ONTEX GROUP NV

Statutory auditor's report to the general shareholders' meeting on the consolidated accounts for the year ended 31 December 2018

29 March 2019

STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF THE COMPANY ONTEX GROUP NV ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2018

We present to you our statutory auditor's report in the context of our statutory audit of the consolidated accounts of Ontex Group NV (the "Company") and its subsidiaries (jointly "the Group", "Ontex"). This report includes our report on the consolidated accounts, as well as the other legal and regulatory requirements. This report forms part of an integrated whole and is indivisible.

We have been appointed as statutory auditor by the general meeting d.d. 24 May 2017, following the proposal formulated by the board of directors and following the recommendation by the audit committee. Our mandate will expire on the date of the general meeting which will deliberate on the annual accounts for the year ended 31 December 2019. We have performed the statutory audit of the consolidated accounts of Ontex Group NV for 5 consecutive years.

Report on the consolidated accounts

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated statement of financial position total of EUR 2,789.6 million and a profit for the year of EUR 97.0 million.

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Belgium. Furthermore, we have applied the International Standards on Auditing (ISAs) as approved by the IAASB for the years ending as from 31 December 2018, which are not yet approved at the national level. Our responsibilities under those standards are further described in the "Statutory auditor's responsibilities for the audit of the consolidated accounts" section of our report. We have fulfilled our ethical responsibilities in accordance with the ethical requirements that are relevant to our audit of the consolidated accounts in Belgium, including the requirements related to independence.

We have obtained from the board of directors and Company officials the explanations and information necessary for performing our audit.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of our audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>(1) Impairment of goodwill and indefinite useful life intangible assets</u>

<u>Description of the key audit matter</u>

Ontex carries a significant value of goodwill on the balance sheet amounting to EUR 1,165.2 million as detailed in disclosure 7.9. Under The International Financial Reporting Standards as endorsed by the EU ("IFRS's"), the Company is required to test the amount of goodwill and indefinite useful life intangible assets for impairment at least annually. We consider this matter to be of most significance because of the complexity of the assessment process and significant judgments in respect of assumptions about the future results of the business and the discount rates applied to future cash flow forecasts. The most important assumptions relate to the discount rate, growth rates of revenue and operating margin. We focused on the goodwill, intangible assets and property, plant and equipment of the Cash Generating Unit (further CGU) Americas because the headroom between the value in use of this CGU and its carrying value was significantly lower compared to the headroom in the other CGUs.

<u>How our audit addressed the key audit matter</u>

We challenged if the goodwill impairment test was performed at the lowest CGU level at which the goodwill is monitored. We challenged the cash flow projections used in the impairment tests and the process through which they were prepared. We found that the projected cash flow for 2019 were consistent with the Board approved budgets, which were subject to timely oversight and challenge by the Directors. We have critically assessed the historical accuracy of management's estimates and evaluation of business plans by comparing the prior year's forecast with the company's actual performance. For the cash flows after 2019 we critically assessed and checked the assumptions related to the long term growth rates, by comparing them to industry forecasts and historical growth rates. We compared the weighted average cost of capital to the cost of capital and debt of the company and comparable organisations, as well as considering territory specific factors. We tested the calculation method used and the accuracy thereof. We compared operating margin, working capital- and CAPEX percentage with past actuals. We challenged the adequacy of management's sensitivity analysis of the headroom. For all CGUs we calculated the degree to which these assumptions would need to move before an impairment conclusion was triggered. We discussed the likelihood of such a movement with management. We included valuation specialists in our team to assist us with these procedures. We also assessed the adequacy of the disclosures (Note 7.9 and Note 7.4.3) in the financial statements.

Our results

From our sensitivity analysis, we found the likelihood of changes resulting in impairment losses to be unlikely.

(2) Valuation of deferred taxes and valuation allowance on deferred tax assets related to tax losses carried forward

Description of the key audit matter

Ontex has recognised a deferred tax asset and deferred tax liability of respectively EUR 26.5 million and EUR 49.9 million. EUR 86.7 million deferred tax asset position was not recognised, as disclosed in Note 7.18. Ontex recognised in 2018 EUR 8.5 million deferred tax assets on previously unrecognised tax losses as disclosed in Note 7.26. The valuation of the deferred tax positions at Ontex involved significant judgement, more specifically in the determination of the recognition of deferred tax assets related to tax losses carried forward. The estimation of the future taxable basis is highly judgemental as well as the assessment of the impact of tax laws and regulations, tax planning action and strategies, rulings and transfer pricing. Because of all the aforementioned reasons, we found this key audit matter to be of most significance for our audit.

