanent differences	**3,074**	79
Future loss set-off not included	**(1,516)**	(633)
Tax losses carried forward	**-**	120
Effect of the tax rates outside the Netherlands	**908**	(170)
At an effective tax rate of 25.1% (2017: 29.3%)	**6,239**	(4,494)
Profit tax in the consolidated profit and loss account	**6,239**	(4,494)

The effective tax rate decreased to 25.1% in 2018 (2017: 29.3%). A tax gain of € 4.9 million is recognised as permanent difference in relation to the anticipated liquidation of the Spanish legal entities in 2019. This liquidation loss regulation is part of the Dutch corporate income tax laws and regulations.

Furthermore a tax loss of € 2.5 million is recognised as adjustment profit tax previous years in relation to the outcome of a tax audit in Germany. The impact relates to intercompany loans and its interest rates over the period 2011-2016.

The item tax in the profit and loss account comprises the following:

	2,018	2,017
Tax for current year	**8,677**	(4,527)
Adjustment of profit tax for prior years	**(2,438)**	(60)
Temporary differences	**-**	93
Profit tax in the consolidated profit and loss account	**6,239**	(4,494)

18. Discontinued operations

	2018	2017
Sales	**6,310**	7,641
Cost of sales	**(3,453)**	(4,007)
Gross profit	**2,857**	3,634
Total expenses	**(7,503)**	(4,937)
Loss from discontinued operations (net of tax)	**(4,646)**	(1,303)

Beter Bed Holding N.V. sold the operations of El Gigante del Colchón effective 1 November 2018, following the announcement made on 27 July 2018 that Beter Bed Holding N.V. would look into possibilities in the second half of 2018 to transfer the exploitation. Via an asset deal all stores and employees related to the operation were transferred to the purchaser. The liquidation of the legal entities in Spain is anticipated in 2019.

	2018	2017
Cash flow from operating activities	**(2,640)**	(1,014)
Cash flow from investing activities	**(692)**	(238)
Net cash flow	**(3,332)**	(1,252)

19. Remuneration of the Management and Supervisory Board

The remuneration of members of the Management Board was as follows in 2018 and 2017:

2018

	Salary	Variable remune-ration	Pension	Employee stock options	Social security charges	Mobility cost	Total
A.J.G.P.M. Kruijssen[1]	**338**	**142**	**101**	**8**	**8**	**41**	**638**
H.G. van den Ochtend[2]	**85**	**43**	**21**	**-**	**3**	**4**	**156**
B.F. Koops[3]	**149**	**-**	**37**	**20**	**10**	**8**	**224**
Total	**572**	**185**	**159**	**28**	**21**	**53**	**1,018**

1 As of 1 April 2018.

2 As of 1 September 2018.

3 From 1 January up to and including 31 July 2018.

2017

	Salary	Variable remune-ration	Pension	Employee stock options	Social security charges	Mobility cost	Total
A.H. Anbeek[1]	297	-	89	52	14	10	462
B.F. Koops	255	56	64	64	17	16	472
Total	552	56	153	116	31	26	934

1 From 1 January 2017 up to and including 31 October 2017.

The variable remuneration relates to the year under which it is classified and is recognised in the expenses of that year. The maximum variable remuneration for the CEO for 2018 is equal to 60% of the gross fixed annual salary (split into 50% for quantitative targets and 50% for qualitative targets). The maximum variable remuneration for the CFO is 50% of the gross fixed annual salary (split into 40% for quantitative targets and 60% for qualitative targets). For both the CEO and CFO separate agreements were made related to the variable remuneration in 2018 at the time of nomination. The reported variable remuneration is the contractual agreed, guaranteed bonus for 2018.

The costs listed under ‘Employee stock options’ represent the amount accounted for in the profit and loss account for that year.

At the end of the financial year, Mr Kruijssen held 10,000 shares in Beter Bed Holding.

