


# LSF9 Balta Issuer S.A.

## Annual Report to Noteholders
## €290,000,000 7.75% Senior Secured Notes due 2022

## Annual Period ended December 31, 2015


**LSF9 Balta Issuer S.A.**

**Registered office:** 33, rue du Puits Romain, L-8070 Bertrange
**R.C.S. Luxembourg:** B 198084
**Capital:** €171,000


INSPIRING FLOORS

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# Presentation of Financial Data

LSF9 Balta Issuer S.A. ("the Company" or "Balta Issuer") is a public limited liability company (société anonyme) incorporated on June 22, 2015 under the laws of Luxembourg and is a wholly-owned subsidiary of LSF9 Balta Midco S.à r.l, which is in turn controlled indirectly by Lone Star Fund IX.

On June 14, 2015, LSF9 Balta Investments S.à r.l. ("Balta Investments"), a subsidiary of the Company, entered into a sale and purchase agreement to purchase from Balta Luxembourg S.à r.l. (the "Seller") all of the issued and outstanding share capital of Balta Finance S.à r.l. ("Balta Finance"), the former parent entity of the Balta Group and its subsidiaries, and certain intercompany loans between Balta Finance (as borrower) and the Seller (as lender) (the "Acquisition"). The closing of the Acquisition was reached on August 11, 2015 ("Completion Date").

Prior to the Acquisition, the Company had no operating activities. As a consequence, the Company is unable to show any relevant financial information for the period prior to the Acquisition. Therefore, the consolidated results of Balta Finance for the period from January 1, 2015 to August 10, 2015 have been aggregated with the consolidated results of the Company for the period ended December 31, 2015, as if the Company had ownership of Balta Finance for the full twelve month period ended December 31, 2015. We refer to these figures as the "combined financial statements". For further information on our Basis of Preparation, refer to section II.2.

The Acquisition has been recorded using the acquisition method of accounting, in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS"). Although the purchase accounting requirement has no impact on the Company's business or cash flow, it adversely impacts the Company's reported IFRS gross margin and EBITDA for the period between the Acquisition and December 31, 2015. In order to provide investors with financial information that facilitates comparison with both historical and future results, the Company has opted to present different financial frameworks, both IFRS and non-IFRS. In section I, Management Report, the Company provides an overview of the business performance and financial performance on the basis of a non-IFRS framework in which the impact of the purchase price allocation adjustments has been excluded. In section II, the Company provides an overview of the business and financial performance during a twelve month period, on the basis of the recognition and measurement principles of IFRS and in accordance with the Basis of Preparation included in section II.2. This reflects the impact of the purchase price allocation. The reconciliation between the IFRS and non-IFRS framework is provided in section II.3.

The non-IFRS framework presented in the Management Report provides management with additional means to understand and evaluate the operating results and trends in our ongoing business. This has been done by adjusting for certain non-cash expenses and other items that management believes might otherwise make comparisons of our ongoing business with prior and future periods more difficult, or reduce management's ability to make useful forecasts. In addition, management believes that some investors and financial analysts will find this information helpful in analyzing our financial and operational performance and comparing to our peers and competitors.

As a result of the above, and in order to provide meaningful, reliable, relevant and comparable financial information to the noteholders, the Company has opted to split its annual report in three sections as set out below:

- **Section I - Management Report**: The Company provides an overview of the business performance and financial performance during a 12-month period, on the basis of a non-IFRS framework. The figures presented in the Management Report have been derived from the audited Combined Financial Statements whereby the impact of the purchase price allocation has been excluded.

- **Section II – Combined Financial Statements**: The Company provides an overview of the business performance and financial performance during a 12-month period, on the basis of the recognition and measurement principles of IFRS, reflecting the impact of the purchase price allocation. The principal characteristic of the combined financial statements is that they present the historical financial information of the Balta group for which it is not possible to present consolidated financial statements because a full parent-subsidiary relationship (as defined by IAS 27/IFRS 10) does not exist amongst all component entities being combined. In particular, Balta Issuer did not own and control Balta Finance and its subsidiaries prior to the Acquisition. The Combined Financial Statements have been audited by PricewaterhouseCoopers Société cooperative in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information. We refer to the assurance report of the independent auditor in section II.1.

- **Section III – Consolidated Financial Statements**: The consolidated financial statements have been prepared in accordance with IAS 27 and IFRS 10 and therefore present the financial performance of the legal group owned and controlled by the Company as from the Completion Date, as well as the stand-alone results of the Company and Balta Investments from incorporation until Completion Date. The Consolidated Financial Statements have been audited by PricewaterhouseCoopers Société cooperative. We refer to the audit report of the independent auditor in section III.1.

Finally, we wish to underpin the fact that the need for combined financial statements is only temporary. The combined financial statements are inherently a 'temporary' measure. From 2016 onwards, the Group will be in a position to prepare comparable consolidated financial statements.

All comparisons made to 2014 relate solely to the consolidated financial statements of Balta Finance.

**Important Notice**

In this report, the terms "Group," "we," "us" and "our" refer to the Company and its subsidiaries.

This report is not being made, and this report has not been approved, by an authorized person for the purposes of section 21 of the Financial Services and Markets Act 2000, as amended (the "FSMA"). This report is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order or (iv) any other person to whom it may otherwise lawfully be communicated without contravention of Section 21 of the FSMA (all such persons in (i), (ii), (iii) and (iv) above together being referred to as "relevant persons"). The securities referred to herein are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this report or any of its contents. Stabilization in respect of the Senior Secured Notes may be conducted in accordance with applicable laws.

This report may contain "forward looking statements" within the meaning of the U.S. federal securities laws and the securities laws of certain other jurisdictions. In some cases, these forward looking statements can be identified by the use of forward looking terminology, including the words "aims," "anticipates," "believes," "continue," "could," "estimates," "expects," "forecasts," "future," "guidance," "intends," "may," "ongoing," "plans," "potential," "predicts," "projects," "seek," "should," "target," "will," "would" or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, investments, future events, beliefs or intentions. These forward looking statements are based on plans, estimates and projections as they are currently available to our management. Such forward looking statements are not guarantees of future performance and are subject to, or are based on, a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward looking statements. Due to such uncertainties and risks, readers are cautioned not to place undue

reliance on such forward looking statements. Any forward looking statements are only made as at the date hereof and, except to the extent required by applicable law or regulation, we undertake no obligation to publicly update or publicly revise any forward looking statement, whether as a result of new information, future events or otherwise.

The financial information herein includes certain non-IFRS measures that we use to evaluate our economic and financial performance. These measures include, among others, EBITDA, EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin and Operating Profit Before Exceptional Items. We present non-IFRS measures because we believe that they and similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity and are intended to assist in the analysis of our operating results, profitability and ability to service debt. EBITDA and Adjusted EBITDA are not measures of financial performance under IFRS and should not be considered in isolation or as an alternative to any other measures of performance derived in accordance with IFRS. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

# Section I: Management Report

## I.1. Highlights and Key Figures

For the twelve months ended December 31, 2015, our revenue and Adjusted EBITDA reached €556.8 million and €75.5 million, a 7% and 16% increase, respectively, compared to the year ended December 31, 2014, and our ratio of Net Debt to Adjusted EBITDA is equal to 3.6x as of December 31, 2015.

These favorable results have been supported by a more positive underlying macro-economic environment in the United Kingdom and United States, whilst market conditions in continental Europe remain soft. In addition, financial performance has been supported by favorable foreign exchange movements (USD and GBP) and our ability to retain a portion of the benefits associated with lower raw material prices.

| | For the twelve months ended December 31, | |
|---|---|---|
| **( € thousands)** | **2015** | **2014** |
| **Results** | | |
| Revenue | 556,822 | 519,529 |
| Adjusted EBITDA [1] | 75,467 | 65,149 |
| Adjusted EBITDA margin [2] | 13.6% | 12.5% |
| Non-recurring items | (33,687) | (2,101) |
| EBITDA [1] | 41,780 | 63,047 |
| Depreciation / amortisation | (24,098) | (24,802) |
| Impairment and write-off | - | (12,689) |
| Operating profit / (loss) | 17,682 | 25,556 |
| Profit / (loss) for the period | (27,468) | 1,236 |
| **Cash flow** | | |
| Cash at the beginning of period | 66,654 | 48,009 |
| Net cash flow from operating activities | 39,618 | 60,771 |
| Net cash flow from investing activities | (309,739) | (25,263) |
| Of which: capital expenditure | (36,900) | (25,263) |
| Of which: Acquisition | (272,838) | - |
| Net cash flow from financing activities | 248,928 | (16,862) |
| Cash at the end of period | 45,462 | 66,654 |
| **Financial position** | | |
| Net debt [3] | 273,952 | |
| Net debt / Adjusted EBITDA | 3.6x | |
| Pro-forma cash interest expense [4] | 23,763 | |
| Adjusted EBITDA / pro-forma cash interest expense | 3.2x | |

(1) We define EBITDA as Operating profit / (loss) adjusted for depreciation, amortization and impairment and write-off. We define Adjusted EBITDA as Operating profit / (loss) adjusted for depreciation, amortization and impairment and write-off, as further adjusted to eliminate the impact of certain items that we do not consider indicative of our on-going operating performance such as the non-cash impact of the purchase price allocation.

(2) Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by revenue

(3) Net debt reflects the Senior Secured Notes (€290.0 million capital and €9.2 million accrued interest) and capital leases (€20.2 million) less cash and cash equivalents (€45.5 million). Capitalised financing fees, equal to €15.4 million as of December 31, 2015, have been excluded.

(4) *Pro forma* cash interest expense represents our cash interest expense, as adjusted to give effect to the Transactions (including the accrued interest on the Senior Secured Notes, the finance leasing debt and the Revolving Credit Facility), as if such debt had been outstanding on January 1, 2015. *Pro forma* cash interest expense does not include any charges related to debt issuance costs in connection with the offering of the Senior Secured Notes or arrangement fees under the Revolving Credit Facility. *Pro forma* cash interest expense has been presented for illustrative purposes only and does not purport to represent what our interest expense would have actually been had the issue of the Senior Secured Notes occurred on the date assumed, nor does it purport to project our interest expenses for any future period or our financial condition at any future date.

## I.2. Business Review

| | For the twelve months ended December 31, | |
|---|---|---|
| | **2015** | **2014** |
| **Volumes (millions of square meters)** | **122.1** | **119.9** |
| Rugs | 26.5 | 23.2 |
| Residential | 56.5 | 57.1 |
| Commercial | 8.8 | 7.7 |
| Non-Woven | 30.3 | 31.9 |
| **Revenue (€ thousands)** | **556,822** | **519,529** |
| Rugs | 204,076 | 181,544 |
| Residential | 247,495 | 239,148 |
| Commercial | 79,243 | 69,904 |
| Non-Woven | 26,008 | 28,933 |
| **Adjusted EBITDA (€ thousands)** | **75,467** | **65,149** |
| Rugs | 34,184 | 30,823 |
| Residential | 27,742 | 23,237 |
| Commercial | 11,194 | 7,942 |
| Non-Woven | 2,346 | 3,147 |
| **Revenue by geography (€ thousands)** | **556,822** | **519,529** |
| Europe | 439,873 | 428,049 |
| North-America | 64,229 | 43,611 |
| Rest of World | 52,720 | 47,869 |
| **Revenue by geography (%)** | **100%** | **100%** |
| Europe | 79% | 82% |
| North-America | 12% | 9% |
| Rest of World | 9% | 9% |

### *Rugs*

Revenue and volumes increased by 12% and 14%, respectively, driven by strong business development with key customers in the US and enabled by the design of a specific US product range, and the strengthening of the commercial team which were both supported by increased capacity in our Turkish facility. However, despite the improved trading in the US, the economic recovery in continental Europe remains soft. Foreign exchange translation effects have positively impacted revenue, but have had limited effects on Adjusted EBITDA given the natural hedge position between USD revenues and costs. Adjusted EBITDA has increased by 11% from €30.8 million to €34.2 million.

### *Residential*

Revenue has increased by 3% whilst volumes have decreased by 1%. Performance has been particularly strong in the UK, where volume growth has been driven by successful business development with most key customers and has been supported by the general economic recovery. This has been partially offset by difficult market conditions in continental Europe and Russia.

EBITDA has increased by 19% from €23.2 million to €27.7 million, reflecting the Group's ability to retain part of the benefits associated with lower raw material costs and favorable foreign exchange effects.

### *Commercial*

Revenue and volumes have increased by 13% and 14%, respectively. Commercial tiles continues to report strong volume growth in all key regions, thanks to the launch of new products and the strengthening of the sales team. Similarly, we have benefited from strong growth in the sales of commercial broadloom carpets in all key regions. On a full-year basis, EBITDA has increased by 41% from €7.9 million to €11.2 million, reflecting the growth in revenues and supported by lower raw material prices.

### *Non-Woven*

Revenue and volumes have decreased by 10% and 5%, respectively, because of our decision to rationalize some low margin product ranges which has been implemented during 2014.

## I.3. Financial Review

### *Operating profit*

Operating profit decreased by €7.9 million to €17.7 million for the year ended December 31, 2015 from €25.6 million for the year ended December 31, 2014. This decrease is explained by the fact that the €23.7 million growth in recurring gross profit has been offset by a significant increase in non-recurring items. This is driven by €30.9 million of non-recurring transaction expenses and exit bonuses arising from the Acquisition and (aborted) IPO related expenses. An additional €2.5 million non-recurring charges have been incurred in relation to organizational realignment costs and strategic advisory services.

### *Financial result and taxation*

Combined net financial expenses amount to €38.5 million in 2015, as compared to €32.2 million in 2014. The net financial expenses comprise interest charges on both the debt that has been extinguished at Completion Date (or soon thereafter), interest charges on the new financing agreements and a number of non-cash items.

| (€ thousands) | 2015 |
|---|---|
| **Total finance expenses** | **38,541** |
| **Finance expenses related to debt existing as of December 31, 2015** | **13,228** |
| Senior Secured Notes | 10,132 |
| Of which: interest | 9,177 |
| Of which: financing fees | 955 |
| Revolving Credit Facility | 731 |
| Financial leasing | 581 |
| Factoring/Forfaiting/Bank charges | 1,784 |
| **Finance expenses related to debt fully repaid in the course of 2015** | **7,926** |
| Senior Facilities Agreement | 7,065 |
| Of which: interest | 4,801 |
| Of which: financing fees | 2,264 |
| Turkish facility (Halkbank debt) | 701 |
| Reversed Factoring | 69 |
| Shareholder loan | 91 |
| **Non-cash finance expenses** | **17,387** |
| Interest expense on liabilities with related parties | 11,988 |
| Foreign exchange losses on intercompany transactions | 5,399 |

Interest expenses on debt that continues to exist as of December 31, 2015 is equal to €13.2 million. This comprises the effective interest charge on the Senior Secured Notes, interest paid on the Revolving Credit Facility, interest on the financial leasing agreement and interest paid on factoring and forfaiting agreements.

Total interest expense on debt that has been fully repaid in the course of 2015 is equal to €7.9 million, driven by interest paid on the Senior Facilities Agreement.

In addition, a non-cash expense of €17.4 million has been recorded in relation to intercompany transactions. This comprises €12.0 million of interest expenses on a shareholder loan between Balta Finance and Balta Luxembourg S.à r.l. and €5.4 million of non-cash foreign currency losses in relation to euro-denominated intercompany balances between a Belgian entity and its Turkish subsidiary. As explained in Note 10 of the Combined Financial Statements, the shareholder loan has been transferred from Balta Luxembourg S.à r.l. to Balta Investments. Consequently, the associated debt held by Balta Finance and the receivable held by Balta Investments have become intercompany positions, as a result of which interest income/expense thereon is eliminated in consolidation in the period following the Completion Date.

Income taxes represent an expense of €6.7 million in 2015 as compared to a benefit of €7.9 million in 2014. The latter was primarily due to the initial recognition of deferred tax assets arising from the carry-forward of unused tax losses, following the decision at the start of 2014 to convert a substantial part of Balta Oudenaarde

N.V. into a contract manufacturer for Balta Industries N.V. In 2015, the Group incurred non-recurring transaction and restructuring fees leading to substantial tax losses. As it is not probable that sufficient taxable profit will be realized in the coming years by the envisaged legal entities to offset those losses, no deferred tax assets have been recognized. This explains why a tax expense has been recognized, despite a loss before income taxes.

### *Cash flow statement*

For the year ended December 31, 2015, cash flow from operations is equal to €39.6 million. When eliminating the impact of the transaction and restructuring fees, the recurring cash flow from operations is equal to €73.3 million, as compared to €60.8 million for the year ended December 31, 2014, reflecting the improved performance of the business.

Net cash used in investing activities is equal to €309.7 million for the year ended December 31, 2015. This comprises €36.9 million of capital expenditure, as compared to €28.5 million in the same period last year (excluding disposals), and €272.8 million paid by Balta Investments to the Seller as the net consideration for the Acquisition.

Net cash generated from financing activities is equal to €248.9 million for the year ended December 31, 2015. This amount can be broken down as follows:

- €140.0 million of proceeds from issuance of capital and preferred equity certificates
- €290.0 million of proceeds from issuance of Senior Secured Notes
- (€158.0) million of capital repayments, including the repayment in full on August 11, 2015 of all outstanding borrowings under the Senior Facility Agreement, the Reverse Factoring Agreement and the subordinated shareholder debt agreement, together with the full repayment of the debt outstanding under the Halkbank Facility
- (€16.4) million of transactions fees in connection with the issuance of the Senior Secured Notes
- (€6.7) million of interest charges

### *Impact of Purchase price allocation*

The following table summarizes the consideration paid by Balta Investments on August 11, 2015 for the acquisition of Balta Finance and the amounts of assets acquired and liabilities assumed recognized at the acquisition date.

| **(€ thousands)** | **August 11, 2015** |
|---|---|
| Property plant & equipment | 293,175 |
| Intangible assets | 1,438 |
| Deferred income tax asset | 7,290 |
| Financial assets | 1,278 |
| Derivative financial instruments | 1,241 |
| Inventories | 162,740 |
| Trade and other receivables | 45,203 |
| Current income tax assets | 17 |
| Cash and cash equivalents | 40,656 |
| Borrowings | (31,185) |
| Deferred income tax liabilities | (71,486) |
| Employee benefit obligations | (29,503) |
| Trade and other payables | (266,524) |
| Derivative financial instruments | (293) |
| Provisions for other liabilities and charges | (64) |
| Current income tax liabilities | (5,899) |
| **Total identifiable net assets acquired** | **148,085** |
| **Allocation to goodwill** | **124,673** |
| **Purchase price paid in cash** | **272,758** |

We refer to section II.3 for further details on the impact of the purchase price allocation.