How our audit addressed the key audit matter

We challenged the assumptions made to assess the recoverability of deferred tax assets related to tax losses carried forward and the timing of the reversal of deferred tax positions. During our procedures, we used amongst others budgets, forecasts and tax laws and in addition we assessed the historical accuracy of management's assumptions. We involved tax specialists in our audit. An important management judgement was the period over which taxable profits can be reliably estimated and consequently, no deferred tax assets are recognised for tax losses used in any period beyond. We verified that the deferred tax position was calculated at the enacted tax rate for the year in which the deferred tax position is expected to reverse.

We also assessed the adequacy and completeness of the Company's disclosure included in Note 7.4.1, 7.18 and 7.26 in respect of deferred taxes.

Our results

We found management's judgements in respect of the Group's deferred tax positions to be consistent and in line with our expectations.

(3) Accounting for accruals for sales incentives and purchase related incentives

Description of the key audit matter

Trade discounts and volume rebates related to both sales and purchases are subject to judgmental estimates and assessments of the impact of commercial negotiations which take place after year-end. The impact of commercial negotiations is material and hence of most significance for our audit. Ontex calculates an estimate of final incentives based on the information available until the financial statements are established. Incentives related to sales are reported as deduction of company's revenue. Purchase discounts are recorded as a deduction of the initial purchase.

How our audit addressed the key audit matter

We have agreed the discount percentages or lump sum payments to underlying customer and purchase agreements, we recalculated the accrual and challenged the estimated impact of commercial negotiations taking into account the results. We also performed back-testing on the accruals per 31 December 2017. We also reviewed credit notes and other adjustments to trade receivables and trade payables after 31 December 2018 as part of our work around subsequent events. Finally we have audited manual journal entries related to discounts in order to confirm that sufficient documentation and suitable attestations exist for these entries.

Our results

Our work did not identify findings that are significant for the financial statements as a whole.

Responsibilities of the board of directors for the preparation of the consolidated accounts

The board of directors is responsible for the preparation of consolidated accounts that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Statutory auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounts.

In performing our audit, we comply with the legal, regulatory and normative framework applicable to the audit of the consolidated accounts in Belgium.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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 override of internal control.

- Obtain 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated accounts 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 statutory auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors and with the audit committee 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.

We also provide the board of directors and the audit committee 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 board of directors and with the audit committee, we determine those matters that were of most significance in the audit of the consolidated accounts 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.

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated accounts.

Statutory auditor’s responsibilities

In the context of our mandate and in accordance with the Belgian standard (Revised in 2018) which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report on the consolidated accounts and to report on these matters.

Aspects related to the directors’ report on the consolidated accounts

In our opinion, after having performed specific procedures in relation to the directors’ report on the consolidated accounts, this report is consistent with the consolidated accounts for the year under audit, and it is prepared in accordance with article 119 of the Companies’ Code.

In the context of our audit of the consolidated accounts, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors’ report on the consolidated accounts and the other information included in the integrated annual report on the consolidated accounts is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you.

The non-financial information required by virtue of article 119, §2 of the Companies’ Code is included in the directors’ integrated annual report on the consolidated accounts. The Company has prepared the non-financial information based on the Global Reporting Initiative Standards and with reference to the Sustainable Development Goals. However, in accordance with article 148, §1, 5° of the Companies’ Code, we do not express an opinion as to whether the non-financial information has been prepared in accordance with the Global Reporting Initiative Standards and with reference to the Sustainable Development Goals.

Statement related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the consolidated accounts, and our registered audit firm remained independent of the Group in the course of our mandate.
- The fees for additional services which are compatible with the statutory audit of the consolidated accounts referred to in article 134 of the Companies' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

Other statements

- This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.

Ghent, 29 March 2019

The statutory auditor
PwC Bedrijfsrevisoren CVBA
Represented by

Peter Opsomer
Registered Auditor