The remuneration of the members of the Supervisory Board was as follows in 2018 and 2017:

	2018	2017
D.R. Goeminne	**40**	40
H.C.M. Vermeulen	**17**	-
A. Beyens	**3**	-
P.C. Boone	**3**	-
B.E. Karis	**3**	-
E.A. de Groot [1]	**28**	30
W.T.C. van der Vis[1]	**28**	30
A.J.L. Slippens[1]	**9**	26
Total	**131**	126

1 Stepped down in 2018.

The members of the Supervisory Board hold no shares or exercisable options on shares in Beter Bed Holding.

20. Earnings per share

A loss of € 23.3 million divided by the average number of outstanding shares totalling 21,955,562 equates to earnings per share of € (1.06) in 2018 (2017: € 0.43). The number of shares used for the calculation of diluted earnings per share also amounts to 21,955,562. This results in diluted earnings per share of € (1.06) compared to € 0.43 in 2017.

The earnings per share and diluted earnings per share of the continuing operations amount to € (0.85) and € (0.85) respectively compared to € 0.49 and € 0.49 in 2017.

21. Commitments not included in the balance sheet

The company has entered into long-term rental and lease obligations concerning buildings and other operating assets. The minimum obligation on the balance sheet date can be broken down as follows:

Duration	2019	2020	2021	2022	2023	after 2023
Rental agreements	42,521	34,601	25,540	13,701	6,209	5,263
Lease agreements	2,825	2,247	1,432	709	370	173
Total	45,346	36,848	26,972	14,410	6,579	5,436

The majority of the rental agreements for the company premises required for the Benelux are long-term agreements (between five and ten years), with options for renewal. The majority of the rental agreements for Matratzen Concord have been concluded for a period between five to ten years, and include a clause stipulating that the agreements can be terminated without charge within the first two years.

In the year under review, amounts of € 51.0 million (2017: € 46.5 million) arising from rental agreements and € 3.1 million (2017: € 2.8 million) arising from lease agreements were accounted for in the profit and loss account.

22. Audit fees

The fees for the audit of the financial statements and other non-audit services by the independent auditor PwC Accountants were:

	2018	2017
Audit of financial statements	**343**	265
Other non-audit services	**41**	16
Total	**384**	281

The fees for the audit of the financial statements and other non-audit services performed by PwC Accountants in the Netherlands were € 238 (2017: € 130).

The other non-audit service in 2018 relates to the review of the interim figures.

23. Related parties

The companies listed in principles of consolidation (see page 61) are included in the consolidation of Beter Bed Holding N.V. and its participating interests.

Beter Bed Holding N.V. has issued declarations of joint and several liability for all Dutch group companies for the obligations arising from legal transactions entered into by these group companies. Pursuant to these letters of guarantees, the Dutch group companies have made use of the exemption options laid down in Section 403, paragraphs 1 and 3, of Part 9, Book 2 of the Dutch Civil Code.

The financial relationships between Beter Bed Holding N.V. and its participating interests consist almost fully in receiving dividends and receiving interest on loans provided.

There were no transactions in 2018 between the company and natural or legal persons holding at least 10% of the shares in the company that were of material significance to the company and/or the persons concerned.

24. Events after the balance sheet date

There have been no subsequent events between the end of the year under review and the preparation of these financial statements which ought to be disclosed.

Company financial statements

Company balance sheet

At 31 December

in thousand € (before proposed result appropriation)	Notes	2018	2017
Fixed assets			
Tangible assets		**1**	2
Intangible assets		**217**	151
Financial assets	1.	**84,784**	185,783
Total fixed assets		**85,002**	185,936
Current assets			
Receivables	2.	**4,225**	5,340
Cash and cash equivalents	3.	**32,346**	-
Total current assets		**36,571**	5,340
Total assets		**121,573**	191,276

in thousand € (before proposed result appropriation)	Notes	2018	2017
Capital and reserves	4.		
Issued share capital		**439**	439
Share premium account		**18,434**	18,434
Revaluation reserve		**3,200**	2,797
Reserve for currency translation differences		**548**	673
Other reserves		**47,265**	38,316
Retained earnings		**(23,250)**	9,525
Total equity		**46,636**	70,184
Liabilities			
Provisions	5.	**5,647**	9,912
Current liabilities	6.	**69,290**	111,180
Total liabilities		**74,937**	121,092
Total equity and liabilities		**121,573**	191,276