## I.4. Unaudited Pro Forma Combined Statement of Comprehensive Income for the Twelve Month Period Ended December 31, 2015

The table below provides an overview of the financial performance during a 12-month period, on the basis of a non-IFRS framework. The figures presented in the Management Report have been derived from the audited Combined Financial Statements whereby the impact of the purchase price allocation has been excluded.

| (€ thousands) | Successor Period | Predecessor Period | Combined | Predecessor |
|---|---|---|---|---|
| | Period from August 11, 2015 to December 31, 2015 | Period from January 1, 2015 to August 10, 2015 | Twelve months ended December 31, 2015 | Twelve months ended December 31, 2014 |
| | (unaudited) | (unaudited) | (unaudited) | (audited) |
| **I. CONSOLIDATED INCOME STATEMENT** | | | | |
| Revenue | 194,777 | 362,045 | 556,822 | 519,529 |
| Raw material expenses | (92,001) | (166,858) | (258,859) | (256,794) |
| Changes in inventories | (1,261) | (1,264) | (2,525) | 9,033 |
| **Gross Profit** | **101,515** | **193,923** | **295,438** | **271,768** |
| Employee benefit expenses | (46,972) | (86,474) | (133,446) | (128,191) |
| Other income | 5,586 | 5,292 | 10,879 | 10,960 |
| Other expenses | (33,128) | (64,275) | (97,403) | (89,388) |
| **Adjusted EBITDA[1]** | **27,000** | **48,467** | **75,467** | **65,149** |
| Depreciation / amortization | (8,014) | (16,084) | (24,098) | (24,802) |
| **Operating profit before exceptional items[1]** | **18,986** | **32,383** | **51,369** | **40,347** |
| Result from acquisitions and disposals | - | - | - | 530 |
| Non-recurring income | - | - | - | 557 |
| Integration and restructuring expenses | (10,396) | (23,291) | (33,687) | (3,189) |
| Impairment and write-off | - | - | - | (12,689) |
| **Operating profit/(loss)** | **8,590** | **9,092** | **17,682** | **25,556** |
| Finance income | (0) | 79 | 79 | 2,367 |
| Finance expenses | (9,495) | (29,045) | (38,541) | (34,543) |
| **Net finance expenses** | **(9,495)** | **(28,967)** | **(38,462)** | **(32,176)** |
| **Profit / (loss) before income taxes** | **(905)** | **(19,875)** | **(20,780)** | **(6,620)** |
| Income tax benefit / (expense) | (5,031) | (1,657) | (6,688) | 7,856 |
| **Profit / (loss) for the period from continuing operations** | **(5,936)** | **(21,532)** | **(27,468)** | **1,236** |
| Profit / (loss) for the period from discontinued operations | - | - | - | - |
| **Profit / (loss) for the period** | **(5,936)** | **(21,532)** | **(27,468)** | **1,236** |
| **II. CONSOLIDATED OTHER COMPREHENSIVE INCOME** | | | | |
| Items in other comprehensive income that may be subsequently reclassified to P&L | | | | |
| Exchange differences on translating foreign operations | 720 | 4,985 | 5,705 | 1,901 |
| Items in other comprehensive income that will not be reclassified to P&L | | | | |
| Changes in employee defined benefit obligations | 944 | 299 | 1,243 | (1,827) |
| **Other comprehensive income for the period, net of tax** | **1,664** | **5,284** | **6,948** | **74** |
| **Total comprehensive income for the period** | **(4,272)** | **(16,248)** | **(20,520)** | **1,310** |

(1) Adjusted EBITDA and Operating profit before exceptional items are non-GAAP measures as described in the Important Notice. We define Operating profit before exceptional items as Adjusted EBITDA less depreciation and amortization expenses.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to Operating profit for the twelve months ended December 31, 2014 and 2015.

| (€ thousands) | Combined<br>Twelve months ended December 31, 2015 | Predecessor<br>Twelve months ended December 31, 2014 |
|---|---|---|
| **Operating profit** | **17,682** | **25,556** |
| *Adjusted for*: | | |
| Depreciation / amortization | 24,098 | 24,802 |
| Impairment and write-off[1] | - | 12,689 |
| **EBITDA** | **41,780** | **63,047** |
| *Adjusted for:* | | |
| Result from acquisitions and disposals[2] | - | (530) |
| Non-recurring income[3] | - | (557) |
| Integration and restructuring expenses[4] | 33,687 | 3,189 |
| **Adjusted EBITDA** | **75,467** | **65,149** |

(1) In 2014 an impairment charge of €9.2 million was recorded to the carrying amount of the property, plant and equipment to ensure that the future expected recoverable amounts of our cash generating units ("CGUs") are at least equal to or higher than their carrying amounts. In 2014, a write-off on inventory of €3.0 million was recorded following a detailed stock review by the Group and a €0.5 million impairment was recorded in relation to samples for slow-running collections.

(2) Result from acquisitions and disposals relates to the gain on the sale of idle land (€0.5 million in 2014).

(3) In 2014, we recognized exceptional income of €0.6 million in respect of Belgian government compensation for electricity pricing for 2013 due to implementation of a new national regulation introduced in 2014 with 2013 effect.

(4) Integration and restructuring expenses in 2015 mainly include transaction costs related to the sale of the Group (Predecessor Period) and the Acquisition (Successor Period). In 2014, these expenses mainly include roll-out costs of a new enterprise resource planning platform (SAP) and advisory fees in relation to the structuring of the Group.

# Section II: Combined Financial Statements

## II.1. Assurance Report of the Independent Auditor

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## II.2. Basis of Preparation

LSF9 Balta Issuer S.A. ("the Company" or "Successor") is a public limited liability company (société anonyme) incorporated on June 22, 2015 under the laws of Luxembourg and is a wholly-owned subsidiary of LSF9 Balta Midco S.à r.l, which is in turn controlled indirectly by Lone Star Fund IX.

LSF9 Balta Investments S.à r.l. ("Balta Investments") is a private limited liability company (société à responsabilité limitée) incorporated under the laws of Luxembourg and was established on June 10, 2015, for the purpose of facilitating the Transactions and performing all other activities related thereto. Balta Investments is a wholly-owned subsidiary of the LSF9 Balta Issuer S.A. and has no material assets, liabilities or operations other than as described in the previous sentence.

On June 14, 2015, Balta Investments entered into a sale and purchase agreement to purchase from Balta Luxembourg S.à r.l. (the "Seller") all of the issued and outstanding share capital of Balta Finance (the "Predecessor"), the former parent entity of the Balta Group, and certain intercompany loans between Balta Finance (as borrower) and the Seller (as lender) (the "Acquisition"). The closing of the Acquisition was reached on August 11, 2015 (the "Completion Date").

In connection with the Acquisition, Lone Star Fund IX, through intermediate holding companies, has made an indirect equity investment of €140.0 million through a combination of ordinary equity and preferred equity certificates. In addition, the Issuer has issued €290 million of Senior Secured Notes due 2022 (refer to Note 21).

Prior to the Acquisition, the Company had no operating activities. As a consequence, the Company is unable to show any relevant financial information for the period prior to the Acquisition. Therefore, the consolidated results of Balta Finance for the period from January 1, 2015 to August 10, 2015 have been aggregated with the consolidated results of the Issuer for the period ended December 31, 2015, as if the Company had ownership of Balta Finance in the twelve month period ended December 31, 2015. We refer to these figures as the "combined financial statements". The same approach has been adopted in order to prepare the cash flow statement. The statement of changes in equity presents the movements in equity after the Completion Date. This presentation enables the noteholders to view the business as a whole, and provides meaningful and relevant financial information that is useful in evaluating the Company's ongoing operations, in the same manner as management views and operates the business

The following definitions are used throughout this report:

- **Successor Period**: Stand-alone results of Balta Issuer and Balta Investments from incorporation until the end of the period and consolidated results of Balta Finance S.à r.l. as from August 11, 2015

- **Predecessor Period**: the consolidated results of Balta Finance S.à r.l. from the start of the period until August 10, 2015

The results of both the Successor Period and the Predecessor Period have been prepared in accordance with the recognition and measurement principles of the International Financial Reporting Standards as adopted by the European Union ("IFRS"). We also refer to the accounting policies detailed in Note 1 of the accompanying combined financial statements which form an integral part of and should be read in conjunction with this Basis of Preparation. The combined results should not be used in isolation or substitution of predecessor and successor results.

The amounts in this document are presented in thousands of euro (€ thousands), unless otherwise stated. Rounding adjustments have been made in calculating some of the financial information included in these combined financial statements, as a result of which schedules may not add.

***New standards and amendments to standards***

The following interpretation and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2015:

- IFRIC 21 'Levies', effective for annual periods beginning on or after 17 June 2014. IFRIC 21 sets out the accounting for a liability to pay a levy if that liability is within the scope of IAS 37. IFRIC 21 addresses what the obligating event is and when a liability should be recognized.

The following new standards and amendments to standards have been issued, but are not mandatory for the first time for the financial year beginning 1 January 2015 and have not been endorsed by the European Union:

- IFRS 9 'Financial instruments', effective for annual periods beginning on or after 1 January 2018. The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities.

- IFRS 15 'Revenue from contracts with customers'. The IASB and FASB have jointly issued a converged standard on the recognition of revenue from contracts with customers. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. Companies using IFRS will be required to apply the revenue standard for annual periods beginning on or after 1 January 2018, subject to EU endorsement.

- Amendment to IFRS 9 'financial instruments' on general hedge accounting, effective for annual periods beginning on or after 1 January 2018. The amendment incorporates the new general hedge accounting model which will allow reporters to reflect risk management activities in the financial statements more closely as it provides more opportunities to apply hedge accounting. These amendments also impact IAS 39 and introduce new disclosure requirements for hedge accounting, thereby impacting IFRS 7, irrespective of the fact whether hedge accounting requirements under IFRS 9 or IAS 39 are used.

Management is currently assessing the impact of these new standards and amendments on the Group's operations.

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## II.3. Impact Purchase Price Allocation

***Transaction overview and allocation of purchase price paid***

As previously discussed, the Acquisition was consummated on August 11, 2015.

The purchase price paid in cash was equal to €272.8 million, as compared to a net asset value of Balta Finance of €71.2 million at Completion Date. There is no contingent consideration outstanding in relation to the Acquisition as of December 31, 2015. Consequently, the preliminary goodwill – before purchase price allocation - was equal to €201.6 million.

The Acquisition was recorded using the acquisition method of accounting, in accordance with IFRS 3 Business Combinations. The total purchase price has been allocated to the identifiable assets and liabilities acquired, based on the estimated fair values at the date of acquisition.

As a result of the purchase price allocation €77.0 million of the preliminary goodwill was allocated to identifiable assets and liabilities. This allocation is shown below:

| (€ thousands) | Net assets at Completion Date before PPA | Fair value adjustments | Net assets at Completion Date after PPA |
|---|---|---|---|
| **Assets acquired** | **438,324** | **114,716** | **553,039** |
| Property, plant & equipment | 204,084 | 89,091 | 293,175 |
| Intangible assets | 1,438 | - | 1,438 |
| Other non-current assets | 8,407 | 161 | 8,568 |
| Total non-current assets | 213,930 | 89,252 | 303,182 |
| Inventories | 137,359 | 25,381 | 162,740 |
| Trade and other receivables | 46,002 | (799) | 45,203 |
| Cash and cash equivalents | 40,656 | - | 40,656 |
| Other current assets | 377 | 881 | 1,258 |
| Total current assets | 224,394 | 25,463 | 249,857 |
| **Liabilities assumed** | **(367,212)** | **(37,742)** | **(404,954)** |
| Deferred income tax liabilities | (36,212) | (35,274) | (71,486) |
| Other non-current liabilities | (35,309) | - | (35,309) |
| Total non-current liabilities | (71,521) | (35,274) | (106,796) |
| Current income tax liabilities | (3,789) | (2,110) | (5,899) |
| Other current liabilities | (291,902) | (357) | (292,259) |
| Total current liabilities | (295,691) | (2,467) | (298,158) |
| **Purchase Price Paid** | **272,758** | **-** | **272,758** |
| Identifiable assets and liabilities | 71,112 | 76,974 | 148,085 |
| Goodwill | 201,646 | (76,974) | 124,673 |

The fair value adjustment of property, plant and equipment of €89.1 million is mainly driven by a revaluation of land and buildings. The Company increased the carrying value of the land and buildings on the basis of recent valuation reports prepared by an independent appraiser and management's assessment of the acquired assets condition.

The fair value for inventories was estimated based on computations which considered many factors, including the estimated selling price of the inventory and the sales effort required to bring the products to the market. As a result, the Company increased the carrying value of inventory by €25.4 million.

The carrying amount of the trade receivables was reduced by €0.8 million in order to reflect the probability that certain trade receivables may not be fully collected.

The Company has identified certain fixed price purchase commitments that are considered to be part of the identifiable assets and liabilities. Firstly, the Company has recognized an asset of €0.9 million as of the valuation date in relation to fixed price purchase commitments of gas and electricity. Secondly, the Company has recognized a liability of €0.3 million in relation to forward purchases of raw materials for contracts. These

contracts were entered into late 2014 and are in relation to deliveries in 2015 and 2016. In both cases, these fixed price transactions will be settled by physical delivery. Given that the market value of these agreements changes in response to changes in the underlying commodity price, we have opted to present the fixed price commitments as derivative financial instruments.

The Company has increased the current income tax liabilities by €2.1 million to more accurately reflect the latest developments in our transfer pricing methodology between Belgium and Turkey.

The remaining assets and liabilities, including items such as cash and trade payables were stated at their historical carrying values, which approximate fair value, given the short-term nature of these assets and liabilities.

The incremental depreciation of the fair value step-up for IFRS purposes will result in a pre-tax income that is lower for IFRS purposes than for tax purposes. Consequently, a deferred tax liability of €35.2 million has been recognized to reflect the fact that cash taxes payable will be higher than the tax charge reported in the income statement under IFRS.

The excess of the purchase price over the preliminary amounts allocated to identifiable assets and liabilities is equal to €124.7 million and has been included in goodwill. This amount represents, amongst other things, the value of the longstanding customer relationships, the Company's market position, brand and reputation, as well as the value of the Company's workforce. The goodwill has been allocated to the Rugs and Commercial division, given that these two divisions are expected to benefit most from the Acquisition. Goodwill will be tested for impairment on an annual basis, as described in Note 13.

***Effects of Purchase price allocation on the income statement***

The table below reflects the impact of the purchase price allocation ("PPA") on the income statement.

| (€ thousands) | Before PPA<br>Twelve months ended December 31, 2015 | PPA<br>Twelve months ended December 31, 2015 | After PPA<br>Twelve months ended December 31, 2015 |
|---|---|---|---|
| **I. CONSOLIDATED INCOME STATEMENT** | | | |
| Revenue | 556,822 | - | 556,822 |
| Raw material expenses[(a)] | (258,859) | (10,816) | (269,675) |
| Changes in inventories[(b)] | (2,525) | (14,879) | (17,405) |
| **Gross Profit** | **295,438** | **(25,695)** | **269,743** |
| Employee benefit expenses | (133,446) | - | (133,446) |
| Other income | 10,879 | - | 10,879 |
| Other expenses | (97,403) | - | (97,403) |
| Depreciation / amortization | (24,098) | - | (24,098) |
| **Operating profit before exceptional items** | **51,369** | **(25,695)** | **25,674** |
| Result from acquisitions and disposals | - | - | - |
| Non-recurring income | - | - | - |
| Integration and restructuring expenses | (33,687) | - | (33,687) |
| Impairment and write-off | - | - | - |
| **Operating profit/(loss)** | **17,682** | **(25,695)** | **(8,013)** |
| Finance income | 79 | - | 79 |
| Finance expenses | (38,541) | - | (38,541) |
| **Net financial expenses** | **(38,462)** | **-** | **(38,462)** |
| **Profit / (loss) before income taxes** | **(20,780)** | **(25,695)** | **(46,475)** |
| Income tax benefit / (expense) [(c)] | (6,688) | 9,637 | 2,949 |
| **Profit / (loss) for the period from continuing operations** | **(27,468)** | **(16,058)** | **(43,526)** |
| **Profit / (loss) for the period** | **(27,468)** | **(16,058)** | **(43,526)** |

(a) Adjustment mainly reflects a non-cash charge of €11.3 million which is directly attributable to the fair value step-up of the inventory of raw materials and work in progress.

(b) Adjustment mainly reflects a non-cash charge of €14.9 million which is directly attributable to the fair value step-up of the inventory finished goods.

(c) Adjustment reflects €8.7 million reversal of deferred tax liabilities recognized at acquisition date, mainly in connection with the fair value step-up of inventory that has been recognized. In addition, an incremental tax provision of €0.9 million has been recognized.

***Integration and restructuring expenses***

The total integration and restructuring expenses amount to €33.7 million, of which €23.3 million has been recognized in the Predecessor Period and €10.4 million in the Successor Period. The vast majority of this total, €31.2 million, relates to transaction expenses and bonuses arising from the Acquisition and (aborted) IPO-related expenses. The remaining €2.5 million relates to other one-time charges and non-operating expenses, such as organizational realignment costs and strategic advisory services.

In addition, the Company incurred legal and other fees of €16.4 million in connection with the issuance of the Senior Secured Notes. This has been accounted for as deferred financing costs and are being amortized over the term of the Senior Secured Notes as interest expense, in accordance with the effective interest method.

# II.4. Combined Statement of Comprehensive Income for the Twelve Month Period Ended December 31, 2015

| (€ thousands) | Note | Successor Period<br>Period from August 11, 2015 to December 31, 2015 | Predecessor Period<br>Period from January 1, 2015 to August 10, 2015 | Combined<br>Twelve months ended December 31, 2015 | Predecessor<br>Twelve months ended December 31, 2014 |
|---|---|---|---|---|---|
| **I. CONSOLIDATED INCOME STATEMENT** | | | | | |
| Revenue | Note 3 | 194,777 | 362,045 | 556,822 | 519,529 |
| Raw material expenses | Note 4 | (102,817) | (166,858) | (269,675) | (256,794) |
| Changes in inventories | Note 5 | (16,140) | (1,264) | (17,405) | 9,033 |
| **Gross Profit** | | **75,820** | **193,923** | **269,743** | **271,768** |
| Employee benefit expenses | Note 6 | (46,972) | (86,474) | (133,446) | (128,191) |
| Other income | Note 7 | 5,586 | 5,292 | 10,879 | 10,960 |
| Other expenses | Note 7 | (33,128) | (64,275) | (97,403) | (89,388) |
| Depreciation / amortization | Note 8 | (8,014) | (16,084) | (24,098) | (24,802) |
| **Operating profit before exceptional items[1]** | | **(6,709)** | **32,383** | **25,674** | **40,347** |
| Result from acquisitions and disposals | | - | - | - | 530 |
| Non-recurring income | | - | - | - | 557 |
| Integration and restructuring expenses | Note 9 | (10,396) | (23,291) | (33,687) | (3,189) |
| Impairment and write-off | | - | - | - | (12,689) |
| **Operating profit/(loss)** | | **(17,105)** | **9,092** | **(8,013)** | **25,556** |
| Finance income | | - | 79 | 79 | 2,367 |
| Finance expenses | Note 10 | (9,495) | (29,045) | (38,541) | (34,543) |
| **Net finance expenses** | | **(9,495)** | **(28,967)** | **(38,462)** | **(32,176)** |
| **Profit / (loss) before income taxes** | | **(26,600)** | **(19,875)** | **(46,475)** | **(6,620)** |
| Income tax benefit / (expense) | Note 11 | 4,606 | (1,657) | 2,949 | 7,856 |
| **Profit / (loss) for the period from continuing operations** | | **(21,995)** | **(21,532)** | **(43,526)** | **1,236** |
| Profit / (loss) for the period from discontinued operations | | - | - | - | - |
| **Profit / (loss) for the period** | | **(21,995)** | **(21,532)** | **(43,526)** | **1,236** |
| **II. CONSOLIDATED OTHER COMPREHENSIVE INCOME** | | | | | |
| Items in other comprehensive income that may be subsequently reclassified to P&L | | | | | |
| Exchange differences on translating foreign operations | | 720 | 4,985 | 5,705 | 1,901 |
| Items in other comprehensive income that will not be reclassified to P&L | | | | | |
| Changes in employee defined benefit obligations | | 944 | 299 | 1,243 | (1,827) |
| **Other comprehensive income for the period, net of tax** | | **1,664** | **5,284** | **6,948** | **74** |
| **Total comprehensive income for the period** | | **(20,331)** | **(16,248)** | **(36,578)** | **1,310** |

(1) Operating profit before exceptional items is a non-GAAP measure as described in the Important Notice.

## II.5. Combined Statement of Financial Position as at December 31, 2015

| (€ thousands) | Note | Successor As of December 31 2015 | Predecessor As of December 31 2014 |
|---|---|---|---|
| Property, plant and equipment | | | |
| Land and buildings | Note 12 | 175,734 | 87,516 |
| Plant and machinery | Note 12 | 108,584 | 100,986 |
| Other fixtures and fittings, tools and equipment | Note 12 | 15,012 | 14,201 |
| Goodwill | Note 13 | 124,673 | - |
| Other intangible assets | | 1,667 | 1,212 |
| Deferred income tax assets | Note 14 | 8,573 | 6,484 |
| Trade and other receivables | Note 17 | 91 | 902 |
| **Total non-current assets** | | **434,334** | **211,302** |
| Inventories | Note 15 | 129,438 | 126,891 |
| Derivative financial instruments | Note 16 | 786 | - |
| Trade and other receivables | Note 17 | 46,544 | 47,644 |
| Current income tax assets | | 28 | 19 |
| Cash and cash equivalents | Note 18 | 45,462 | 66,654 |
| **Total current assets** | | **222,257** | **241,208** |
| **Total assets** | | **656,590** | **452,510** |
| Share capital | Note 19 | 171 | 20,000 |
| Share premium | | 1,260 | 74,717 |
| Other comprehensive income | | 1,664 | (11,956) |
| Retained earnings and other reserves | | (21,995) | (405,357) |
| **Total equity** | | **(18,900)** | **(322,595)** |
| Preferred Equity Certificates | Note 20 | 138,600 | - |
| Senior Secured Notes | Note 21 | 276,826 | - |
| Bank and Other Borrowings | Note 22 | 17,787 | 557,894 |
| Deferred income tax liabilities | Note 14 | 67,879 | 34,342 |
| Employee benefit obligations | Note 25 | 4,191 | 6,261 |
| **Total non-current liabilities** | | **505,283** | **598,498** |
| Senior Secured Notes | Note 21 | 6,864 | - |
| Bank and Other Borrowings | Note 22 | 2,490 | 21,286 |
| Employee benefit obligations | Note 25 | 31,554 | 29,815 |
| Provisions for other liabilities and charges | | 64 | 423 |
| Derivative financial instruments | Note 16 | - | 231 |
| Trade and other payables | Note 26 | 124,404 | 122,503 |
| Income tax liabilities | | 4,831 | 2,349 |
| **Total current liabilities** | | **170,207** | **176,607** |
| **Total liabilities** | | **675,490** | **775,105** |
| **Total equity and liabilities** | | **656,590** | **452,510** |

# II.6. Combined Statement of Cash Flows for the Twelve Month Period Ended December 31, 2015

| | Note | Combined<br>Twelve months ended December 31, 2015 | Predecessor<br>Twelve months ended December 31, 2014 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| **Net profit / (loss) for the period** | | **(43,526)** | **1,236** |
| Adjustments for: | | | |
| Income tax expense / (income) | Note 11 | (2,949) | (7,856) |
| Finance income | | (79) | (2,367) |
| Finance expense | Note 10 | 38,541 | 34,543 |
| Depreciation, amortisation | Note 8 | 24,098 | 24,802 |
| Impairment losses | | - | 12,690 |
| (Gain)/loss on disposal of non-current assets | | - | (69) |
| Movement in provisions and deferred revenue | | - | 1,831 |
| Fair value of derivatives | Note 16 | (504) | 41 |
| Non-cash impact of Purchase Price Allocation | II.3 | 25,695 | - |
| **Cash generated before changes in working capital** | | **41,275** | **64,851** |
| Changes in working capital: | | | |
| Inventories | | (3,212) | (8,294) |
| Trade receivables | | (1,141) | 342 |
| Trade payables | | 6,962 | 9,037 |
| Other working capital | | (3,384) | (197) |
| **Cash generated after changes in working capital** | | **40,501** | **65,738** |
| Net income tax (paid) | | (883) | (4,968) |
| **Net cash generated / (used) by operating activities** | | **39,618** | **60,771** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Acquisition & disposal of property, plant and equipment | | (36,158) | (27,891) |
| Acquisition of intangibles | | (744) | (614) |
| Proceeds from non-current assets | | 2 | 3,392 |
| Loans granted to related parties | | - | (150) |
| Acquisition of subsidiary | II.3 | (272,838) | - |
| **Net cash used by investing activities** | | **(309,739)** | **(25,263)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Interest and other finance charges paid, net | Note 10 | (6,666) | (10,960) |
| Proceeds from issuance of ordinary shares and share premium | | 1,431 | - |
| Proceeds from issuance of preferred equity certificates | Note 20 | 138,600 | - |
| Proceeds from issuance of Senior Secured Notes | Note 21 | 290,000 | - |
| Proceeds from borrowings with third parties | Note 22 | - | 30,599 |
| Repayments of borrowings with third parties | Note 22 | (157,994) | (36,501) |
| Payment of debt financing costs | Note 21 | (16,442) | - |
| **Net cash generated / (used) by financing activities** | | **248,928** | **(16,862)** |
| **NET INCREASE / (DECREASE) IN CASH AND BANK OVERDRAFTS** | | **(21,192)** | **18,646** |
| Cash, cash equivalents and bank overdrafts at the beginning of the period | | 66,654 | 48,009 |
| Cash, cash equivalents and bank overdrafts at the end of the period | Note 18 | 45,462 | 66,654 |

## II.7. Combined Statement of Changes in Equity for the Period Ended December 31, 2015

The changes in equity for the Predecessor for the twelve months ended December 31, 2014 are as follows.

| (€ thousands) | Share capital | Share premium | Other comprehensive income | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2014** | **20,000** | **74,717** | **(12,029)** | **(406,593)** | **(323,905)** | **-** | **(323,905)** |
| Profit / (loss) for the period | - | - | - | 1,236 | 1,236 | - | 1,236 |
| **Other comprehensive income** | - | - | - | - | - | - | - |
| Exchange differences on translating foreign operations | - | - | 1,901 | - | 1,901 | - | 1,901 |
| Changes in employee defined benefit obligations | - | - | (1,827) | - | (1,827) | - | (1,827) |
| **Total comprehensive income for the period** | **-** | **-** | **74** | **1,236** | **1,310** | **-** | **1,310** |
| **Balance at December 31, 2014** | **20,000** | **74,717** | **(11,956)** | **(405,356)** | **(322,595)** | **-** | **(322,595)** |

The changes in equity for the Successor for the period from incorporation until December 31, 2015 are as follows.

| (€ thousands) | Share capital | Share premium | Other comprehensive income | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at June 22, 2015** | **31** | **-** | **-** | **-** | **31** | **-** | **31** |
| Capital increase | 140 | 1,260 | - | - | 1,400 | - | 1,400 |
| Profit / (loss) for the period [(1)] | - | - | - | (21,995) | (21,995) | - | (21,995) |
| **Other comprehensive income** | | | | | | | |
| Exchange differences on translating foreign operations [(1)] | | | 720 | | 720 | - | 720 |
| Changes in employee defined benefit obligations [(1)] | | | 944 | | 944 | - | 944 |
| **Total comprehensive income for the period** | **-** | **-** | **1,664** | **(21,995)** | **(20,331)** | **-** | **(20,331)** |
| **Balance at December 31, 2015** | **171** | **1,260** | **1,664** | **(21,995)** | **(18,900)** | **-** | **(18,900)** |

(1) Profit/(loss) for the period, exchange differences on translating foreign operations and changes in employee defined benefit obligations are in relation to the Successor Period only.

The accompanying notes form an integral part of these combined financial statements

# II.8. Notes to the Combined Financial Statements

## Note 1. Accounting policies

### Note 1.1. Consolidation

***Subsidiaries***

Subsidiaries are all entities for which the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The Group applies the acquisition method to account for business combinations. The consideration paid reflects the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement (for example, variable consideration contingent on future events such as achievement of post-acquisition earnings targets or success of a significant project).

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition related costs are expensed as incurred.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect the changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest and previously held interest in the entity acquired. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net recognized amount (generally at fair value) of the identifiable assets acquired and liabilities assumed constitutes goodwill, and is recognized as an intangible asset. Negative goodwill is recognized immediately in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated on consolidation. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred in which case the asset is impaired through the income statement. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

### Note 1.2. Foreign currency translation

***Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Euro, which is the Group's functional and the Group's presentational currency. All amounts are stated in thousands of euro unless otherwise stated.

***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Foreign exchange gains and losses that relate to cash and cash equivalents and borrowings, including borrowings, payables and receivables between group companies that do not qualify as a net investment in a foreign operation are presented in the statement of comprehensive income within "Finance income and expense". All other foreign exchange gains and losses are presented in the statement of comprehensive income within "Other income" or "Other expenses" which is part of the operating profit.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

The principal exchange rates that have been used to prepare these financial statements are as follows:

| | December 31, 2014 | | December 31, 2015 | |
|---|---|---|---|---|
| | Closing | Average | Closing | Average |
| USD | 1.2141 | 1.3285 | 1.0887 | 1.1093 |
| TRY | 2.8272 | 2.9039 | 3.1776 | 3.0187 |
| GBP | 0.7789 | 0.8061 | 0.7340 | 0.7259 |

***Group companies***

The results and financial position of all the Group's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing or year-end rate;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments (if any), are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the statement of comprehensive income as part of the gain or loss on sale.

Foreign exchange gains and losses that relate to borrowings between group companies, are presented in the statement of comprehensive income within "Finance income and expense", if these borrowings do not qualify as a net investment in a foreign operation.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Note 1.3. Property, plant and equipment

Property, plant and equipment are carried at acquisition cost less any accumulated depreciation and less any accumulated impairment loss. Cost of property, plant and equipment also includes the estimated cost of dismantling and removing the asset and restoring the site, to the extent that the provision is recognized under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method, to allocate the costs over the estimated remaining useful lives. The Predecessor used the following estimated remaining useful lives:

Industrial buildings
- Structural work ……....33 years
- Roof……..……..11 years
- Other elements ……..……10-25 years

Administrative buildings
- Structural work ……....50 years
- Roof……..……..25 years

Machinery……..……..……10-33 years
Vehicles, transport equipment...……..……5 years
Furniture, fittings and equipment……..……..5-15 years

In the context of the Business Combination (see II.3), the Company estimated the fair value for land and buildings based on recent valuation reports prepared by an independent appraiser and management's assessment of the acquired assets condition. Based on information provided by the independent appraisers, the Successor has decided to adjust the useful life of the buildings from 33 years to 40 years for light structures and from 33 years to 50 years for heavy structures. Therefore, the Successor uses the following remaining useful lives:

Industrial and administrative buildings
- Structural work ……..……..……..……....40-50 years
- Other elements ……..……..……..10-25 years

Machinery ……..……..……10-33 years
Vehicles, transport equipment ……5 years
Furniture, fittings and equipment ……..5-15 years

The Predecessor judges that the useful life of spare parts could not exceed 8 years. The Successor has considered the length of time over which it believes the economic benefits associated with spare parts are expected to be realized, and adjusted the maximum useful life of the spare parts from 8 years to 4 years.

Cars are depreciated to a residual value of 20% of the initial cost.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Fair value adjustments as a result of the Purchase Price Accounting are depreciated over the average remaining lifetime of the applicable assets.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other income" or "Other expenses" in the statement of comprehensive income.

## Note 1.4. Intangible assets

***Goodwill***

Goodwill on acquisitions of subsidiaries is included in "intangible assets" and allocated to cash generating units of the underlying assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

***Trademarks and licenses***

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognized at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licences over the shortest of their estimated useful lives or the period of the legal right.

Acquired computer software licences are amortized over their estimated useful lives of between 4 and 10 years.

***Internally generated software and other development cost***

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortized over their estimated useful lives, mainly four years.

### Note 1.5. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### Note 1.6. Non-current assets held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

### Note 1.7. Financial assets

***Classification***

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

***Recognition and measurement***

Regular purchases and sales of financial assets are recognized on the trade date, the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the

investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the statement of comprehensive income within "Other income" or "Other expenses" to the extent that they relate to operating activities and within "Finance income" or "Finance costs", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of comprehensive income as part of "Other income" when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are recycled to profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the statement of comprehensive income as part of "Other income". Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income as part of "Other income" when the Group's right to receive payments is established.

***Offsetting financial instruments***

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

***Assets carried at amortized cost***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statement of comprehensive income.

***Assets classified as available for sale***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-

sale, a significant or prolonged decline in the fair value of the security below its cost is evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the profit or loss. Impairment losses recognized on equity instruments are not reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit or loss.

### Note 1.8. Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The Group records all gains or losses resulting from changes in fair value of derivatives in the statement of comprehensive income within "Other income" or "Other expenses" to the extent that they relate to operating activities and within "Finance income" or "Finance costs" to the extent that they relate to the financing activities of the Group.

### Note 1.9. Inventories

Inventories are stated at the lower of cost and net realizable value. These net realizable value adjustments are reviewed on a regular basis and updated to reflect the estimated selling price less selling expenses, based on historical data and expectations. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Provisions against the carrying value of inventory are calculated on the basis set out below.

***Wall to wall carpets and non-woven***

- ✓ "Second choice" products: write-down of 70 %
- ✓ Collections which are no longer produced: write-down of 35 %
- ✓ Additional write downs, based on aging of the individual products:
  - Age of production batch between 7-9 months: write-down of 20 %
  - Age of production batch between 10-12 months: write-down of 50 %
  - Age of production batch older than 12 months: write-down of 70 %

***Rugs***

- ✓ "Second choice" products: write-down of 60 %
- ✓ Collections which are no longer produced: write-down of 30 %-50 %
- ✓ Additional write-downs, based on aging of the individual products:
  - Age of production batch between 7-9 months: write-down of 10 %
  - Age of production batch between 10-12 months: write-down of 30 %
  - Age of production batch older than 12 months: write-down of 50 %

***Contract tiles***

- ✓ "Second choice" products: write-down of 90 %
- ✓ Small lot sizes 90 %
- ✓ Additional write-downs, based on aging of the individual products:
  - Age of production batch between 7-12 months: write-down of 25 %-50 %
  - Age of production batch between 12-18 months: write-down of 75 %-90 %
  - Age of production batch older than 18 months: write-down of 90 %

***Yarns***

For slow moving yarns to produce rugs and wall-to-wall carpets, the write-downs vary between 20 % (6 months not moving) and 75 % (12 months not moving).

For slow moving yarns to produce contract tiles, the write-downs vary between 50 % (12 months not moving) and 90 % (16 months not moving).

Materials and other supplies (such as wool) held for use in the production of finished goods are not written down if these finished goods are expected to be sold at or above cost.

An individual assessment of the recoverability of the items of inventories is also made on a regular basis, in addition to the application of general accounting policies described above. When the circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value.

Costs of production of joint products are allocated between the products on a rational and consistent basis (e.g. on the relative sales value of each product when they become identifiable in the production process or at the completion of production).

When by-products are immaterial, they may be measured at net realizable value, this value being deducted from the cost of the main product.

### Note 1.10. Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less bad debt allowance.

Trade receivables are reviewed on a continuing basis. A bad debt allowance is recorded when collectability of the receivable is questionable. The bad debt allowance covers the net estimated risk for the Group and is taking into account the coverage expected to be received from the credit insurance.

### Note 1.11. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

### Note 1.12. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects is included in equity attributable to the company's equity holders.

### Note 1.13. Government grants

Grants from the government are recognized at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the statement of comprehensive income within other income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

### Note 1.14. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Supplier finance arrangements are recognized as a financial liability unless the original trade payable is extinguished or its terms are significantly modified to the extent that it qualifies for de-recognition under IAS 39 (we refer to the accounting policy on debt extinguishment and debt modification).

### Note 1.15. Financial liabilities measured at fair value through profit- and loss

Some instruments that have the legal form of a liability are, in substance, equity. A financial instrument is classified as a financial liability or an equity instrument depending on the substance of the arrangement rather than the legal form. Liabilities arise when the issuer is contractually obligated to deliver cash or another financial asset to the holder. An instrument is an equity instrument only if the issuer has no such obligation, i.e. it has an unconditional right to avoid settlement in cash or another financial asset. The ability to defer payment is not enough to achieve equity classification, unless payment can be deferred indefinitely. Generally an obligation for the entity to deliver its own shares is not a financial liability because an entity's own shares are not considered its financial assets. An exception to this is where an entity is obliged to deliver a variable number of its own equity instruments.

Subordinated loans issued to shareholders (preferred equity certificates) include embedded derivatives and are accounted for at fair value through profit or loss in accordance with IAS 32.26 ("Fair value option").

### Note 1.16. Senior Secured Notes and Bank and other borrowings

Senior Secured Notes, Bank and other Borrowings are recognized initially at fair value, net of transaction costs incurred. They are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

### Note 1.17. Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where IAS 39 de-recognition criteria are not met, the receivables continue to be recognized in the statement of financial position, while the proceeds received by the Group under any financing/factoring arrangements are recognized as a financial liability.

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or when the existing liability is transferred to a different lender and the Group obtains a legal release from the initial lender, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognized in the consolidated statement of comprehensive income.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least ten per cent different from the discounted present value of the remaining cash flows of the original financial liability.

### Note 1.18. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the company's subsidiaries operate and generate taxable income. In line with paragraph 46 of IAS 12 'income taxes', management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This evaluation is made for tax periods open for audit by the competent authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax is not discounted.

### Note 1.19. Employee benefits

***Pension obligations***

IAS 19 distinguishes two types of post-employment benefit plans:

- Defined contribution plans (DC plans) are post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund or group insurance contract) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current or prior periods;

- Defined benefit plans (DB plans) are post-employment benefit plans other than defined contribution plans.

Group companies operate one defined benefit plan for a group of managers and various pension schemes funded through payments to insurance companies. Because of the Belgian legislation applicable to 2nd pillar pension plans (so-called "Law Vandenbroucke"), all Belgian Defined Contribution plans have to be considered under IFRS as Defined Benefit plans. Law Vandenbroucke states that in the context of defined contribution plans, the employers must guarantee a minimum return of 3.75 % on employee contributions and 3.25 % on employer contributions. However, shortly before year-end 2015, a change in the Belgian Law was enacted resulting in a decrease of the guaranteed return from 3.25 % to a minimum interest rate defined based upon the Belgian 10-year interest rate but within the range 1.75% - 3.25%. The new rate (currently 1.75%) applies for the years after 2015 on future contributions and also on the accumulated past contributions as of 31 December 2015 if the financing organism does not guarantee a certain result on contributions until retirement age. If the organism does guarantee such a result, the rates 3.25%/2.75% still apply.

Because of this minimum guaranteed return, the employer is exposed to a financial risk: further contributions could be required if the return on the assets would not be sufficient to reach the minimum benefits to be paid. The group has plans that are financed through insurance contracts. A simplified methodology has been used, taking the limited magnitude of the obligation into account, when it was assessed that reliable estimated could be made. The related assumptions, the defined benefit obligations and related plan assets are further disclosed in the related notes.

***Other post-employment obligations***

The Group does not have other post-employment obligations.

***Termination benefits***

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes a liability and expense for termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

In Belgium, the system of early retirement pension ensures that elderly people who are dismissed by their employer or who are encouraged to terminate their employment and in case they fulfill certain conditions, are eligible for payment of supplementary unemployment allowance to be paid by their former employer on top of the unemployment allowances paid by social security. This benefit is generally paid until normal retirement age, which is 65 years.

Within Balta, several former employees benefit from the system of "early retirement fee or pension", based on several Belgian Collective Labor Agreements (CLA's) in place for the sector (textielnijverheid en breiwerk/ industrie textile et de la bonneterie) or specifically for Balta. These CLA's describe the different possibilities for employees of the sector to benefit from "early retirement fee or pension", the creation of a sector fund (fonds voor bestaanszekerheid/ fonds de sécurité d'existence), part-time work, education and training etc. Certain CLA's exist for blue collar workers and others for white collar workers.

For those early retirement fees or pensions which are directly paid out by the employer, a provision should be made under IAS 19. It has been determined as the present value of the best estimate of future cash flows. The discount rate used is based on the return on high quality corporate bonds (AA rated) of a maturity equivalent to the duration of the liabilities.

***Bonus plans***

The Group recognizes a provision for annual bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

### Note 1.20. Share-based payments

An equity-settled share-based payment transaction is a transaction in which the Group receives services as consideration for its own shares (or share options). The fair value of the services received in exchange for the grant of the shares (or share options) measured by reference to the grant date fair value of the shares (or share options), is recognized as an expense over the vesting period.

A cash-settled share-based payment plan: The goods or services acquired and the liability are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at the end of each reporting period and at the date of settlement with any changes in fair value recognized in profit and loss for the period.

### Note 1.21. Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

The Group has environmental obligations relating to its past operations which are based on the Group's environmental management plans, in compliance with current environmental regulatory requirements. Provisions for site remediation costs are made when there is a present legal obligation, it is probable that the

expenditure on remediation work will be required and the cost can be estimated within a reasonable range of possible outcomes. The costs are based on currently available facts, technology expected to be available at the time of the clean-up, laws and regulations presently or virtually certain to be enacted and prior experience in remediation of contaminated sites.

Provisions for restructuring are only recognized if the Group demonstrates a constructive obligation to restructure at the reporting date. The constructive obligation should be demonstrated by: (a) a detailed formal plan identifying the main features of the restructuring; and (b) raising a valid expectation to those affected that it will carry out the restructuring by starting to implement the plan or by announcing its main features to those affected.