Company profit and loss account

in thousand €	2018	2017
Cost of sales	**1,480**	2,234
Gross profit	**1,480**	2,234
Wage and salary costs	**(1,130)**	(1,118)
Depreciation and amortisation	**(19)**	(46)
Other operating expenses	**(2,199)**	(1,465)
Total operating expenses	**(3,348)**	(2,629)
Operating profit (EBIT)	**(1,868)**	(395)
Finance income	**5,800**	6,672
Finance costs	**(843)**	(486)
Profit before taxation	**3,089**	5,791
Income tax expense	**4,117**	(880)
Result participations	**(30,456)**	4,614
Net profit (loss)	**(23,250)**	9,525

Notes to the company balance sheet and profit and loss account

General

The registered office of Beter Bed Holding N.V. is Linie 27, Uden, the Netherlands. The company financial statements have been compiled on the basis of Title 9, Book 2 of the Dutch Civil Code. Beter Bed Holding N.V. uses the option of art. 362.8 Title 9, Book 2 of the Dutch Civil Code to prepare the company financial statements, using the same accounting policies as in the consolidated financial statements (IFRS as adopted for use in the European Union). The participating interests in group companies are valued at the net asset value calculated in accordance with Beter Bed Holding N.V.'s policies. When a participating interest has a negative equity the sequence is as follows: first, the valuation of the participating interest is reduced, after which a write-down is applied to the amounts owed by this participating interest insofar as these are an increase of the net investment in the participating interest, and then a provision is formed.

Beter Bed Holding N.V. had an average number of six employees (FTE) in 2018 (2017: 7).

The company financial statements are presented in euros and all amounts are rounded to thousands (€ 000) unless stated otherwise.

The note on executive remuneration (see page 79) is included in the notes to the consolidated balance sheet and profit and loss account.

The fees charged for the audit of the financial statements and other non-audit services by the auditor PwC Accountants are also disclosed in the notes to the consolidated balance sheet and profit and loss account.

1. Financial assets

This item includes the participating interests in the group companies (see page 61) and the amounts owed by the group companies.

Movements in this item were as follows:

	Participating interests in group companies	Loans	Deferred tax assets	Total
Balance at 1 January 2017	**96,815**	**87,659**	**-**	**184,474**
Profit from participating interests in 2017	4,614	-	-	4,614
Dividend paid	(9,000)	-	-	(9,000)
Capital contribution	11,212	-	-	11,212
Repayment of loans to group companies	-	(419)	-	(419)
Exchange gain	(240)	-	-	(240)
Change to provisions for subsidiaries	(4,858)	-	-	(4,858)
Balance at 31 December 2017	**98,543**	**87,240**	**-**	**185,783**
Balance at 1 January 2018	**98,543**	**87,240**	**-**	**185,783**
Loss from participating interests in 2018	**(30,456)**	**-**	**-**	**(30,456)**
Capital contribution	**15,834**	**-**	**-**	**15,834**
Repayment of loans to group companies	**-**	**(87,240)**	**-**	**(87,240)**
Exchange gain	**(125)**	**-**	**-**	**(125)**
Revaluation	**403**	**-**	**-**	**403**
Change to provisions for subsidiaries	**(4,265)**	**-**	**-**	**(4,265)**
Permanent differences	**-**	**-**	**4,850**	**4,850**
Balance at 31 December 2018	**79,934**	**-**	**4,850**	**84,784**

2. Receivables

	2018	2017
Group companies	**1,823**	2,871
Taxes and social security contributions	**793**	72
Other receivables	**1,609**	2,397
Total	**4,225**	5,340

All receivables fall due within one year.

Beter Bed Holding N.V. uses a cash pool structure as a result of which there are minimal and very short term current account intra-group balances.

3. Cash and cash equivalents

This item relates to the balance of cash in hand and at the bank. The cash and cash equivalents are at the full disposal of the company.

4. Equity

The company's authorised capital amounts to € 2,000, divided into 100 million ordinary shares with a nominal value of € 0.02 each. At the end of 2018 21,955,562 shares had been issued and paid up (2017: 21,955,562).

There are no shares that have been repurchased and not yet cancelled. Repurchased shares are no longer included in the earnings per share calculation.

The movement in the equity items is explained in the consolidated statement of changes in equity (see page 57) . The revaluation reserve is the statutory revaluation reserve and relates to company land. The reserve for currency translation differences is also a statutory reserve. Neither reserve is freely distributable.

5. Provisions

At year-end 2018 and 2017 the provisions consisted in full of the provision for participating interests. The participating interests' provision is a provision for participating interests that have negative net asset value after setting off loans provided by the company.

The movements in the provisions in 2018 and 2017 are as follows:

	2018	2017
Balance at 1 January	9,912	14,770
Profit (loss) from participating interests	(4,265)	(4,858)
Balance at 31 December	5,647	9,912

In 2018 the negative equity of some of the subsidiaries has been purified through capital deposits. As such, these subsidiaries are now independently capable to meet their obligations. This has resulted in a decrease of the provision for participating interests of Beter Bed Holding N.V.

6. Current liabilities

The breakdown of this balance sheet item is as follows:

	2018	2017
Credit institutions	19,905	109,033
Group companies	48,351	-
Taxes and social security contributions	27	1,494
Other liabilities, accruals and deferred income	1007	653
Total	69,290	111,180

Beter Bed Holding N.V. uses a cash pool structure as a result of which there are minimal and very short term current account intra-group balances.

7. Commitments not included in the balance sheet

Together with the other Dutch operating companies, the company is part of a tax entity for corporation tax purposes. Each of the operating companies is jointly and severally liable for the tax payable of all operating companies included in the tax entity. The company settles the corporation tax with the operating companies concerned on the basis of the profit or loss before income tax of the operating company concerned.

Beter Bed Holding N.V. has issued declarations of joint and several liability for all Dutch group companies for the obligations arising from all legal transactions entered into by these group companies.

8. Post-balance sheet events

There have been no subsequent events between the end of the year under review and the preparation of these financial statements which are required to be disclosed.

9. Appropriation of result

The Management Board proposes to deduct the net result of € (23,250) in full from the other reserves. The proposal for the appropriation of result has not been taken into the balance sheet.

Uden, The Netherlands, 28 February 2019

Management Board
A.J.G.P.M. Kruijssen, CEO
H.G. van den Ochtend, CFO

Supervisory Board
D.R. Goeminne, Chairman
A. Beyens
P.C. Boone
B.E. Karis
H.C.M. Vermeulen

Additional details

Independent auditor's report

To: the general meeting and supervisory board of Beter Bed Holding N.V.

Report on the financial statements 2018

Our opinion

In our opinion:

- Beter Bed Holding N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- Beter Bed Holding N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2018 of Beter Bed Holding N.V., Uden ('the Company'). The financial statements include the consolidated financial statements of Beter Bed Holding N.V. together with its subsidiaries ('the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2018;
- the following statements for 2018: the consolidated profit and loss account and the consolidated statements of comprehensive income, cash flows and changes in equity; and
- the notes, comprising the accounting policies applied and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2018;
- the company profit and loss account for the year then ended;
- the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of Beter Bed Holding N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public-interest entities, the ‘Wet toezicht accountantsorganisaties’ (Wta, Audit firms supervision act), the ‘Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten’ (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the ‘Verordening gedrags- en beroepsregels accountants’ (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context
Beter Bed Holding N.V. is a European retail- and wholesale organisation in the bedroom furnishing sector. The group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section ‘The scope of our group audit’. We paid specific attention to the areas of focus driven by the operations of the company, being revenue and inventories.