### Note 1.22. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

***Sales of goods***

Sales of goods are recognized when the risks and rewards are transferred to the customers, in most cases when the goods are made available for collection at the Group's premises (factory, warehouse) on the date agreed upon with the customer (International Commercial Terms - EXW) and the customer accepted the goods in accordance with the sales contract.

Amounts billed to the customer in respect of transportation of product to the customer's premises are included in revenue. Associated transportation costs incurred by the group are included in other expenses.

***Interest income***

Interest income is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognized using the original effective interest rate.

***Dividend income***

Dividend income is recognized when the right to receive payment is established.

### Note 1.23. Leases

The Group leases certain property, plant and equipment.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, purchase option (when there is reasonable certainty that the lessee will obtain ownership by the end of the lease term), are included in "Borrowings". The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset or if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

### Note 1.24. Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### Note 1.25. Levies

The Group has adopted IFRIC 21 'Levies'. IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy, and when a liability should be recognised. The Group is mainly subject to property taxes. Although that the Group does not expect IFRIC 21 to have a significant effect on the results for the financial year ending December 31, 2015 the adoption of the interpretation results in an earlier recognition of these property taxes, namely, in the first quarter instead of over a linear period throughout the year.

### Note 1.26. Cash flow statement

The cash flows of the Group are presented using the indirect method. This method reconciles the movement in cash for the reporting period by adjusting net profit for the year for any non-cash items and changes in working capital, and identifying investing and financing cash flows for the reporting period.

### Note 1.27. Non-GAAP measures

"Operating profit/loss before exceptional items" is a non-IFRS measure of performance. Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable readers to gain a full understanding of the Group's financial performance. Transactions which may give rise to exceptional items are principally transactions costs in relation to business combinations, restructuring provisions and their reversal, impairments of property, plant and equipment, the reversal of such write downs or impairments, legal claims, disposals of items of property, plant and equipment or investments in subsidiaries, negative goodwill resulting from business combinations, early termination of debt instruments and reversals of provisions.

EBITDA is a non-IFRS measure of performance defined as "Operating profit/loss" plus depreciation, amortization on tangible and intangible fixed assets".

EBIT is a non-IFRS measure of performance defined as "Operating profit/loss before exceptional items".

EBITDA margin is the reconciliation of non-IFRS measure defined as EBITDA divided by revenue.

Adjusted EBITDA is a reconciliation of non-IFRS measure of performance defined as operating profit / loss before exceptional items adjusted for depreciation and amortization.

Adjusted EBITDA margin is a non-IFRS measure defined as Adjusted EBITDA margin divided by revenue.

The non-GAAP measures are included in these consolidated financial statements because management believes they are useful to many investors, securities analysts and other interested parties as additional measures of performance.

The Group presents non-IFRS measures in addition to financial measures determined in accordance with IFRS. Non-IFRS measures as reported by the Group may differ from similar measures presented by other companies.

## Note 2. Critical accounting estimates and judgements

The amounts presented in the combined financial statements involve the use of estimates and assumptions about the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions will seldom equal the related actual results. The estimates and assumptions that could have an impact on the combined financial statements are discussed below.

***Determination of fair values in business combinations***

The Company has applied estimates and judgements in order to determine the fair value of assets acquired and liabilities assumed by way of a business combination. The value of assets, liabilities and contingent liabilities recognized at the acquisition date are recognized at fair value. In determining the fair value, the Company has utilized valuation methodologies including discounted cash flow analysis. The Company's estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which would not reflect unanticipated events and circumstances that may occur. Any significant change in key assumptions may cause the acquisition accounting to be revised including the recognition of additional goodwill or a discount on acquisition.

***Goodwill***

The amount of goodwill initially recognized as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgment. Allocation of the purchase price affects the results of the Group as finite lived intangible assets are amortized, whereas indefinite lived intangible assets, including goodwill, are not amortized and could result in differing amortization charges based on the allocation to indefinite lived and finite lived intangible assets.

***Impairment testing***

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgment, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- growth in EBITDA, calculated as adjusted operating profit before depreciation and amortization;
- timing and quantum of future capital expenditure;
- long-term growth rates; and
- the selection of discount rates to reflect the risks involved.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Company's impairment evaluation and hence results. The Company's review includes the key assumptions related to sensitivity in the cash flow projections. Further details are provided in Note 13.

***Fair value estimate of preferred equity certificates***

The acquisition of Balta Finance has been partially funded through Preferred Equity Certificates (PECs). Depending on the circumstances in which the PECs are settled, the Company may have the right to redeem the PECs in shares. Given that the Company does not have an unconditional right to avoid delivering cash to settle the PECs, the contract must be classified as a financial liability under IFRS. The presence of early redemption and conversion options implies that the contract contains multiple embedded derivatives. Given the inability to separate the embedded derivatives from the host contract, the entire contract is measured at fair value through profit or loss.

A range of valuation techniques can be used when measuring the fair value of unquoted liability instruments. In reaching estimates of fair value of the PECs, management judgment is involved. In order to select the most appropriate valuation, management will employ several valuation methodologies and select the amount within the ranges of values which it believes is most representative of the fair value of the PECs. Because of the nature of the inputs used in the valuation techniques (for example, unobservable inputs such as budgets and forecasts), the resulting measurement is categorized within Level 3 of the fair value hierarchy.

***Income taxes***

The Group operates in various tax jurisdictions and therefore has to determine tax positions under respective local tax laws and tax authorities' views which can be complex and subject to different interpretations of tax payers and local tax authorities.

The Group has tax credits in respect of losses carried forward, Dividend Received Deduction (relief for dividend payments by qualifying EU subsidiaries to qualifying EU parent companies, to avoid double taxation of dividend income), and Notional Interest Deduction ("NID"). These tax credits can be used to offset against future taxable profits. The valuation of this asset depends on a number of judgmental assumptions regarding the future taxable profits of different Group subsidiaries in different jurisdictions and on the outcome of tax planning strategies. These estimates are made prudently based on current knowledge and reasonable long-term projections. Where circumstances should change and the final tax outcome would be different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

***Trade receivables***

The Company makes significant judgements in determining the bad debt allowance with respect to trade receivables when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The assessment is performed on an individual basis in consideration of various factors such as historical experience, credit quality, age of the accounts receivables and economic conditions that may affect a customer's ability to pay.

The amount of the bad debt allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The estimated future cash flow is determined based upon the significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

## Note 3. Revenue

The following table presents our revenue for the years ended December 31, 2015 and 2014.

| (€ thousands) | Combined 2015 | Predecessor 2014 |
|---|---|---|
| **Revenue** | **556,822** | **519,529** |
| Rugs | 204,076 | 181,544 |
| Residential | 247,495 | 239,148 |
| Commercial | 79,243 | 69,904 |
| Non-Woven | 26,008 | 28,933 |
| **Revenue by geography** | **556,822** | **519,529** |
| Europe | 439,873 | 428,049 |
| North-America | 64,229 | 43,611 |
| Rest of World | 52,720 | 47,869 |

During the year ended December 31, 2015, our revenue increased by €37.3 million or 7.2% to €556.8 million from €519.5 million for the year ended December 31, 2014.

This increase in revenue was attributable to growth in our Rugs division (€22.5 million or 12.4%), our Commercial division (€9.3 million or 13.4%) and our Residential division (€8.3 million or 3.5%). The revenue growth was partially offset by a decrease in our Non-Woven division (€2.9 million or 10.1%).

On a geographical level, growth was observed in all regions. However, the growth in North-America (€20.6 million or 47.3%) was significantly higher than in Europe (€11.8 million or 2.8%) and the Rest of World (€4.9 million or 10.1%).

## Note 4. Raw material expenses

| (€ thousands) | Combined 2015 | Predecessor 2014 |
|---|---|---|
| Raw material expenses | (269,675) | (256,794) |
| As % of revenue | 48.4% | 49.4% |

Raw material expenses mainly comprise the purchase of polypropylene and polyamide granulates latex, yarns, backings, jute, wool and packaging material. In addition, changes in the year-end inventory level of raw materials & consumables are also included.

Raw material expenses increased by €12.9 million or 5.0% from €256.8 million for the year ended December 31, 2014 to €269.7 million for the year ended December 31, 2015. Note that €10.8 million of this increase results from a value step-up of inventory recorded in the context of purchase price allocation. As detailed in section II.3, the carrying value of inventories was increased to their market value less the cost to bring the products to market. As this value is higher than our inventory valuation policies, this value step-up should be considered one-off.

When excluding the non-cash impact of the purchase price allocation, raw material expenses are equal to €258.9 million and represent 46.5% of revenue, as compared to 49.4% in 2014. This decrease is mainly driven by a decrease in average prices of granulates and latex.

## Note 5. Changes in inventories

| (€ thousands) | Combined 2015 | Predecessor 2014 |
|---|---|---|
| Changes in inventory | (17,405) | 9,033 |
| Of which: actual movements in inventory | (2,547) | 9,033 |
| Of which: impact purchase price allocation | (14,879) | - |

Changes in inventories represent the change in the year-end inventory level of work in progress and finished goods recorded on the statement of financial position.

Inventory of work in progress and finished goods decreased from €71.3 million as of December 31, 2014 to €68.7 million as of December 31, 2015, resulting in the recognition of an expense of €2.5 million. As a result of the purchase price allocation adjustment described in II.3, an additional expense of €14.9 million was recognized in relation to inventory measured at fair value at the Completion Date and sold in the period September to December 2015.

## Note 6. Employee benefit expenses

| (€ thousands) | Combined 2015 | Predecessor 2014 |
|---|---|---|
| **Total employee benefit expenses** | **133,446** | **128,191** |
| Wages and salaries | 95,995 | 91,296 |
| Social security costs | 30,859 | 30,419 |
| Pension costs | 1,327 | 1,269 |
| Other employee benefit expenses | 5,265 | 5,206 |

The average number of employees in 2015 and 2014 was 3,233 and 3,177 (in full time equivalents) respectively. Part-time employees are included on a proportionate basis.

| | Combined 2015 | Predecessor 2014 |
|---|---|---|
| **Average number of total employees** | **3,233** | **3,177** |
| Average number of employees – blue collar | 2,698 | 2,678 |
| Average number of employees – white collar | 535 | 499 |

## Note 7. Other income and expenses

| (€ thousands) | Combined 2015 | Predecessor 2014 |
|---|---|---|
| **Other income** | **10,879** | **10,960** |
| Foreign exchange gains | 1,186 | 1,393 |
| Payroll tax incentive | 4,931 | 4,968 |
| Rental income from solar rooftop installations | 1,463 | 1,545 |
| Grants | 171 | 675 |
| Other | 3,127 | 2,380 |
| **Other expenses** | **97,403** | **89,388** |
| Services and other goods | 61,531 | 58,896 |
| Selling expenses | 32,647 | 26,385 |
| Foreign exchange losses | 59 | 651 |
| Real estate tax | 2,644 | 2,950 |
| Other | 522 | 506 |

Other income remained relatively stable and amounted to €10.9 million for the year ended December 31, 2015. The main component is the payroll tax incentive for night or shift work, whereby the Company can benefit from a partial exemption of payment of withholding tax due on wages paid to workers in team or night shifts. The salary withholding tax is retained on the remunerations paid but the amount of tax so retained must not be fully paid to the tax authorities.

Other income also comprises rental payments received from renting certain rooftops to a solar development company. The residual component of other income, €3.1 million and €2.4 million in 2015 and 2014, respectively, is in relation to the re-charge of certain expenses incurred, the sale of waste and the derecognition of old credit notes to issue for potential commercial settlements.

Other expenses increased by €8.0 million to €97.4 million for the year ended December 31, 2015 from €89.4 million for the year ended December 31, 2014. Services and other goods for the twelve months ended December 31, 2015 mainly comprises electricity and gas (€22.4 million), maintenance and repair (€6.3 million) and interim blue collars (€5.2 million). Selling expenses mainly comprise freight (€20.6 million) and commissions (€4.7 million).

## Note 8. Depreciation / amortization

The components of depreciations and amortizations can be summarized as follows:

| (€ thousands) | Combined 2015 | Predecessor 2014 |
|---|---|---|
| **Depreciation / amortization** | **24,098** | **24,802** |
| Amortization of intangible assets | 680 | 1,008 |
| Depreciation property, plant and equipment | 24,813 | 24,840 |
| Release deferred revenue sale & leaseback | (1,395) | (1,046) |

Depreciation / amortization decreased by €0.7 million to €24.1 million for the year ended December 31, 2015 from €24.8 million for the year ended December 31, 2014.

The release of deferred revenue sale and lease back relates to the gradual recognition of the capital gain realized on the sale and lease back of one of our facilities in 2014. This deferred revenue is recognized as partial offset to depreciation charges over the period of the lease.

## Note 9. Integration and restructuring expenses

The total integration and restructuring expenses amount to €33.7 million, of which €23.3 million has been recognized in the Predecessor Period and €10.4 million in the Successor period. The vast majority of this total, €31.2 million, relates to transaction expenses and bonuses arising from the Acquisition and (aborted) IPO-related expenses. The remaining €2.5 million relates to other one-time charges and non-operating expenses, such as organizational realignment costs and strategic advisory services.

## Note 10. Finance expenses

Finance expenses increased by €4.0 million or 12% to €38.5 million for the year ended December 31, 2015 from €34.5 million for the year ended December 31, 2014.

In 2014, the finance expenses are driven by interest paid on the Senior Facility Agreement and interest due on a shareholder loan owing from Balta Finance S.à r.l. to Balta Luxembourg S.à r.l. We refer to Note 22 for a description of these facilities.

In 2015, the finance expense of €38.5 million comprises three types of expenses, as shown in the table below:

| (€ thousands) | 2015 |
|---|---|
| **Finance expenses related to debt existing as of December 31, 2015** | **13,220** |
| Senior Secured Notes | 10,132 |
| Of which: interest | 9,177 |
| Of which: transaction fees | 955 |
| Revolving Credit Facility | 731 |
| Financial leasing | 581 |
| Factoring/Forfaiting/Bank charges | 1,776 |
| **Finance expenses related to debt fully repaid in the course of 2015** | **7,926** |
| Senior Facilities Agreement | 7,065 |
| Of which: interest | 4,801 |
| Of which: transaction fees | 2,264 |
| Turkish facility (Halkbank debt) | 701 |
| Reversed Factoring | 69 |
| Shareholder loan | 91 |
| **Non-cash finance expenses** | **17,387** |
| Related party debt (non-cash) | 11,988 |
| Foreign exchange losses on intercompany transactions (non-cash) | 5,399 |
| **Total finance expenses** | **38,541** |

The non-cash finance expenses of €17.4 million have been recorded in relation to intercompany transactions. This comprises €12.0 million of interest expenses on a shareholder loan between Balta Finance and Balta Luxembourg S.à r.l. and €5.4 million of non-cash foreign currency losses in relation to euro-denominated intercompany balances between a Belgian entity and its Turkish subsidiary. As explained in Note 10 of the Combined Financial Statements, the shareholder loan has been transferred from Balta Luxembourg S.à r.l. to Balta Investments. Consequently, the associated debt held by Balta Finance and the receivable held by Balta Investments have become intercompany positions, as a result of which interest income/expense thereon is eliminated in consolidation in the period following the Completion Date.

Even though intercompany balances are eliminated in consolidation, translating the Turkish entity's financial statements from its local currency to the reporting currency does not reverse the foreign currency losses. Instead, translating the foreign entity's financial statements into the reporting currency generates an equivalent gain within the cumulative translation adjustment (CTA) account, a component of other comprehensive income.

Finance expenses on debt that continues to exist as of December 31, 2015 is equal to €13.2 million This comprises the effective interest charge on the Senior Secured Notes, interest paid on the Revolving Credit Facility, interest on the financial leasing agreement, interest paid on factoring and forfaiting agreements and bank charges.

Finance expenses on third party debt that has been fully repaid in 2015 is equal to €7.9 million, driven by interest expenses on the Senior Facilities Agreement and the recognition of the transaction costs previously capitalized in relation to this debt.

Finance income decreased by €2.3 million to €0.1 million for the year ended December 31, 2015 from €2.4 million for the year ended December 31, 2014. In 2014, finance income was impacted by a positive change in the fair value measurement of interest rate swaps. Since the maturity of these swaps in June 2014, there has been no such impact in 2015.

## Note 11. Income tax benefit / expense

| (€ thousands) | Combined 2015 | Predecessor 2014 |
|---|---|---|
| **Income tax benefit / (expense)** | **2,949** | **7,856** |
| Current tax | (1,571) | (1,664) |
| Deferred tax | 4,520 | 9,520 |

| (€ thousands) | Combined 2015 | Predecessor 2014 |
|---|---|---|
| **Income tax benefit / expense** | **2,949** | **7,856** |
| Income tax calculated at Luxembourg tax rate (31.47%) | 14,626 | 2,083 |
| Rate differential due to transactions with Belgium, Turkey and US | 445 | (981) |
| Tax-exempted revenues | 5,491 | 4,182 |
| Deferred tax assets recognised | 1,907 | - |
| Utilization of previously not recognized tax assets | 172 | 10,468 |
| Tax losses for which no deferred tax asset is recognized | (17,639) | (6,556) |
| Disallowed expenses | (2,265) | (994) |
| Other | 212 | (346) |

In assessing whether deferred tax assets should be recognized, management considers the extent to which it is probable that the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax losses carried forward become deductible. Management considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment.

In 2015, the Company has incurred certain tax losses subject to significant limitations (tax losses for which no deferred tax asset is recognized). For those losses, deferred tax assets are not recognized, as it is not probable that taxable profit will be generated to offset those losses.

## Note 12. Property, plant and equipment

| (€ thousands) | Land and buildings | Plant and machinery | Other equipment | Total |
|---|---|---|---|---|
| **Period ended December 31, 2014 (Predecessor)** | | | | |
| **Opening net book value** | **74,574** | **101,071** | **16,607** | **192,252** |
| Additions | 18,765 | 17,389 | 10,188 | 46,342 |
| Disposals | (3,041) | (40) | (219) | (3,300) |
| Transfers | - | (0) | (71) | (71) |
| Depreciation charge | (3,157) | (9,741) | (11,942) | (24,840) |
| Impairment charge | - | (9,196) | (498) | (9,694) |
| Exchange differences | 375 | 1,503 | 137 | 2,015 |
| **Closing net book value** | **87,516** | **100,986** | **14,201** | **202,702** |
| **At December 31, 2014** | | | | |
| Cost or valuation | 141,653 | 522,100 | 56,541 | 720,294 |
| Accumulated depreciation, impairment and other adjustments | (54,137) | (421,114) | (42,340) | (517,591) |
| **Closing net book value** | **87,516** | **100,986** | **14,201** | **202,702** |
| **Period ended December 31, 2015 (Successor)** | | | | |
| **Opening net book value** | **87,516** | **100,986** | **14,201** | **202,704** |
| Purchase price allocation | 92,126 | (3,035) | - | 89,091 |
| Additions | 1,583 | 22,931 | 12,384 | 36,901 |
| Disposals | - | (495) | (330) | (825) |
| Depreciation charge | (5,006) | (8,582) | (11,226) | (24,813) |
| Exchange differences | (486) | (3,221) | (18) | (3,725) |
| **Closing net book value** | **175,734** | **108,584** | **15,012** | **299,332** |
| **At December 31, 2015** | | | | |
| Cost or valuation | 234,421 | 522,710 | 46,443 | 803,574 |
| Accumulated depreciation, impairment and other adjustments | (58,687) | (414,125) | (31,429) | (504,242) |
| **Closing net book value** | **175,734** | **108,584** | **15,012** | **299,332** |

During the twelve months ended December 31, 2015, the net book value of property, plant and equipment increased by €96.6 million.

Purchase price allocation (€89.1 million) mainly relates to the fair value step-up on land (€24.8 million) and buildings (€67.9 million) which has been recorded in the context of the purchase price allocation. Refer to II.3 for further details.

Our capital expenditures for the period (€36.9 million) comprised: €16.4 million of efficiency and growth capex, €11.4 million of maintenance capital expenditures and €9.6 million of samples and €0.5 million of disposals. Of our total capital expenditures for the period, €16.6 million were incurred in our Rugs segment, €15.3 million were incurred in our Residential segment, €4.9 million were incurred in our Commercial segment, €0.2 million were incurred in our Non-woven segment.

Exchange differences (€3.7 million) mainly relate to fluctuations in the closing exchange rate of our Turkish entities which have a significant amount of land & buildings and plant & machinery recorded on the statement of financial position.

Operating leases expenses amounting to €3.6 million in 2015 and relating to the lease of various buildings, equipment, machinery and vehicles have been included in "Other expenses" in the statement of comprehensive income.

The Group leases various industrial buildings, plant and machinery under non-cancellable finance lease agreements. The lease terms are between 5 and 15 years, and ownership of the assets lie within the Group. Refer to Note 22 for further details.

### Note 13. Goodwill

The net purchase price for the Acquisition amounts to €272.8 million. In accordance with IFRS 3 "Business Combinations", the purchase price needs to be allocated to identifiable assets and liabilities acquired based on estimated fair values at the date of acquisition, with the excess of the purchase price amount allocated to goodwill. Our purchase price allocation has been substantially finalized and the total identifiable net assets acquired amount to €148.1 million, resulting in a remaining amount of goodwill of €124.7 million. The latter represents, amongst other things, the value of the longstanding customer relationships, the Company's market position, brand and reputation, as well as the value of the Company's workforce.

Goodwill is not amortized, but instead tested for impairment annually, as well as whenever there are events or changes in circumstances (triggering events) which suggest that the carrying amount may not be recoverable. Goodwill is carried at cost less accumulated impairment losses.

The goodwill impairment test is performed at the level of a cash-generating unit or a group of cash-generating units, which is the lowest level at which goodwill is monitored for internal management purposes. Our CGUs are generally in line with our segments, with our Residential segment broken down into two CGUs, Balta Broadloom (polypropylene broadloom) and ITC (polyamide broadloom).

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating units that are expected to benefit most from the business combination. Consequently, the goodwill resulting from the Acquisition (€124.7 million) has been solely allocated to Rugs (€94.3 million) and Commercial (€30.3 million).

If the carrying amount of the cash-generating unit to which the goodwill has been allocated exceeds its recoverable amount, an impairment loss on goodwill allocated to the cash-generating unit is recognized. The recoverable amount is the higher of the cash-generating unit's fair value less costs to sell and its value in use. If either of these amounts exceeds the carrying amount, it is not always necessary to determine both amounts. These values are generally determined based on discounted cash flow calculations.

The impairment testing has been performed as of August 31, 2015. Management considers the likelihood that an updated calculation as of December 31, 2015 would indicate the recoverable amounts to be less than the carrying amounts to be remote. The assets and liabilities comprising the CGU have not changed significantly since the most recent calculation. In addition, there are no indications that recoverable amounts have decreased.

The table below provides an overview of the value in use (derived using discounted cash flow analysis) and the carrying amount (book value of capital employed) per cash-generating unit at December 31, 2015. As shown, the recoverable amount exceeds the carrying amount and hence the goodwill is not impaired. Key assumptions on which management has based its determinations of the value in use include terminal value growth rates of 2% and an after-tax discount rate of 7.9%. Cash flows were projected for the next three years based on the business plan prepared by Balta Finance in the context of the Acquisition.

| **Comparison recoverable amount vs. carrying amount per CGU (€ thousands)** | **Recoverable amount** | **Carrying amount** | **Excess recoverable amount** |
|---|---|---|---|
| Rugs | 288.9 | 284.2 | 4.8 |
| Balta Broadloom | 68.5 | 57.1 | 11.4 |
| ITC | 20.9 | 18.6 | 2.3 |
| Commercial | 93.2 | 55.0 | 38.2 |
| Non-Woven | 17.9 | 11.0 | 6.9 |
| **Total** | **489.4** | **425.8** | **63.6** |

The value in use is mainly driven by the terminal value which is particularly sensitive to changes in the assumptions on the terminal value growth rate and discount rate. Discount rates are based on the weighted average cost of capital. Terminal value growth rates take into consideration external macroeconomic sources of data and industry specific trends. The table below presents the extent in which these two assumptions would need to change in order to reduce the value in use to the carrying amount. Note that the decrease in headroom between the value in use and the carrying amount is a direct result of the purchase price allocation, and is hence not driven by changes in the underlying business performance.

| **Sensitivity analysis per CGU** | **Growth rate** | **Discount rate** |
|---|---|---|
| Rugs | (0.1%) | 0.1% |
| Balta Broadloom | (1.3%) | 1.2% |
| ITC | (0.8%) | 0.7% |
| Commercial | (35.8%) | 21.4% |
| Non-Woven | (4.2%) | 3.6% |

In comparison to previous reporting periods, a smaller change in assumptions is required in order to reduce the recoverable amount to the carrying amount. This is a direct result of the Acquisition and is not driven by changes in the underlying business performance. In the context of the purchase price allocation, the net asset value of the Group was increased by €201.6 million, of which €76.9 million has been allocated to identifiable assets and liabilities and of which €124.7 million has been recognized as goodwill. Given that a significant amount of goodwill has been allocated to the Rugs division, it follows that the difference between the recoverable amount and the carrying amount has been reduced as compared to previous reporting periods.

## Note 14. Deferred income tax assets and liabilities

IFRS requires the deferred taxes for each jurisdiction to be presented as a net asset or liability. Offsetting of deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction is not allowed. The table below presents the net deferred tax position in accordance with these presentation principles.

| (€ thousands) | Combined 2015 | Predecessor 2014 |
|---|---|---|
| **Deferred tax assets** | **8,573** | **6,484** |
| Deferred tax assets to be reversed after more than 12 months | 8,177 | 4,927 |
| Deferred tax assets to be reversed within 12 months | 396 | 1,557 |
| **Deferred tax liabilities** | **(67,879)** | **(34,342)** |
| Deferred tax liabilities to be reversed after more than 12 months | (62,503) | (30,064) |
| Deferred tax liabilities to be reversed 12 months | (5,376) | (4,278) |
| **Net deferred tax liabilities** | **(59,306)** | **(27,858)** |

The movement in the net deferred tax liabilities can be summarized as follows:

| (€ thousands) | Combined 2015 | Predecessor 2014 |
|---|---|---|
| **January 1st** | **(27,858)** | **(37,361)** |
| Impact Purchase Price Allocation | (35,113) | - |
| Income statement charge | 4,520 | 9,521 |
| Exchange differences | (855) | (18) |
| **December 31st** | **(59,306)** | **(27,858)** |

In contrast to the table above, the table below shows the movement in deferred taxes on a gross basis, i.e. without netting deferred tax liabilities and deferred tax assess within the same jurisdiction.

Deferred tax assets

| (€ thousands) | Tax losses carried forward | Deferred income sale and leaseback | Intangible assets | Borrowings | Employee benefits | Inventory | Other | Total |
|---|---|---|---|---|---|---|---|---|
| **January 1, 2014** | **6,211** | **-** | **-** | **-** | **1,760** | **406** | **1,241** | **9,618** |
| Charged / (credited) to the income statement | 3,852 | - | 3,823 | - | 383 | (330) | (56) | 7,672 |
| Exchange differences | (22) | - | - | - | - | - | - | (22) |
| **December 31, 2014** | **10,041** | **-** | **3,823** | **-** | **2,143** | **76** | **1,185** | **17,268** |
| **January 1, 2015** | **10,041** | **-** | **3,823** | **-** | **2,143** | **76** | **1,185** | **17,268** |
| Reclass to/from deferred tax liabilities | (3,918) | 5,334 | - | 1,903 | - | - | (67) | 3,251 |
| Purchase Price Allocation | 4,231 | - | - | - | - | - | 293 | 4,525 |
| Charged/(credited) to the income statement | (238) | (474) | (956) | - | (532) | 607 | (367) | (2,005) |
| Exchange differences | (654) | - | - | - | - | - | - | (654) |
| **December 31, 2015** | **9,416** | **4,859** | **2,867** | **1,903** | **1,612** | **683** | **1,044** | **22,384** |

The Group has recorded €1.4 million of deferred tax assets in the context of the purchase price allocation, mainly driven by an expected change in the transfer pricing methodology between our Belgian and Turkish subsidiary with retroactive effect. Balta Floorcovering renders contract manufacturing services to Balta Industries and is remunerated on the basis of an appropriate transfer pricing method. Changes in the transfer pricing method will result in an increased taxable basis in Turkey (resulting in the recognition of a deferred tax liability) and in increased tax losses carried forward being recognized in Belgium (Balta Industries) to reflect the decrease in the taxable basis.

In assessing the realizability of deferred tax assets, management considers the extent to which it is probable that the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax loss carryforwards become deductible. Management considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is probable the Company will realize the benefits of these deductible differences. As of December 31, 2015, the Company has certain tax losses subject to significant limitations. For those losses deferred tax assets are not recognized, as it is not probable that gains will be generated to offset those losses.

As of December 31, 2015 total tax credits amounted to €498 million, resulting in a potential deferred tax asset of €157 million of which the Company only recognized €9.4 million. The majority of the tax credits are incurred at the level of the Belgian legal entities where - with the exception of the tax credits in relation to the Notional Interest Deduction - there is no expiry date regarding the tax credits.

Deferred tax liabilities

| (€ thousands) | Property, plant and equipment | Inventory | Income tax liability | Intangible assets | Other | Total |
|---|---|---|---|---|---|---|
| **January 1, 2014** | **(43,607)** | **(1,867)** | **-** | **-** | **(1,504)** | **(46,978)** |
| Charged / (credited) to the income statement | 2,348 | (658) | - | (19) | 179 | 1,849 |
| Exchange differences | 3 | - | - | - | - | 3 |
| **December 31, 2014** | **(41,256)** | **(2,525)** | **-** | **(19)** | **(1,325)** | **(45,126)** |
| **January 1, 2015** | **(41,256)** | **(2,525)** | **-** | **(19)** | **(1,325)** | **(45,126)** |
| Reclass from deferred tax assets | (3,173) | (78) | - | - | | (3,251) |
| Purchase Price Allocation | (29,311) | (8,627) | (1,500) | - | (200) | (39,638) |
| Charged/(credited) to the income statement | (2,489) | 8,836 | 96 | (402) | 485 | 6,527 |
| Exchange differences | (201) | - | - | - | - | (201) |
| **December 31, 2015** | **(76,430)** | **(2,394)** | **(1,404)** | **(420)** | **(1,040)** | **(81,689)** |

An additional deferred tax liability of €39.6 million has been recorded in the context of purchase price accounting, as described in II.3.

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Aggregate unremitted earnings are equal to €160.8 million as of December 31, 2015 (as compared to €155.1 million as of December 31, 2014).

## Note 15. Inventories

| (€ thousands) | Successor December 31, 2015 | Predecessor December 31, 2014 |
|---|---|---|
| **Total inventories** | **129,438** | **126,891** |
| Raw materials and consumables | 60,736 | 55,665 |
| Work in progress | 18,548 | 18,201 |
| Finished goods | 50,153 | 53,025 |

Inventories increased by €2.5 million as compared to December 31, 2014, mainly driven by an increase in the raw materials and consumables inventory (€5.1 million) which is partly offset by a decline in the finished goods inventory. Increase in the stock of raw materials and consumables is volume driven as raw material prices decreased compared to the previous year. Inventory of work in progress remained relatively stable at around €18 million. The decrease in finished goods inventory is primarily driven by strong sales in December.

The cost of inventories recognised as expenses amount to €400.5 million for the twelve months ended December 31, 2015. The Group recorded an inventory allowance of €2.4 million as of December 31, 2015 (as compared to €1.4 million as of December 31, 2014) in addition to the application of the general accounting policies as also explained in Note 1.9.

## Note 16. Derivative financial instruments

| (€ thousands) | Successor December 31, 2015 | Predecessor December 31, 2014 |
|---|---|---|
| **Derivative financial instruments (assets)** | **786** | **-** |
| Foreign exchange forwards | 273 | - |
| Fixed price electricity purchase commitments as a result of the purchase price allocation | 512 | - |
| **Derivative financial instruments (liabilities)** | **-** | **231** |
| Foreign exchange forwards | - | 231 |

Derivative financial instruments comprise both foreign exchange forwards related to GBP hedging (cash-settled) and fixed price electricity purchase commitments which are physically settled. The notional principal amounts of the outstanding forward foreign exchange derivative financial instruments at December 31, 2015 amounted to €14.0 million for the inflows and €13.8 million for the outflows. The fixed price electricity purchase commitments relate to 12-month fixed-price forward contracts for the purchase of electricity with delivery in 2016. The ability to click volumes at a fixed price is a feature that is embedded within our long-term purchase agreements. Although they are not cash-settled, the fair value of the outstanding contracts pending at the completion date have been recognized as part of the purchase price allocation.

## Note 17. Trade and other receivables

| (€ thousands) | Successor December 31, 2015 | Predecessor December 31, 2014 |
|---|---|---|
| **Total Trade and other receivables** | **46,634** | **48,546** |
| **Trade and other receivables (non-current)** | **91** | **902** |
| Other amounts receivable | 91 | 902 |
| **Trade and other receivables (current)** | **46,544** | **47,644** |
| Net trade receivables | 32,892 | 36,964 |
| Trade receivables | 35,426 | 39,447 |
| Less: Bad debt allowance | (2,535) | (2,483) |
| Prepayments and accrued income | 1,124 | 1,577 |
| Other amounts receivable | 12,528 | 9,102 |

The fair value of the trade and other receivables approximates their carrying amount as the impact of discounting is not significant.

As part of its normal course of business, the Group has entered into non-recourse factoring agreements with financial parties. The Group has derecognized the accounts receivable for which substantially all risk and rewards of ownership have been transferred.

As of December 31, 2015 trade receivables that were past due amounted to €8.2 million compared to €7.3 million at December 31, 2014.

The Group uses credit insurance as a means to transfer the credit risk related to trade receivables. Furthermore, our trade receivables portfolio is very diversified, in terms of both segmentation and client base, which mitigates the credit risk. The credit quality of the trade receivables that are neither past due nor impaired is good.

The assessment to set up a bad debt allowance is performed on an individual basis in consideration of various factors such as historical experience, credit quality, age of the accounts receivables and economic conditions that may affect a customer's ability to pay. For the years ended December 31, 2015 and 2014, there are no significant receivables due more than 3 months for which no provisioning has been set up.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

| (€ thousands) | Successor December 31, 2015 | Predecessor December 31, 2014 |
|---|---|---|
| **Total trade and other receivables** | **46,634** | **48,546** |
| EUR | 28,073 | 22,674 |
| USD | 6,097 | 9,992 |
| GBP | 3,105 | 8,020 |
| TRY | 9,359 | 7,860 |

Movements in the Company's bad debt allowance with respect to trade receivables are as follows:

| (€ thousands) | Combined 2015 | Predecessor 2014 |
|---|---|---|
| **Beginning of period (As at January 1)** | **(2,483)** | **(5,558)** |
| Impairment loss recognized | (638) | (690) |
| Additional bad debt allowance recognized through PPA | (718) | - |
| Receivables written off during the year as uncollectible | 1,174 | 3,472 |
| Unused amounts reversed | 120 | 322 |
| Fx differences | 10 | (29) |
| **End of period (As at December 31)** | **(2,535)** | **(2,483)** |

The creation and release of allowances for impaired receivables has been included in other income/expenses. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. In the context of the purchase price allocation resulting from the Acquisition, net trade receivables have been decreased by €0.8 million at December 31, 2015, to reflect the probability that certain trade receivables may not be fully collected.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. As per December 31, 2015 the Group holds collateral (letters of credit and corporate or bank guarantees) for an amount of €0.4 million.

## Note 18. Cash and cash equivalents

| (€ thousands) | Successor December 31, 2015 | Predecessor December 31, 2014 |
|---|---|---|
| **Total cash and cash equivalents** | **45,462** | **66,654** |
| Cash at bank and on hands | 36,586 | 59,747 |
| Short-term bank deposits | 2,933 | 2,323 |
| Cash from local financing | 5,943 | 4,584 |

The cash from local financing relates to cash and cash equivalent balances held by subsidiaries that operate in countries where legal restrictions apply and as such the cash and cash equivalents are not directly available for general use by the parent or other subsidiaries.

The credit quality of the banks and financial institutions is disclosed in Note 24. The Group's assets which are pledged as security for the borrowings are described in Note 21.

## Note 19. Share capital and share premium

The legal issued share capital of the Company is set at €171 thousand divided into 171,000 ordinary shares with a nominal value of 1 EUR each. The Company is incorporated with an initial share capital of €31 thousand which was subsequently increased with €140 thousand to €171 thousand. The capital of the Company may be increased or reduced by a resolution of shareholders adopted in the manner required for amendment of the articles of association in addition to any approvals required by statutory law and requires approval from LSF9 Balta Midco S.à r.l. (registered with the Luxembourg Trade and Companies Register under number B 197722). All shares issued by the Company were fully paid, together with a share premium of €1.3 million.

## Note 20. Preferred Equity Certificates

In connection with the Acquisition, the Issuer has issued 1,108,800 preferred equity certificates ("PECs") having a nominal value of €125, for an aggregate amount of €138.6 million. The aggregate amount has been paid in cash to the Company on August 10, 2015. The terms and conditions of the preferred equity certificates are governed by and construed in accordance with the laws of Luxembourg. The main characteristics of the PECs are as follows:

- Each PEC is entitled to receive a return which is mainly driven by any income derived by the Company from its investment in LSF9 Balta Investments S.à r.l., it being understood that the Company shall retain a margin on an annual basis on its financing activity as determined from time to time by a transfer price study

- Mandatory redemption at maturity, December 31, 2045

- Optional redemption prior to the maturity date, subject to certain restrictions including that the redemption payment will not violate any covenant contained in or result in a default under any agreement or other financial obligation of the Company or any of its subsidiaries after making such payment

- In the event that the Company would sell all or part of the shares of LSF9 Balta Investments S.à r.l. or in the event that LSF9 Balta Investments S.à r.l. would sell the preferred equity certificates it has issued and to which the Company has subscribed, the Company shall be entitled to convert any or all of the PECs into shares of the Company. Any shares issued to the holder(s) of the PECs shall be subject to a pledge or other security interest in favor of the Company's creditor under the senior debt documents if and to the extent such creditors are secured by a pledge on the then-issued and outstanding shares of the Company

- The number of shares to be issued per converted PEC equals the quotient determined by dividing the sum of the par value of the PEC plus the amount of any accrued yield that is unpaid by the nominal value of the shares

Given that the Company does not have an unconditional right to avoid delivering cash to settle the PECs, the contract must be classified as a financial liability under IFRS. The presence of early redemption and conversion options implies that the contract contains multiple embedded derivatives. Given the inability to separate the embedded derivatives from the host contract, the entire contract is measured at fair value through profit or loss.

As of December 31, 2015, management believes that the cash consideration paid is a reliable measure of fair value (see Note 2). This measure is a Level 3 estimate, as described in Note 23.

## Note 21. Senior Secured Notes

| (€ thousands) | Successor<br>December 31, 2015 | Predecessor<br>December 31, 2014 |
|---|---|---|
| **Total Senior Secured Notes** | **283,690** | **-** |
| **Non-Current portion** | **276,826** | **-** |
| Of which: gross debt | 290,000 | |
| Of which: capitalised financing fees | (13,174) | |
| **Current portion** | **6,864** | **-** |
| Of which: gross debt | 9,177 | |
| Of which: capitalised financing fees | (2,314) | |

The Issuer issued €290 million aggregate principal amount of 7.75% Senior Secured Notes due 2022 as part of the financing of the Acquisition. The Indenture is dated August 3, 2015 and the principal amount was released from the escrow account at Completion Date.

Interest on the Senior Secured Notes accrue at the rate of 7.75% per annum and are payable semi-annually in arrears on March 15 and September 15 of each year, commencing on March 15, 2016.

Costs related to the issuance of Senior Secured Notes are capitalized and amortized into profit or loss over the term of the debt in accordance with the effective interest method. Total costs capitalized amounted to €16.4 million, of which €15.5 million remain capitalized as of December 31, 2015.

The current portion of the debt associated with the Senior Secured Notes relates to accrued interest payable at the next interest payment date and the portion of the capitalized financing fee that will be amortized into profit or loss over the next 12 months.