The financial year was characterised by negative development of the financial results. This has had an impact on the adit approach as described in the section ‘Key audit matters’

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the management board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In the annual report, the entity has disclosed the accounting estimates and most important sources of estimation uncertainty in the section estimates and judgements on page 67. As a retail organisation, the inventory makes up 40% of the balance sheet of Beter Bed Holding N.V. The valuation of this inventory contains an important estimation uncertainty, which is partly based on management’s judgment. Given this uncertainty and the absolute volume of the inventory, we consider the existence and the valuation of the inventory a key audit matter. This has been further disclosed in the section ‘key audit matters’ of this auditor’s report.

Beter Bed Holding N.V. has strategic objectives related to increasing customer satisfaction and growth of both revenue and market share. To reach the objectives investments are made in online solutions, shop formulas and extension/optimisation of shops in different countries. Based on this, stakeholders are mainly referring to the development in revenue. As a result, we have identified accuracy of revenue as the second key audit matter in our audit. Furthermore, we have used revenue as basis in determining materiality as is further disclosed in the relevant section.

The aforementioned two key audit matters are consistent with prior years. In addition, we have included the negative development of the financial results as a third key audit matter. The development of revenue (and as a result the result) have stayed behind expectations. Amongst others, this has resulted in a preventive adjustment of the bank covenant ‘net-interest-bearing-debt divided by EBITDA’ to an absolute EBITDA. The management board has made plans and executed actions, which should result in recovery. Because of the increased risk which is inherent to future plans we have paid specific attention to this topic in our audit.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit. Therefore, we have included specialists in the areas of IT and income tax in our team. In addition, we have included experts in assessing the continuity assumption as a result of the negative development of the financial results, valuation of buildings and IFRS 16.

The outline of our audit approach was as follows:

Materiality

- Overall materiality: € 3.960.000.

Audit scope

- We conducted audit work on the financial reporting of 3 entities. We have audited the full financial statements of Beter Bed B.V., BBH Services GmbH & Co. KG (consolidated) and Matratzen Concord GmbH (Vienna, Austria) as part of the audit of the consolidated financial statements of Beter Bed Holding N.V.
- We have visted the auditor who has performed audit procedures on the German and Austrian entities.
- Audit coverage: 89% of consolidated revenue, 88% of total assets and 77% of profit before taxation.

Key audit matters

- Accuracy of net revenue
- Existence and valuation of inventories.
- Consequences of the negative development of financial results on the financial statements.

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€ 3.960.000 (2017: € 4,000,000).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 1% of total revenue.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that revenue is an important metric for the financial performance of the company. Profit before taxation is not considered an appropriate benchmark, because this would result in large fluctuations in overall group materiality year over year.
Component materiality	To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between € 2.000.000 and € 3.950.000.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above € 100.000 (2017: € 100.000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Beter Bed Holding N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Beter Bed Holding N.V.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at component level by the Group engagement team and by each component auditor.

The group audit primarily focussed on the significant components: Beter Bed B.V. and BBH Services GmbH & Co. KG (consolidated). At the level of BBH Services GmbH & Co. KG a subconsolidation is made for the German entities.

We have performed an audit of the complete financial information for these two entities as these entities are individually significant considering their financial volumes. Additionally, three entities have been included in the group scope to achieve appropriate coverage on financial line items in the consolidated financial statements. As such, Matratzen Concord GmbH (Vienna, Austria) was subjected to audit of their financial information. For Beter Beheer B.V. and Beter Bed Holding N.V. specific audit procedures have been performed on material financial line items to achieve appropriate coverage on financial line items in the consolidated financial statements.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Net revenue	89%
Total assets	88%
Profit before tax	77%

None of the remaining components represented more than 5% of total group revenue or total group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

The group audit team performed audit procedures on the components Beter Bed B.V., Beter Beheer B.V. and Beter Bed Holding N.V. As the auditor of the group we used the work performed by the component auditor of BBH Services GmbH & Co. KG (consolidated) and Matratzen Concord GmbH (Vienna, Austria).

Where component auditors performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether we had obtained sufficient appropriate audit evidence as a basis for our opinion on the consolidated financial statements as a whole.