The Senior Secured Notes are subject to certain incurrence covenants that restrict, among other things, our ability to:

- incur or guarantee additional indebtedness and issue certain preferred stock
- create or permit to exist certain liens
- make certain restricted payments, including dividends or other distributions
- prepay or redeem subordinated debt or equity
- make certain investments or acquisitions, including participation in joint ventures
- engage in certain transactions with affiliates
- sell, lease or transfer certain assets, including stock of restricted subsidiaries
- guarantee debt of the Issuer or any Guarantor without also guaranteeing the Senior Secured Notes
- create certain restrictions on the ability of restricted subsidiaries to pay dividends or make other payments to
- the Issuer or a restricted subsidiary
- create unrestricted subsidiaries
- merge or consolidate with other entities or transfer all or substantially all of the Issuer and its restricted
- subsidiaries' assets or a Guarantor's assets
- impair the security interest for the benefit of the holders of the Senior Secured Notes

The Senior Secured Notes are secured by first-ranking security interests over the following collateral:

- the issued shares of the Guarantors
- the issued preferred equity certificates of the Issuer and Balta Investments
- certain bank accounts of the Guarantors
- certain moveable assets of certain of the Guarantors
- certain intra-group loans and receivables of the Guarantors

- a business pledge with respect to the business of Balta Industries NV, Balta Oudenaarde NV and Modulyss NV

The collateral also secures the Revolving Credit Facility (see Note 22) and certain hedging obligations on an equal and ratable basis. Under the terms of the Intercreditor Agreement, in the event of enforcement of the security over the collateral, holders of the Senior Secured Notes will receive proceeds from the enforcement of the collateral only after indebtedness in respect of the Revolving Credit Facility and certain hedging obligations have been repaid in full. Any such proceeds will, after all obligations under the Revolving Credit Facility and such hedging obligations have been repaid from such recoveries, be applied pro rata in repayment of all obligations under the Indenture and any other obligations that are permitted to be secured over the Collateral under the Indenture on an equal and ratable basis.

## Note 22. Bank and other borrowings

| (€ thousands) | Successor<br>December 31, 2015 | Predecessor<br>December 31, 2014 |
|---|---|---|
| **Total Bank and other borrowings** | **20,277** | **579,180** |
| **Non-Current portion** | **17,787** | **557,894** |
| Bank borrowings | - | 127,728 |
| Of which: gross bank borrowings | - | 128,857 |
| Of which: capitalised financing fees | - | (1,129) |
| Finance lease liabilities | 17,787 | 20,136 |
| Other liabilities with related parties | - | 405,088 |
| Other liabilities | - | 4,942 |
| **Current portion** | **2,490** | **21,286** |
| Bank borrowings | 40 | 12,932 |
| Of which: gross bank borrowings | 40 | 14,520 |
| Of which: capitalised financing fees | - | (1,588) |
| Finance lease liabilities | 2,450 | 2,411 |
| Reverse factoring | - | 5,944 |

### *Bank borrowings*

As of December 31, 2014, the bank borrowings relate to a Senior Facility Agreement with a bank syndicate, a Turkish mortgage loan and a short term credit facility.

On April 15, 2011, Balta Finance S.à r.l, certain of its affiliates acting as guarantors, Fortis Bank NV/SA, ING Belgium NV/SA and KBC Bank NV, as mandated lead arrangers, and certain other parties entered into the Senior Facility Agreement. The Senior Facility Agreement initially provided for borrowings, including a revolving facility, up to an aggregate of €260 million. The Senior Facility Agreement was scheduled to mature on May 31, 2016, in relation to Facility A and the Revolving Facility, and November 30, 2016 in relation to Facility B. As of December 31, 2014, the gross amount outstanding (i.e. excluding debt modification costs) was €131.1 million. All amounts relating to the Senior Facility Agreement have been repaid in full by the Company on August 11, 2015.

On November 13, 2012, Balta Floorcovering and Türkiye Halk Bankası A.Ş. ("Halkbank") entered into a loan agreement, comprising of a framework credit agreement, a supplementary protocol and a protocol for banking transactions. The agreement provided for a credit limit of €14.4 million. As of December 31, 2014, there was €11.5 million outstanding under the Halkbank Loan Agreement. All amounts relating to the Halkbank Loan Agreement have been repaid by the Company in the course of 2015.

On August 3, 2015, Balta Issuer and Balta Investments entered into a Revolving Credit Facility Agreement providing for a €40 million Revolving Credit Facility. The Revolving Credit Facility is secured by first-ranking security interests over the collateral, which also secure the Senior Secured Notes and the Guarantees. Under the Revolving Credit Facility, a lender may make available an ancillary facility, such as overdrafts,

guarantees, short-term loan facilities, derivatives or foreign exchange facilities subject to the satisfaction of certain conditions precedent, to a Borrower or an Affiliate of a Borrower in place of all or part of its unutilized commitment under the Revolving Credit Facility. Amounts drawn under the Revolving Credit Facility may be used for working capital and other general corporate purposes of the Restricted Group, operational restructurings or permitted reorganizations of the Group.

The initial facility commitments of ING Belgium NV and KBC Bank NV were each converted into an Ancillary Facility Agreement for an aggregate amount of €35.0 million.

The Revolving Credit Facility Agreement contains customary and certain deal specific affirmative loan style covenants and restrictive covenants. Set out below is a brief description of such covenants, all of which are subject to customary and certain deal specific exceptions.

- **Incurrence covenants**. These are substantially the same as those applicable to the Notes

- **Affirmative covenants**. These require, among other things, (i) the provision of certain financial information, (ii) the obtaining, compliance with and maintenance of authorizations required by law or regulation to enable each Obligor to (a) perform its obligations under the finance documents under the Revolving Credit Facility and the Acquisition Documents (b) ensure the legality, validity, enforceability or admissibility in evidence of any Finance Document and the Acquisition Documents to which it is a party, and (c) to enable it to own its property and assets and to carry on its business; (iii) compliance in all material respects with applicable laws and regulations; (iv) payment of taxes; (v) preservation of assets; (vi) maintenance of pari passu ranking of any unsecured and unsubordinated claims of a Finance Party against each Obligor under the Finance Documents with the claims of other unsecured and unsubordinated creditors (except where such claims are mandatorily preferred by law); (vii) commercially reasonable steps to preserve and enforce material rights under the Acquisition Documents; (viii) maintenance of insurances; (ix) the preservation and maintenance of intellectual property; (x) certain further assurances with respect to the Collateral; (xi) access to books, accounts and records, viewing of assets and discussion with management following an Event of Default; and (xiii) compliance with sanctions and anti-money laundering laws.

- **Negative covenants**: These include, among others, restriction with respect to changes of center of main interests.

- **Financial covenants**: the Issuer is required to ensure compliance with a Total Net Leverage Ratio financial covenant, requiring the Issuer to ensure that (to the extent tested) the Total Net Leverage Ratio as at the end of each relevant quarter period does not exceed 6.50:1. The financial covenant shall only apply to the extent that the aggregate principal amount of all outstanding loans under the Revolving Credit Facility and all outstanding cash drawings under any ancillary facilities on the last day of the applicable relevant quarter period is greater than 30% of the total commitments in respect of the Revolving Credit Facility as at the end of the relevant quarter period. This financial covenant will be (to the extent tested) tested quarterly on a rolling 12-month basis.

We confirm that as of December 31, 2015, the aggregate Base Currency Amount of the outstanding principal amount of all Loans and all cash drawings under the ancillary facilities is less than 30% of the Total Commitments and therefore the financial covenants does not apply.

The Revolving Credit Facility is guaranteed by each Guarantor. The initial borrowers and guarantors of the Revolving Credit Facility were the Company and Balta Investments. On October 10, 2015 the following members of the Group acceded to the Revolving Credit Facility as borrower and guarantor: Balta Finance, Balta NV, Balta Industries NV, Balta Oudenaarde NV and Modulyss NV. The collateral that secures the Senior Secured Notes, as described in Note 20, also secures the Revolving Credit Facility. Under the terms of the Intercreditor Agreement, in the event of enforcement of the security over the collateral, holders of the

Senior Secured Notes will receive proceeds from the enforcement of the collateral only after indebtedness in respect of the Revolving Credit Facility and certain hedging obligations have been repaid in full.

The Revolving Credit Facility also provides that (i) the aggregate consolidated EBITDA (as defined in the Revolving Credit Facility Agreement) of the Guarantors (provided that for this purpose where any Guarantor has negative earnings before interest, tax, depreciation and amortization (calculated on the same basis as Consolidated EBITDA) its earnings before interest, tax, depreciation and amortization shall be deemed zero) is required to exceed 80% of the Restricted Group's Consolidated EBITDA and (ii) the aggregate of the total assets (excluding good will and intra-Group items) of the Guarantors is required to exceed 70% of the total assets of the Restricted Group ((i) and (ii) together, the "Guarantor Coverage Test"). Subject to the Agreed Security Principles, the Issuer shall procure that any other member of the Group required to become an additional Guarantor in order to ensure compliance with the Guarantor Coverage Test accedes to the Revolving Credit Facility as a Guarantor.

We confirm that the aggregate of the Adjusted EBITDA of the Guarantors (without double counting) exceeds 80% of the Adjusted EBITDA of the Group and the aggregate of the total assets of the Guarantors (without double counting) exceeds 70% of the total assets of the Group.

### *Finance lease liabilities*

The table below shows the net book amount of the "land and buildings" and "plant and machinery" which are subject to a finance lease agreement:

| (€ thousands) | Successor December 31, 2015 | Predecessor December 31, 2014 |
|---|---|---|
| **Net book value - Land and Buildings** | **15,726** | **17,261** |
| Cost-Capitalised finance leases | 18,412 | 18,412 |
| Accumulated depreciation | (2,685) | (1,151) |
| **Net book value – Plant and machinery** | **5,888** | **6,219** |
| Cost-Capitalised finance leases | 6,608 | 6,608 |
| Accumulated depreciation | (720) | (389) |
| **Net book value – Total leased Property, Plant & Equipment** | **21,614** | **23,480** |
| Cost-Capitalised finance leases | 25,020 | 25,020 |
| Accumulated depreciation | (3,405) | (1,540) |

The finance lease liabilities have decreased from €22.5 million as of December 31, 2014 to €20.1 million as of December 31, 2015. No material new financial lease contracts have been signed during the period.

The gross investment in leases and the present value of minimum future lease payments are due as follows:

| (€ thousands) | Successor December 31, 2015 | Predecessor December 31, 2014 |
|---|---|---|
| **Gross finance lease liabilities – minimum lease payments** | **20,136** | **22,547** |
| No later than 1 year | 2,850 | 2,905 |
| Later than 1 year and no later than 5 years | 7,990 | 9,705 |
| Later than 5 years | 12,302 | 14,371 |
| Future charges on finance leases | (3,006) | (4,434) |

| (€ thousands) | Successor December 31, 2015 | Predecessor December 31, 2014 |
|---|---|---|
| **Total present value of finance lease liabilities** | **20,136** | **22,547** |
| No later than 1 year | 2,349 | 2,411 |
| Later than 1 year and no later than 5 years | 6,612 | 7,911 |
| Later than 5 years | 11,175 | 12,225 |

### *Other liabilities with related parties*

As of December 31, 2014, the Company had other liabilities with related parties for a total of €405.1 million, in relation to loan agreements between Balta Finance S. à r.l. (as borrower) and Balta Luxembourg S.à r.l. (as lender).

The main amount consist of a parent loan agreement which was initially recognized as a financial liability at fair value (equal to the cash proceeds) and which was subsequently measured at amortized cost using the effective interest rate method. Following debt modification in October 2013, the interest expense on this debt was calculated at the effective interest rate of 4.9%. Beside the parent loan, two other loans with a fixed interest rate of 5.5% of initially €6.0 million and €1.5 million were granted by Balta Luxembourg S.à r.l. respectively in 2012 and 2013. The outstanding capital as per December 31, 2014 is €5.5 million.

These receivables were sold by Balta Luxembourg S.à r.l., together with the shares of Balta Finance, as part of the Acquisition on August 11, 2015. Consequently, these liabilities have become intercompany transactions when preparing consolidated financial statements following the Completion Date. It follows that this debt is no longer visible in the consolidated statement of financial position as of December 31, 2015.

### *Other liabilities*

In May 2006, the Group entered into a settlement agreement with historical shareholders to settle a dispute related to a tax refund. The liability as of December 31, 2014 was equal to €4.9 million and was fully settled on August 11, 2015.

### *Factoring*

As part of its normal course of business, the Group has entered into two non-recourse receivables financing agreements, whereby it may sell trade receivables arising from the normal course of business at face value less certain reserves and fees. The insolvency risk related to the factored receivables has been transferred to the factoring company, who in turn has transferred this risk to a credit insurance company. Under the non-recourse agreements, the Group collects payments from its customers on behalf of the factoring company to which it has factored its receivables. Given that substantially all of the risks and rewards of ownership has been transferred, the trade receivables assigned to the factoring companies have been derecognized from the statement of financial position.

Whilst the factoring program described above relates the portfolio of credit insured trade receivables, the Group has also entered into a forfaiting agreement where a financial institution agrees to purchase (forfait) on a revolving basis the receivables from individually identified debtors. The credit risk related to these receivables is fully transferred from the Group to the financial institution and as a result hereof, the financial institution bears the risk of non-payment by the debtor. The Group has been mandated to collect the forfeited receivables for the account of and on behalf of the financial institution. The eligible portion of the trade receivables that have been transferred and financed under this agreement have been derecognized from the Group's statement of financial position. The Group continues to recognize a portion of the receivables to the extent of its continuing involvement, in accordance with IAS 39 "Financial instruments: recognition and measurement".

In 2014, the Group has agreed to enter into an Accounts Receivables Purchase Agreement with a financial institution, in the framework of a supply chain financing program offered by a large customer. Under the agreement, the Group offers to sell some or all of its accounts receivable due from this customer to the financial institution. Given the non-recourse nature of the agreement, the accounts receivables are derecognized on the moment the cash is received.

***Reverse factoring***

In 2014 and during the first half of 2015, the Predecessor made use of supplier financing transactions (so-called reversed factoring agreements), in order to extend payment terms of certain accounts payable balances. When supplier financing is obtained, the Predecessor derecognizes the original trade accounts payable balances and recognizes a financial liability for the amount of supplier financing until the debt repayment date. The amount of such financial debt was equal to €5.9 million as of December 31, 2014.

The entire reverse factoring debt was repaid on August 11, 2015 and the Reverse Factoring Agreement was cancelled.

## Note 23. Additional disclosures on financial instruments

The following table presents the carrying amounts and fair values of each category of financial assets and financial liabilities:

| (€ thousands) | Successor December 31, 2015 Carrying amount | Successor December 31, 2015 Fair value | Predecessor December 31, 2014 Carrying amount | Predecessor December 31, 2014 Fair value |
|---|---|---|---|---|
| **Assets as per statement of financial positions** | **92,883** | **92,883** | **115,200** | **115,200** |
| **Loans and receivables** | **92,097** | **92,097** | **115,200** | **115,200** |
| Trade and other receivables | 46,635 | 46,635 | 48,546 | 48,546 |
| Cash and cash equivalents | 45,462 | 45,462 | 66,654 | 66,654 |
| **Assets at fair value through profit or loss** | **786** | **786** | **-** | **-** |
| Foreign exchange derivative financial instruments | 273 | 273 | - | - |
| Fixed price electricity purchase commitments | 512 | 512 | - | - |
| **Liabilities as per statement of financial positions** | **560,105** | **584,879** | **701,915** | **701,915** |
| **Financial liabilities measured at amortised cost** | **421,505** | **446,279** | **701,684** | **701,684** |
| Senior Secured Notes | 276,826 | 301,600 | - | - |
| Bank and other borrowings | 20,277 | 20,277 | 579,181 | 579,181 |
| Trade and other payables | 124,402 | 124,402 | 122,503 | 122,503 |
| **Financial liabilities measured at fair value through profit or loss** | **138,600** | **138,600** | **231** | **231** |
| Preferred equity certificates | 138,600 | 138,600 | - | - |
| Foreign exchange derivative financial instruments | - | - | 231 | 231 |

The different levels of valuation method have been defined as follows:

- Level 1: are valuations derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: are valuations derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3: are valuations derived from inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of the Senior Secured Notes is based on a Level 1 estimate, with a price of approximately 104% as of December 31, 2015.

The fair value of the PECs has been determined using Level 3 estimates, see Note 2 and Note 20.

The fair value of all other financial instruments, with the exception of cash- and cash equivalents, has been determined using Level 2 estimates. The fair value of the forward foreign exchange contracts have been determined using forward exchange rates that are quoted in an active market. A similar valuation approach has been applied to determine the fair value of the fixed price electricity purchase commitments at the Completion Date. The effects of discounting are generally insignificant for Level 2 derivatives. For trade and other receivables, as well as trade and other payables, the carrying amount is considered to be a good estimate of the fair value, given the short term nature of these items.

## Note 24. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The objective is to identify, quantify, manage and then monitor events or actions that could lead to financial losses. Derivative financial instruments are used to hedge certain risk exposures at Group level. The Group did not apply hedge accounting to these transactions during the period covered by these combined financial statements.

### Qualitative and quantitative disclosures about market risk

***Foreign Exchange Risk***

We have significant exposure to the value of the British Pound, the U.S. Dollar and the Turkish Lira. Consequently, our financial results have been, and in the future will likely continue to be, subject to currency transaction and translation effects resulting from fluctuations in exchange rates, primarily the EUR/USD, EUR/GBP and EUR/TRY exchange rates. The proportion of our revenue recognized in each currency does not exactly correspond with the revenue derived from each geography, as we sometimes invoice customers in currencies other than their local currency. For instance, a portion of our sales in the United Kingdom are invoiced in euro.

Our Combined Financial Statements are prepared in euro. We are therefore exposed to translation risk of our Combined Financial Statements when we translate the financial statements of our subsidiaries which have a functional currency other than euro. A portion of our assets, liabilities, revenue and costs are denominated in various currencies other than euro, principally GBP, USD and TRY. As a result, our consolidated results of operations, which are reported in euro, are affected by currency exchange rate fluctuations.

Transaction risk arises when our subsidiaries execute transactions in a currency other than their functional currency. We mitigate this risk through four primary methods. First, for USD, we historically have been able to match cash inflows and cash outflows, resulting in a natural hedge between assets and liabilities. The natural hedge position is assessed on a semi-annual basis, whereby the amount of our remaining exposure is closely monitored. Secondly, we have also entered into commercial arrangements with two of our key customers to review the impact of EUR/GBP and EUR/TRY fluctuations and with the potential to adjust prices accordingly. Thirdly, we also use forward exchange contracts to hedge our residual exposure to GBP. Finally, even with respect to commercial arrangements that do not provide for exchange rate-based price-adjustment mechanisms, our established relationships with our customers imply that both positive and negative currency fluctuations are generally passed on through price revisions over the medium term. In addition, our industry is competitive and elastic, as demonstrated by price rebalancing across the industry in response to foreign currency and raw material price fluctuations. Changes in foreign exchange rates also have a long-term impact on our sales volumes. For example, if there is long-term depreciation of the euro, our sales volumes may increase as we become more competitive in non-Eurozone markets. In contrast, a long-term strengthening of the euro may decrease our volumes and price competitiveness as in non-Eurozone markets.

The following table presents the main statement of financial position items affected by foreign exchange risk.

| (€ thousands) | EUR | GBP | USD | TRY | Total |
|---|---|---|---|---|---|
| **December 31, 2015 Net Exposure** | **(40,032)** | **(2,201)** | **1,993** | **7,844** | **(32,396)** |
| Trade and other receivables | 27,983 | 3,105 | 6,097 | 9,359 | 46,544 |
| Cash and cash equivalents | 36,791 | 4,199 | 1,707 | 2,766 | 45,462 |
| Trade and other payables | (104,806) | (9,505) | (5,811) | (4,281) | (124,402) |
| **December 31, 2014 Net Exposure** | **(43,052)** | **11,717** | **16,342** | **6,787** | **(8,205)** |
| Trade and other receivables | 21,772 | 8,020 | 9,992 | 7,860 | 47,644 |
| Cash and cash equivalents | 38,629 | 15,611 | 9,749 | 2,664 | 66,654 |
| Trade and other payables | (103,453) | (11,914) | (3,399) | (3,737) | (122,503) |

The following table presents the sensitivity analysis of the year-end statement of financial position positions in GBP, USD and TRY in case the euro would weaken by 10%.

| (€ thousands) | 2015 | 2014 |
|---|---|---|
| **GBP denominated** | **(1,713)** | **(167)** |
| Changes in fair value of derivative financial instruments | (1,468) | (1,469) |
| Changes in carrying amount of monetary assets and liabilities | (245) | 1,302 |
| **USD denominated** | **221** | **1,816** |
| Changes in fair value of derivative financial instruments | - | - |
| Changes in carrying amount of monetary assets and liabilities | 221 | 1,816 |
| **TRY denominated** | **872** | **754** |
| Changes in fair value of derivative financial instruments | - | - |
| Changes in carrying amount of monetary assets and liabilities | 872 | 754 |

The following table presents the sensitivity analysis of the year-end statement of financial position positions in GBP, USD and TRY in case the euro would strengthen by 10%:

| (€ thousands) | 2015 | 2014 |
|---|---|---|
| **GBP denominated** | **1,402** | **137** |
| Changes in fair value of derivative financial instruments | 1,201 | 1,202 |
| Changes in carrying amount of monetary assets and liabilities | 200 | (1,065) |
| **USD denominated** | **(181)** | **(1,486)** |
| Changes in fair value of derivative financial instruments | - | - |
| Changes in carrying amount of monetary assets and liabilities | (181) | (1,486) |
| **TRY denominated** | **(713)** | **(617)** |
| Changes in fair value of derivative financial instruments | - | - |
| Changes in carrying amount of monetary assets and liabilities | (713) | (617) |

### *Commodity Price Risk*

We are exposed to fluctuations in the price of major raw material commodities used in the manufacturing process. Our key raw materials are polypropylene granulates, yarn, latex and polyamide granulates, in respect of which our total purchases amounted to €81.8 million (2014: €84.6 million), €67.9 million (2014: €50.9 million), €23.7 million (2014: €26.2 million) and €16.2 million (2014: €19.6 million).

When we hedge, we typically do so by entering into fixed price contracts with our suppliers. In October 2015, we entered into a fixed price agreement to hedge approximately 8% of our annual consumption of polypropylene granulates. We typically use 65,000 tons of polypropylene granulates per year, with 50,000 tons purchased under contracts and 15,000 tons purchased on the spot market.

***Interest Rate Risk***

Our interest rate risk principally relates to external indebtedness that bear interest at variable rates. Following the Acquisition and the repayment of the senior credit facility, only the amounts that we borrow under the Revolving Credit Facility, our capital leases and our factoring and forfaiting arrangements are subject to variable interest rates, as the Senior Secured Notes carry interest at a fixed rate. We therefore do not expect to use interest rate swaps in respect of our financing going forward.

## Qualitative and quantitative disclosures about credit risk

Our credit risk is managed on a group-wide basis. We assess the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual credit limits are set based on historical experience, in-depth knowledge of the customer and in close cooperation with the business unit manager. These credit limits are regularly reviewed by the business unit managers. If a credit limit needs to be increased, the approval of the CFO is required. In addition, we have obtained credit insurance to cover a large portion of the credit default risk. Finally, credit risk is also mitigated through non-recourse factoring and forfaiting of the trade receivables whereby the insolvency risk has been transferred to the counterparty. Historical default rates did not exceed 0.1% for 2014 and 2015. Trade receivables are spread over a number of countries and counterparties. There is no large concentration of trade receivables. For derivative financial assets, credit quality has been assessed based on the Fitch rating of the counterparty. All our forward exchange contract are over the counter with a financial institution as counterparty. Our fixed price purchase commitments are entered into with the counterparty of our long term procurement contracts. We refer to Note 16 for an overview of derivative financial instruments entered into.

Excess liquidities are invested for very short periods and are spread over a limited number of banks, all enjoying a satisfactory credit rating. For cash at bank and short-term bank deposits, the table below gives an overview of credit ratings for banks used by the Group.

| **(€ thousands)** | **December 31, 2015** |
|---|---|
| **Total cash at bank and short-term bank deposits** | **45,462** |
| A rating | 41,623 |
| BBB rating | 3,839 |

## Qualitative and quantitative disclosures about liquidity risk

We monitor cash flow forecasts and liquidity requirements centrally, ensuring that we have sufficient cash to meet operational needs while maintaining sufficient headroom on our undrawn committed borrowing facilities at all times so that we do not breach borrowing limits or covenants on any of our borrowing facilities.

The operating activities of our subsidiaries and the resultant cash inflows are our main source of liquidity. Our cash pooling system enables us to benefit from surplus fund of certain subsidiaries to cover the financial requirements of other subsidiaries. We invest surplus cash in interest-bearing current accounts and short-term cash deposits, selecting instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

In order to meet our cash outflow obligations, we use cash flows generated from operating activities and credit facilities with financial institutions if necessary. In addition, we have entered into factoring agreements with financial institutions whereby cash is made available to us in consideration for certain trade receivables generated by us.

Our primary sources of liquidity have historically been our senior facility agreements, cash flows from operations and our non-recourse factoring agreements. The principal financing arrangements that are in place as of December 31, 2015 are the Senior Secured Notes, the Revolving Credit Facility and capital lease agreements.

The following table reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. The amounts disclosed are undiscounted net cash outflows, based on the market conditions existing at December 31, 2015 and 2014.

The cash flows related to the preferred equity certificates have been determined based on the contractual mandatory redemption date of December 31, 2045 and reflect a fixed return of 1% per year. The Company expects that the PECs will be redeemed earlier.

| (€ thousands) | Less than 6 months | Between 6 months and 1 year | Between 1 year and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|---|
| **Total as of December 31, 2015** | **(139,438)** | **(12,659)** | **(25,299)** | **(72,591)** | **(347,252)** |
| Finance lease liabilities | (1,428) | (1,422) | (2,824) | (5,166) | (12,302) |
| Preferred equity certificates | - | - | - | - | (185,000) |
| Senior Secured Notes | (13,860) | (11,238) | (22,475) | (67,425) | (334,950) |
| Trade and other payables | (124,402) | - | - | - | - |
| Gross settled derivative financial instruments – outflows | (13,761) | - | - | - | - |
| Gross settled derivative financial instruments –inflows | 14,013 | - | - | - | - |

| (€ thousands) | Less than 6 months | Between 6 months and 1 year | Between 1 year and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|---|
| **Total as of December 31, 2014** | **(131,724)** | **(15,314)** | **(138,759)** | **(9,830)** | **(673,996)** |
| Bank and other borrowings | (7,529) | (13,872) | (135,896) | (3,136) | (660,309) |
| Finance lease liabilities | (1,447) | (1,441) | (2,863) | (6,694) | (13,687) |
| Trade and other payables | (122,503) | - | - | - | - |
| Gross settled derivative financial instruments – outflows | (17,033) | - | - | - | - |
| Gross settled derivative financial instruments –inflows | 16,788 | - | - | - | - |

A key factor in maintaining a strong financial profile is our credit rating which is affected by, among other factors, our capital structure, profitability, ability to generate cash flows, geographic and customer diversification and our competitive market position. Our current corporate credit ratings from Moody's Investor Service (Moody's) and Standard & Poor's Ratings Services (S&P) are noted as follows:

| (€ thousands) | Successor December 31, 2015 Moody's | Successor December 31, 2015 S&P | Predecessor December 31, 2014 Moody's | Predecessor December 31, 2014 S&P |
|---|---|---|---|---|
| Long-term issue rating Senior Secured Notes | B2 | B | n.a. | n.a. |
| Corporate rating | B2 | B | n.a. | n.a. |

On August 10, 2015, Moody's Investors Service (Moody's) assigned a definitive B2 rating to the €290 million Senior Secured Notes issued by LSF9 Balta Issuer S.A., the parent holding company of the Balta group, following a review of the final bond documentation. The corporate family rating (CFR) of B2 and the probability of default rating (PDR) of B2-PD remain unchanged. The outlook on all the ratings is stable.

On September 14, 2015, Standard & Poor's Ratings Services assigned its 'B' long-term corporate credit rating to LSF9 Balta Investments S.à r.l.. The outlook is stable. At the same time, S&P assigned its 'B' long-term issue rating to LSF9 Balta Issuer S.A.'s €290 million Senior Secured Notes and its 'BB-' long-term issue rating to the €40 million super senior revolving credit facility (RCF).

## Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. The Group is closely monitoring its financial performance to comply with financial covenants. Refer to Note 21 and Note 22 for further details.

## Note 25. Employee benefit obligations

The Group foresees termination benefits (including early retirement) for its working and retired personnel. The liability was measured using a discount rate of 0.92%.

The Group also operates a pension plan and provided for pension liabilities. These benefits have been measured in compliance with IAS 19 revised and in accordance with the Group accounting policies described in Note 1.19. The liability was measured using a discount rate of 2.05% and 1.55% in 2015 and 2014, respectively. The annual pension cost, relating to the pension plan is disclosed in Note 6.

The employee benefit obligations recognized in the financial statements are detailed below:

| (€ thousands) | Successor<br>December 31, 2015 | Predecessor<br>December 31, 2014 |
|---|---|---|
| **Total employee benefit obligations** | **35,745** | **36,077** |
| Holiday pay | 13,842 | 13,226 |
| Social security taxes | 8,033 | 7,187 |
| Salaries and wages payable | 5,000 | 4,600 |
| Pension plans | 1,932 | 3,791 |
| Early retirement provision | 2,807 | 3,057 |
| Group insurance | 550 | 604 |
| Pension | 94 | 99 |
| Other | 3,486 | 3,513 |
| **Of which current portion** | **31,554** | **29,815** |
| **Of which non-current portion** | **4,191** | **6,261** |
| Pension plans | 1,932 | 3,791 |
| Early retirement pension | 2,164 | 2,372 |
| Pension | 94 | 99 |

### *Pension plans: overview*

The line item "pension plans" in the table above comprises employer contributions paid in the context of pension plans for management and white collars and a bonus plan, as detailed below.

A pension plan has been put in place for management and is financed through employer contributions which increase depending on seniority (basis contribution of 3.75% of pensionable salary, increasing by 0.5% for every 5 years of service rendered within the group up to a maximum contribution rate of 5.75%). This plan also includes a death in service benefit amounting to 2 x pensionable salary.

Several pension plans are in place for white collars and are financed through fixed employer contributions.

In addition, bonus plans are in place for senior management and are financed through employer contributions which correspond to a fixed % of the bonus.

***Pension plans: valuation methodology***

The pension and bonus plans as described above has been classified as defined benefits. The valuation of the pension and bonus plans has been performed in accordance with IAS 19.

We refer to Note 1.19 concerning the valuation methodology which has been used. The liability is based on the difference between the present value of the "defined benefit obligation", taking into account the minimum return and a discount factor, less the fair value of any plan assets at date of closing.

***Pension plans: main valuation assumptions***

The main assumptions used to perform the valuation are described below:

| | Successor<br>December 31, 2015 | Predecessor<br>December 31, 2014 |
|---|---|---|
| Discount rate | 2.05% | 1.55% |
| Retirement age | 65 years | 65 years |
| Mortality | MR/FR-5 | MR/FR-5 |

***Pension plans: reported figures***

For the year ended December 31, 2015, the defined benefit obligation taking into account the tax effect amounts to €13.5 million (December 31, 2014: €9.1 million), offset by plan assets of €11.5 million (December 31, 2014: €5.3 million) as per December 31, 2015.

## Note 26. Trade and other payables

Trade payables as of December 31, 2015 includes the amounts for outstanding invoices (€69 million) and invoices to be received in relation to goods and services received during the current period (€17 million).

Accrued charges and deferred income mainly relate to:

- Deferred revenue relating to the sale and lease back of one of the facilities which is recognized in profit over the leasing period of the facilities (€14 million);
- Deferred revenue relating to advance payments on rental agreements (€4 million);
- Accrued charges for customer discounts (€19 million).

| (€ thousands) | Successor<br>December 31, 2015 | Predecessor<br>December 31, 2014 |
|---|---|---|
| **Trade and other payables** | **124,404** | **122,503** |
| Trade payables | 86,134 | 79,929 |
| Accrued charges and deferred income | 38,220 | 42,573 |
| Other payables | 49 | - |

The increase in the outstanding trade and other payables from €122.5 million as of December 31, 2014 to €124.4 million as of December 31, 2015 is driven by the increased amounts outstanding for trade payables (€6.2 million or 7.8%). This increase is partly offset by a decrease in accrued charges and deferred income (€4.4 million or 10.2%), mainly due to decreased outstanding customer rebate accruals.

## Note 27. Contingencies

The Group currently accounts for environmental provisions at the time a situation of non-compliance exists, at the time pollution occurs or at the time the Group becomes aware of pollution. At such time, the type of pollution is determined and, if and when needed, an independent environmental study is performed. Management will estimate the amount of the provision required based on past historical data and/or based on the environmental studies.

## Note 28. Commitments

***Energy***

Our fixed price purchase commitments for electricity and gas, for deliveries in 2016, are equal to €15.7 million as of December 31, 2015.

***Raw material***

Our fixed price purchase commitments for raw materials, for deliveries in 2016, are equal to €94 million as of December 31, 2015.

***Capital expenditures***

No capital commitments are outstanding as of December 31, 2015.

***Operating leases***

The Group leases various equipment, machinery and vehicles under operating lease agreements. The lease terms are between 3 and 12 years (2013 and 2012: between 3 and 10 years).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| (€ thousands) | December 31, 2015 |
|---|---|
| **Total present value of operating lease commitments** | **7,145** |
| No later than 1 year | 2,360 |
| Later than 1 year and no later than 5 years | 4,785 |
| Later than 5 years | - |

## Note 29. Seasonality of operations

The Group has very limited seasonability impact on operations. Both revenue and Adjusted EBITDA are generally very similar across the quarters of each financial year.

## Note 30. Events after the reporting date

We are not aware of any significant events since December 31, 2015 which could be considered as having a material influence on the financial position, financial performance and cash flows of the Company.

# Section III: Consolidated Financial Statements

## III.1. Audit report

To the Shareholders of
**LSF9 Balta Issuer S.A.**

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We have audited the accompanying consolidated financial statements of LSF9 Balta Issuer S.A. and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

*Board of Directors' responsibility for the consolidated financial statements*

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

*Responsibility of the "Réviseur d'entreprises agréé"*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé" including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

*PricewaterhouseCoopers, Société coopérative, 400 Route d'Esch, B.P. 1443, L-1014 Luxembourg*
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*Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)*
*R.C.S. Luxembourg B 65 477 - TVA LU25482518*

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of LSF9 Balta Issuer S.A. and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Report on other legal and regulatory requirements**

The management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 26 April 2016

Vincent Ball

## III.2. Management report

Pursuant to Article 339 of the Commercial Law, we are pleased to report to you on the consolidated operations of LSF9 Balta Issuer S.A. ("the Company") and its subsidiaries (the "Group") with respect to the period ended on December 31, 2015.

***Overview of the Transaction***

LSF9 Balta Investments S.à r.l. ("Balta Investments") is a private limited liability company (société à responsabilité limitée) incorporated on June 10, 2015 under the laws of Luxembourg and is a wholly-owned subsidiary of the Company. On June 14, 2015, Balta Investments, entered into a sale and purchase agreement (the "Acquisition Agreement") to purchase from Balta Luxembourg S.à r.l. (the "Seller") all of the issued and outstanding share capital of Balta Finance S.à r.l., the parent entity of the Balta Group, and certain intercompany loans between Balta Finance (as borrower) and the Seller (as lender) (the "Acquisition"). The Acquisition was consummated on August 11, 2015.

The Balta Group was founded in 1964 in Belgium. In the 50 years since its foundation, it has grown into one the largest European soft-flooring companies, producing rugs, residential broadloom, commercial broadloom and carpet tiles and non-woven fabrics for the European and international markets. In 2014, it was the largest manufacturer in Europe of mechanically woven rugs and residential broadloom by sales and volume, and the second largest manufacturer worldwide of mechanically woven rugs by sales and volume. It is also the third largest manufacturer in Europe of commercial carpet tiles by volume.

The Company is a public limited liability company (société anonyme) incorporated on June 22, 2015 under the laws of Luxembourg and is a wholly-owned subsidiary of LSF9 Balta Midco S.à r.l, which is in turn controlled indirectly by Lone Star Fund IX. The Company was established for the principal purpose of financing the Acquisition, including the repayment of existing indebtedness and payment of fees and expenses for the purpose of facilitating the Transaction.

In connection with the Acquisition, Lone Star Fund IX, through intermediate holding companies, has made an indirect equity investment of €140 million through a combination of ordinary equity and preferred equity certificates. In addition, the Company has issued €290 million of Senior Secured Notes due 2022 (refer to Note 21). The Acquisition was accompanied by a full repayment of the existing financing by new financing, which is further detailed in the accompanying notes to the consolidated financial statements.

The purchase price paid by Balta Investments for the Acquisition was equal to €272.8 million. Total identifiable net assets are equal to €148.1 million. The difference of €124.7 million has been allocated to goodwill (refer to Note 4) and represents, amongst other things, the value of the longstanding customer relationships, the Group's market position, brand and reputation, as well the value of the Group's workforce. The Company has incurred €10.4 million of fees and expenses in relation to the Transaction.

***Financial highlights***

Given that the Transaction has been accounted for under the purchase method of accounting, the historical operating results presented in these consolidated financial statements are of limited use in evaluating the historical financial performance or predicting our future operating results. Consequently, in order to understand and evaluate the operating results and trends in our ongoing business, management and the Board evaluate pro-forma information as though the Acquisition had been performed at the beginning of the accounting year and excluding the impact of the purchase price allocation.

On the basis of the pro-forma figures shown below, we are pleased to report that revenue and Adjusted EBITDA reached €556.8 million and €75.5 million, a 7% and 16% increase, respectively, compared to the year ended December 31, 2014.

Business performance with key customers and in target regions remains strong thanks to successful business development and despite economic recovery in continental Europe remaining slow. Financial performance has been supported by favourable foreign exchange movements (USD and GBP) and our ability to retain a portion of the benefits associated with lower raw material prices.

Condensed pro-forma income statement:

| (€ thousands) | Successor (a) Period from August 11, 2015 to December 31, 2015 Incl. impact PPA | Successor (b) Period from August 11, 2015 to December 31, 2015 Impact PPA | Successor (c) Period from August 11, 2015 to December 31, 2015 Excl. impact PPA | Predecessor (d) Period from January 1, 2015 to August 10, 2015 Excl. impact PPA | Combined (e) Twelve months ended December 31, 2015 Excl. impact PPA | Predecessor (f) Twelve months ended December 31, 2014 |
|---|---|---|---|---|---|---|
| Revenue | 194,777 | - | 194,777 | 362,045 | 556,822 | 519,529 |
| **Gross Profit** | **75,820** | **25,695** | **101,515** | **193,923** | **295,438** | **271,768** |
| Employee benefit expenses | (46,972) | - | (46,972) | (86,474) | (133,446) | (128,191) |
| Other income / (expenses) | (27,542) | - | (27,542) | (58,982) | (86,524) | (78,428) |
| **Adjusted EBITDA** | **1,305** | **25,695** | **27,000** | **48,467** | **75,467** | **65,149** |
| Depreciation / amortization | (8,014) | - | (8,014) | (16,084) | (24,098) | (24,802) |
| **Operating profit before exceptional items** | **(6,709)** | **25,695** | **18,986** | **32,383** | **51,369** | **40,348** |
| Non-recurring expenses | (10,396) | - | (10,396) | (23,291) | (33,687) | (2,101) |
| Impairment and write-off | - | - | - | - | - | (12,690) |
| **Operating profit/(loss)** | **(17,105)** | **25,695** | **8,590** | **9,092** | **17,682** | **25,556** |
| **Net finance expenses** | **(9,495)** | **-** | **(9,495)** | **(28,967)** | **(38,462)** | **(32,176)** |
| **Profit / (loss) before income taxes** | **(26,600)** | **25,695** | **(905)** | **(19,875)** | **(20,780)** | **(6,619)** |
| Income tax benefit / (expense) | 4,606 | (9,637) | (5,031) | (1,657) | (6,688) | 7,856 |
| **Profit / (loss) for the period** | **(21,995)** | **16,058** | **(5,936)** | **(21,532)** | **(27,468)** | **1,236** |

(a) Stand-alone results of Balta Issuer and Balta Investments from incorporation until the end of the period and consolidated results of Balta Finance S.à r.l. as from August 11, 2015. This column reflects the impact of the purchase price allocation and corresponds to the profit/loss for the period as reported in the consolidated financial statements.
(b) This column reflects the impact of the purchase price allocation on the consolidated financial statements.
(c) Stand-alone results of Balta Issuer and Balta Investments from incorporation until the end of the period and consolidated results of Balta Finance S.à r.l. as from August 11, 2015. This column excludes the impact of the purchase price allocation.
(d) Consolidated profit/(loss) of Balta Finance S.à r.l. and its subsidiaries for the period prior to the Acquisition, i.e. from January 1 to August 10, 2015.
(e) Combined profit/loss for the period from January 1 to December 31, 2015. This is the sum of columns (c) and (d) and hence excludes the impact of the purchase price accounting.
(f) Consolidated profit/loss as reported by Balta Finance S.à r.l. at the end of 2014.