Before the start of their audit procedures we have shared detailed instructions. As group aditor, we have had periodic meetings with the auditor of the components where we discussed risks, the audit approach, process of the audit, and based on reports received from the auditor, findings and conclusions. For both entities the group audit team reviewed the audit file of the component auditor to assess the quality of work performed. We discussed the financial results, (important) estimates and findings of the audit with the financial director and the audit team of the components. Furthermore, the group engagement team visited the component team multiple times throughout the year and for example attended the year end clearance meeting on site in Germany for BBH Services GmbH & Co. KG (consolidated) and Matratzen Concord GmbH (Vienna, Austria).

The group engagement team at the head office audits the group consolidation, financial statement disclosures and a number of specific items. These include share based payments, taxes and related disclosures and the company financial statements of Beter Bed Holding N.V.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context.

Key audit matter	Our audit work and observations
Accuracy of revenue *Note 12 to the consolidated profit and loss account in the financial statements* Revenue is an important measure used to evaluate the performance of the company (also refer to the materiality). There is a risk that the revenue is presented for amounts higher than what has been actually generated by the company, therefore this is a key audit matter. Revenue is accounted for when the sales transactions have been completed. This is when goods are delivered to the customer and no important economic risks remain for Beter Bed. Revenue is generated through store sales as well as online sales. Delivery has been completed when goods are paid and transferred to the customer in store or when goods are paid by the customer and delivered on location. These transactions are mainly processed automatically through IT.	We have assessed and evaluated the design and existence of the most important (automated) internal controls implemented by management, which are designed to ensure accurate processing of revenue transactions. Amongst these controls are controls related to the interface between the cash-register and the financial administration, 4-eye principle which is applied when making price changes, the reconciliation of payments made to drivers with bank receipts and the financial administration and the automated 'three-way match'. Additionally, by means of a sample we took notice of the internal representation(s) where local management takes responsibility for the reported revenue and determined that these do not contain exceptional items, which could give further direction to the audit of the revenue. Furthermore, we have established the operating effectiveness of the internal controls considered relevant for our audit. The most important internal control procedure for the accuracy of the revenue is the automated three-way-match in SAP. We assessed the Information Technology General Controls (ITGC) as a basis to be able to reperform the three-way-match between sales order-delivery-invoice. By means of data-analysis, we have made the reconciliation to the sales order, packing slip and invoice. No material findings were noted. Furthermore, we have performed risk assessment analytical procedures on realised revenue through detailed store comparison. The results of our controls testing, reperformance of the three-way-match and analytical procedures have been the basis for the nature and scoping of the additional test of details, which mainly consisted of testing individual sales orders by reconciling them to proof of delivery (on location) or release. Additionally, we peformed substantive procedures on credit notes sent thoughout the year and after balance sheet date to ensure appropriate revenue per year-end. These audit procedures have not resulted in material findings.

Key audit matter	Our audit work and observations
Existence and valuation of inventories *Note 4 to the consolidated balance sheet in the financial statements* Total inventories of € 56 million represent ca. 40% of total assets of Beter Bed Holding N.V. These inventories mainly consist of inventories in the stores and inventories kept at the distribution centers. Given the absolute amount of the inventory we consider the existence of these inventories to be a key audit matter. Valuation of the inventories is at cost or at lower net realisable value. Valuation at cost includes different components including allocated supplier bonuses. The allocation of supplier bonuses and the assessment of revaluation of inventories to net realisable value is partly based on management estimates. As a result of this estimation and related uncertainty, we also consider the valuation of inventory to be a key audit matter of our audit.	Our audit procedures to test the existence of the inventories mainly consist of testing the relevant internal control procedures, specifically by testing the inventory cycle counts that are periodically performed by management and the automated recording of sales transactions (three-way-match). Throughout the year, we have attended a selection of inventory cycle counts in stores and in the distribution centers, to validate counts performed by the company. We compared our count results with the results of the counts by Beter Bed representatives and noted no material differences. In addition, we have performed a sample count on the inventory for several distribution centers per year end. We compared our count results with the inventory administration and noted no material differences. To validate the valuation of inventories, we performed test of details on historical costs, actual margins and valuation of obsolete inventories. Historical costs were tested through reconciling historical costs with the original purchase invoice on a sample basis. Hereby, no material differences were noted. We assessed whether there were inventories which were sold with a (consistent) negative margin by evaluating recent sales invoices from January and February 2019 to validate management's assessment and decision whether inventories should or should not be impaired. Furthermore, we analysed the inventory turnover and compared that to management's estimates on obsolete inventories. These audit procedures have not resulted in findings to be communicated. For the allocation of supplier bonuses to the valuation of inventories at cost we recalculated the supplier bonuses per supplier based on supporting contracts. The settled supplier bonuses were tested by reconciling them to the bank statements. Furthermore, we have validated mathematical accuracy of the allocation to inventories as per year end. Finally, we have established that for main suppliers not included in the calculation no supplier bonuses were received and were therefore rigthfully excluded from the calculation of the inventory valuation. We have established that in 2019 no credit notes were received for this.

Key audit matter	Our audit work and observations
	Based on the audit procedures performed, we have not found any material findings.

Key audit matter	Our audit work and observations
Consequences of the negative development of financial results on the financial statements *[Note 'Extraordinary items' of the general notes]* Because of several circumstances, the development of revenue (and as such the results) has lagged behind. This has resulted into a strategic redesign, scenario analysis, reorganisation of Matratzen Concord, sale of the Spanish activities and a temporary, preventive amendment to the financing agreement where the bank covenant 'net-interest-bearing-debt divided by EBITDA' was adjusted once with an absolute EBITDA per 31 December 2018. The plans and actions taken by management should result in recovery of revenue and as such, the results. This recovery is partly dependent on external factors. Because of the uncertainty inherent in forward-looking plans and the underlying assumptions of, amongst others, revenue growth, we have included the consequences of the negative development of the financial result as a key audit matter for our audit.	The management board has made an analysis of the expected compliance of the company with the criteria on the bank covenants, including the 'net-interest-bearing-debt divided by EBITDA' ratio as at 30 June 2019, 31 December 2019 and 30 June 2020. In this analysis, management made various assumptions. We have assessed this analysis, including the assumptions, with the support of our experts. Where possible, we have tested these assumptions by comparing them to previously realised results, operational KPIs, results of actions taken and external sources. The underlying assumptions, opportunities and threads have been important points of attention in this process, as well as the sensitivity analysis on the bank covenant 'net-interest-bearing-debt divided by EBITDA'. We have assessed the analysis by means of a mix of audit techniques such as inquiry with different people within the company, calculations on the different models, reconciliation to supporting documentation and external documents. In addition, we have assessed the notes in the financial statements and the annual report. Based on the work performed we have no material findings to the applied assumption of continuity.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of: Introduction, Organisational structure, Management Board, Facts and figures, Strategy, Report of the Management Board, Regions, CSR, Corporate Governance, Supervisory Board, Report of the Supervisory Board, Remuneration report, Share information, Discontinued Operation, Additional details, Appropriation of result pursuant to the articles of association, Historical summary and Financial calendar.

Based on the procedures performed as set out below, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The management board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Beter Bed Holding N.V. on 19 May 2015 by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 19 May 2015. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 4 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 22 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the management board and the supervisory board for the financial statements

The management board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the management board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the management board should prepare the financial statements using the going-concern basis of accounting unless the management board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The management board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, the Netherlands, 28 February 2019
PricewaterhouseCoopers Accountants N.V.

Original has been signed by drs. W.C. van Rooij RA

Appendix to our auditor's report on the financial statements 2018 of Beter Bed Holding N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board.
- Concluding on the appropriateness of the management board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Appropriation of result pursuant to the articles of association

Article 34 of the Articles of Association states the most important provisions pertaining to the appropriation of result:

Paragraph 1

Every year the Management Board, subject to approval from the Supervisory Board, determines the proportion of the company's profit – the positive balance of the profit and loss account – to be added to the company's reserves.

Paragraph 2

The profit remaining after the reservation pursuant to the previous paragraph shall be placed at the disposal of the Annual General Meeting.