The net debt as of December 31, 2015 is equal to €274.0 million, representing 3.6x Adjusted EBITDA. This definition of net debt includes the capital and accrued interest outstanding under the Senior Secured Notes (€290 million capital and €9.2 million accrued interest) and financial leasing debt (€20.2 million), less cash and cash equivalents (€45.5 million).

***Company's likely future development***

We are seeking to establish ourselves as the leading supplier of cost-effective soft-flooring products for the mass market in our core geographies. We benefit from industry know-how built over more than 50 years, strong customer relationships and product design and technical expertise, which we intend to use to further strengthen our market positions.

We intend to capitalize on growth opportunities generated by the more positive current economic outlook in our core markets, as well as building additional distribution channels for the wider sale of our products. Our strategy is premised on further developing a flexible distribution network that adapts to fluctuations in market dynamics while concurrently developing relationships with a broader and more diverse customer base. The Group may actively evaluate potential acquisitions to accelerate the growth strategy in certain geographical and/or product segments.

***Financial risk management***

The Group is exposed to a variety of financial risks, including market risk (mainly foreign exchange rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial and commodity markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group's financial risk management is described in Note 24 of the consolidated financial statements.

***Environmental and personnel matters***

In 2015, the Group employed an average of 3,182 employees (expressed in full-time equivalents). All efforts are undertaken to ensure that all health and safety measures are in compliance with legal requirements, that appropriate training and career development opportunities are identified and that consultation with employees or their representatives continues at all levels when decisions are taken that are likely to affect employee's interests.

***Research and development***

One of the competitive advantages of our business is our long history of creativity and innovation. We aim to leverage our research and development to continually optimize our production capacity and provide designs that appeal to our customers. We closely monitor trends in product design and innovation through continuous testing and analysis, with a focus on anticipating our customers' preferences and market developments. The Group incurred €1.7 million of research and development expenses during the 4 months ended in December 31, 2015 which are included in the statement of comprehensive income as other expenses.

***Important events which occurred after the end of the year***

On March 14, 2016, the Company announced that Kairos Management BVBA, represented by Mr Tom Debusschere as its permanent representative, has been appointed to replace Mr. Hendrik Deruyck as director of the Company. In addition, Mr Tom Debusschere replaced Mr. Hendrik Deruyck as CEO and will lead the Group going forward.

***Prospects and information regarding circumstances that could material affect the development of the Group***

Our potential for future business success and operating profitability must be considered in light of the risks, uncertainties, expenses and difficulties typically encountered by recently organized or combined companies. If we fail to address these risks, uncertainties and difficulties or to manage these expenses adequately, our business, financial condition and operating results may be materially adversely affected and may differ

materially from your expectations based on the historical and pro forma financial information provided in this Annual Report.

***Acquisition of own shares***

The Group or a direct subsidiary or a person, acting in its own name but on behalf of the Company, has not acquired shares of the Company.

***Discharge***

The Board of Directors requests the shareholders of the Group to approve the consolidated financial statements as attached hereto and to grant discharge to the Board of Directors and to the statutory auditors for the exercise of their mandate during the last financial year.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). These Group consolidated financial statements were authorized for issue by the Board of Directors on April 26, 2016. The amounts in this document are presented in thousands of euro, unless otherwise stated. Rounding adjustments have been made in calculating some of the financial information included in this Financial statements.

***Board of Directors***

The Board of Directors of LSF9 Balta Issuer S.A. is as follows:

**Philippe Detournay**
Director
Start of mandate: June 22, 2015
End of mandate: June 4, 2021

**Philippe Jusseau**
Director
Start of mandate: June 22, 2015
End of Mandate: June 4, 2021

**Patrick Steinhauser**
Director
Start of mandate: June 22, 2015
End of mandate: June 4, 2021

**Luca Destito**
Director
Start of mandate: August 11, 2015
End of mandate: June 3, 2016

**Michael Kolbeck**
Director
Start of mandate: August 11, 2015
End of mandate: June 3, 2016

**Hendrik Deruyck**
Director
Start of mandate: August 11, 2015
End of mandate: March 14, 2016

**Kairos Management BVBA,**
**represented by Tom Debusschere**
Director
Start of mandate: March 14, 2016
End of mandate: June 4, 2021

***Statutory auditors***

The statutory auditors are PricewaterhouseCoopers Société Coopérative, 2, Rue Gerhard Mercator, B.P. 1443, L-1014 Luxembourg.

# III.3. Consolidated statement of comprehensive income for the period ended December 31, 2015

| (€ thousands) | Note | Period ended December 31, 2015 |
|---|---|---|
| **I. CONSOLIDATED INCOME STATEMENT** | | |
| Revenue | | 194,777 |
| Raw material expenses | | (102,817) |
| Changes in inventories | | (16,140) |
| **Gross Profit** | | **75,820** |
| Employee benefit expenses | Note 5 | (46,972) |
| Other income | Note 6 | 5,586 |
| Other expenses | Note 6 | (33,128) |
| Depreciation / amortization | Note 7 | (8,014) |
| **Operating profit before exceptional items[1]** | | **(6,709)** |
| Integration and restructuring expenses | Note 8 | (10,396) |
| **Operating profit/(loss)** | | **(17,105)** |
| Finance expenses | Note 9 | (9,495) |
| **Net financial expenses** | | **(9,495)** |
| **Profit / (loss) before income taxes** | | **(26,600)** |
| Income tax benefit / (expense) | Note 10 | 4,606 |
| **Profit / (loss) for the period from continuing operations** | | **(21,995)** |
| Profit / (loss) for the period from discontinued operations | | - |
| **Profit / (loss) for the period** | | **(21,995)** |
| **II. CONSOLIDATED OTHER COMPREHENSIVE INCOME** | | |
| Items in other comprehensive income that may be subsequently reclassified to P&L | | |
| Exchange differences on translating foreign operations | | 720 |
| Items in other comprehensive income that will not be reclassified to P&L | | |
| Changes in employee defined benefit obligations | | 944 |
| **Other comprehensive income for the period, net of tax** | | **1,664** |
| **Total comprehensive income for the period** | | **(20,331)** |

(1) Operating profit before exceptional items is a non-GAAP measures as described in the Important Notice.

The accompanying notes form an integral part of these consolidated financial statements.

# III.4. Consolidated statement of financial position as at December 31, 2015

| (€ thousands) | | As at December 31, 2015 |
|---|---|---|
| Property, plant and equipment | Note 12 | |
| Land and buildings | | 175,734 |
| Plant and machinery | | 108,584 |
| Other fixtures and fittings, tools and equipment | | 15,012 |
| Goodwill | Note 4 | 124,673 |
| Other intangible assets | Note 11 | 1,667 |
| Deferred income tax assets | Note 13 | 8,573 |
| Trade and other receivables | Note 15 | 91 |
| **Total non-current assets** | | **434,334** |
| Inventories | Note 14 | 129,438 |
| Derivative financial instruments | | 786 |
| Trade and other receivables | Note 15 | 46,544 |
| Current income tax assets | | 28 |
| Cash and cash equivalents | Note 16 | 45,462 |
| **Total current assets** | | **222,257** |
| **Total assets** | | **656,590** |
| Share capital | Note 17 | 171 |
| Share premium | Note 17 | 1,260 |
| Other comprehensive income | Note 19 | 1,664 |
| Retained earnings and other reserves | Note 18 | (21,995) |
| **Total equity** | | **(18,900)** |
| Preferred Equity Certificates | Note 20 | 138,600 |
| Senior Secured Notes | Note 21 | 276,826 |
| Bank and Other Borrowings | Note 22 | 17,787 |
| Deferred income tax liabilities | Note 13 | 67,879 |
| Employee benefit obligations | Note 25 | 4,191 |
| **Total non-current liabilities** | | **505,283** |
| Senior Secured Notes | Note 21 | 6,864 |
| Bank and Other Borrowings | Note 22 | 2,490 |
| Employee benefit obligations | Note 25 | 31,554 |
| Provisions for other liabilities and charges | Note 26 | 64 |
| Trade and other payables | Note 27 | 124,404 |
| Income tax liabilities | | 4,831 |
| **Total current liabilities** | | **170,207** |
| **Total liabilities** | | **675,490** |
| **Total equity and liabilities** | | **656,590** |

The accompanying notes form an integral part of these consolidated financial statements

# III.5. Consolidated statement of cash flows for the period ended December 31, 2015

| (€ thousands) | Note | Period ended December 31, 2015 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **Net profit / (loss) for the period** | | **(21,995)** |
| Adjustments for: | | |
| Income tax expense / (income) | Note 10 | (4,606) |
| Finance expense | Note 9 | 9,495 |
| Depreciation, amortisation | Note 7 | 8,014 |
| Movement in provisions and deferred revenue | | 4,338 |
| Fair value of derivatives | Note 23 | 87 |
| Non-cash impact of Purchase Price Allocation (PPA) | Note 3 | 25,695 |
| **Cash generated before changes in working capital** | | **21,028** |
| Changes in working capital: | | |
| Inventories | | 8,803 |
| Trade receivables | | (2,241) |
| Trade payables | | (3,413) |
| Other working capital | | 16,928 |
| **Cash generated after changes in working capital** | | **41,106** |
| Net income tax (paid) | | (532) |
| **Net cash generated / (used) by operating activities** | | **40,575** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of property, plant and equipment | | (14,571) |
| Acquisition of subsidiary | | (272,838) |
| Net cash from Business Combinations | Note 3 | 40,656 |
| **Net cash used by investing activities** | | **(246,754)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Interest and other finance charges paid, net | | (1,442) |
| Proceeds from issuance of ordinary shares and share premium | | 1,431 |
| Proceeds from issuance of preferred equity certificates | Note 20 | 138,600 |
| Proceeds from issuance of Senior Secured Notes | Note 21 | 290,000 |
| Repayments of borrowings with third parties | Note 22 | (160,505) |
| Payment of debt financing costs | Note 21 | (16,442) |
| **Net cash generated / (used) by financing activities** | | **251,641** |
| **NET INCREASE / (DECREASE) IN CASH AND BANK OVERDRAFTS** | | **45,462** |
| Cash, cash equivalents and bank overdrafts at the beginning of the period | | - |
| Cash, cash equivalents and bank overdrafts at the end of the period | Note 16 | **45,462** |

The accompanying notes form an integral part of these consolidated financial statements

## III.6. Consolidated statement of changes in equity for the year ended December 31, 2015

| (€ thousands) | Share capital | Share premium | Other comprehensive income | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at June 22, 2015** | **31** | **-** | **-** | **-** | **31** | **-** | **31** |
| Capital increase | 140 | 1,260 | - | - | 1,400 | - | 1,400 |
| **Total Contribution by owners of the parent, recognised directly in equity** | **171** | **1,260** | **-** | **-** | **1,431** | **-** | **1,431** |
| Profit / (loss) for the period | - | - | - | (21,995) | (21,995) | - | (21,995) |
| **Other comprehensive income** | | | | | | | |
| Exchange differences on translating foreign operations | | | 720 | | 720 | - | 720 |
| Changes in employee defined benefit obligations | | | 944 | | 944 | - | 944 |
| **Total comprehensive income for the period** | **-** | **-** | **1,664** | **(21,995)** | **(20,331)** | **-** | **(20,331)** |
| **Balance at December 31, 2015** | **171** | **1,260** | **1,664** | **(21,995)** | **(18,900)** | **-** | **(18,900)** |

The accompanying notes form an integral part of these consolidated financial statements

# III.7. Notes to the consolidated financial statements

## Note 1. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the year presented, unless otherwise stated.

## Note 1.1. Basis of preparation

***Basis of preparation***

These consolidated financial statements of LSF9 Balta Issuer S.A. ("the Company" or "Balta Issuer") have been prepared for the first time in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). These include all IFRS standards and IFRIC interpretations issued and effective at December 31, 2015.

These consolidated financial statements are presented in Euro, which is the Group's presentation currency and the functional currency of the Company. All amounts in these consolidated financial statements are presented in thousands of Euro, unless otherwise stated.

These financial statements are prepared on a going concern basis, i.e. assuming that operations will continue in the foreseeable future.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

***New standards and amendments to standards***

The following interpretation and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2015:

- IFRIC 21 'Levies', effective for annual periods beginning on or after 17 June 2014. IFRIC 21 sets out the accounting for a liability to pay a levy if that liability is within the scope of IAS 37. IFRIC 21 addresses what the obligating event is and when a liability should be recognized.

The following new standards and amendments to standards have been issued, but are not mandatory for the first time for the financial year beginning 1 January 2015 and have not been endorsed by the European Union:

- IFRS 9 'Financial instruments', effective for annual periods beginning on or after 1 January 2018. The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities.

- IFRS 15 'Revenue from contracts with customers'. The IASB and FASB have jointly issued a converged standard on the recognition of revenue from contracts with customers. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. Companies using IFRS will be required to apply the revenue standard for annual periods beginning on or after 1 January 2018, subject to EU endorsement.

- Amendment to IFRS 9 'financial instruments' on general hedge accounting, effective for annual periods beginning on or after 1 January 2018. The amendment incorporates the new general hedge accounting model which will allow reporters to reflect risk management activities in the financial statements more closely as it provides more opportunities to apply hedge accounting. These

amendments also impact IAS 39 and introduce new disclosure requirements for hedge accounting, thereby impacting IFRS 7, irrespective of the fact whether hedge accounting requirements under IFRS 9 or IAS 39 are used.

Management is currently assessing the impact of these new standards and amendments on the Group's operations.

## Note 1.2. Consolidation

***Subsidiaries***

Subsidiaries are all entities for which the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The Group applies the acquisition method to account for business combinations. The consideration paid reflects the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement (for example, variable consideration contingent on future events such as achievement of post-acquisition earnings targets or success of a significant project).

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition related costs are expensed as incurred.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect the changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest and previously held interest in the entity acquired. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net recognized amount (generally at fair value) of the identifiable assets acquired and liabilities assumed constitutes goodwill, and is recognized as an intangible asset. Negative goodwill is recognized immediately in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated on consolidation. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred in which case the asset is impaired through the income statement. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

## Note 1.3. Foreign currency translation

***Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Euro, which is the Company's functional and the Group's presentational currency. All amounts are stated in thousands of euro unless otherwise stated.

***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Foreign exchange gains and losses that relate to cash and cash equivalents and borrowings, including borrowings, payables and receivables between group companies that do not qualify as a net investment in a foreign operation are presented in the statement of comprehensive income within "Finance income and expense". All other foreign exchange gains and losses are presented in the statement of comprehensive income within "Other income" or "Other expenses" which is part of the operating profit.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

The principal exchange rates that have been used to prepare these financial statements are as follows:

| | Closing | Average |
|---|---|---|
| USD | 1.0887 | 1.1093 |
| TRY | 3.1776 | 3.0187 |
| GBP | 0.7340 | 0.7259 |

***Group companies***

The results and financial position of all the Group's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing or year-end rate;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments (if any), are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the statement of comprehensive income as part of the gain or loss on sale.

Foreign exchange gains and losses that relate to borrowings between group companies, are presented in the statement of comprehensive income within "Finance income and expense", if these borrowings do not qualify as a net investment in a foreign operation.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Note 1.4. Property, plant and equipment

Property, plant and equipment are carried at acquisition cost less any accumulated depreciation and less any accumulated impairment loss. Cost of property, plant and equipment also includes the estimated cost of dismantling and removing the asset and restoring the site, to the extent that the provision is recognized under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method, to allocate the costs over the estimated remaining useful lives, as follows:

Industrial and administrative Buildings
- Structural work …….....40-50 years
- Other elements ……..10-25 years

Machinery ……..……10-33 years
Vehicles, transport equipment …….5 years
Furniture, fittings and equipment ……..5-15 years

Cars are depreciated to a residual value of 20 % of the initial cost.

Spare parts purchased for particular items of plant are capitalized and depreciated over the useful life not exceeding 4 years. Samples of products are capitalized and depreciated over 2-3 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Fair value adjustments as a result of the Business Combination are depreciated over the average remaining lifetime of the applicable assets taking into.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other income" or "Other expenses" in the statement of comprehensive income.

## Note 1.5. Intangible assets

***Goodwill***

Goodwill on acquisitions of subsidiaries is included in "intangible assets" and allocated to cash generating units of the underlying assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

***Trademarks and licenses***

Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value at the acquisition date. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over the shortest of their estimated useful lives or the period of the legal right.

Acquired computer software licenses are amortized over their estimated useful lives of between 4 and 10 years.

***Internally generated software and other development cost***

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortized over their estimated useful lives, mainly four years.

### Note 1.6. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### Note 1.7. Non-current assets held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

### Note 1.8. Financial assets

***Classification***

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

***Recognition and measurement***

Regular purchases and sales of financial assets are recognized on the trade date, the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and

rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the statement of comprehensive income within "Other income" or "Other expenses" to the extent that they relate to operating activities and within "Finance income" or "Finance costs", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of comprehensive income as part of "Other income" when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are recycled to profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the statement of comprehensive income as part of "Other income". Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income as part of "Other income" when the Group's right to receive payments is established.

***Offsetting financial instruments***

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

***Assets carried at amortized cost***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statement of comprehensive income.

***Assets classified as available for sale***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is evidence that the assets

are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the profit or loss. Impairment losses recognized on equity instruments are not reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit or loss.

### Note 1.9. Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The Group records all gains or losses resulting from changes in fair value of derivatives in the statement of comprehensive income within "Other income" or "Other expenses" to the extent that they relate to operating activities and within "Finance income" or "Finance costs" to the extent that they relate to the financing activities of the Group.

### Note 1.10. Inventories

Inventories are stated at the lower of cost and net realizable value. These net realizable value adjustments are reviewed on a regular basis and updated to reflect the estimated selling price less selling expenses, based on historical data and expectations. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Provisions against the carrying value of inventory are calculated on the basis set out below.

***Wall to wall carpets and non-woven***

- ✓ "Second choice" products: write-down of 70 %
- ✓ Collections which are no longer produced: write-down of 35 %
- ✓ Additional write downs, based on aging of the individual products:
  - Age of production batch between 7-9 months: write-down of 20 %
  - Age of production batch between 10-12 months: write-down of 50 %
  - Age of production batch older than 12 months: write-down of 70 %

***Rugs***

- ✓ "Second choice" products: write-down of 60 %
- ✓ Collections which are no longer produced: write-down of 30 %-50 %
- ✓ Additional write-downs, based on aging of the individual products:
  - Age of production batch between 7-9 months: write-down of 10 %
  - Age of production batch between 10-12 months: write-down of 30 %
  - Age of production batch older than 12 months: write-down of 50 %

***Contract tiles***

- ✓ "Second choice" products: write-down of 90 %
- ✓ Small lot sizes 90 %
- ✓ Additional write-downs, based on aging of the individual products:
  - Age of production batch between 7-12 months: write-down of 25 %-50 %
  - Age of production batch between 12-18 months: write-down of 75 %-90 %
  - Age of production batch older than 18 months: write-down of 90 %

***Yarns***

For slow moving yarns to produce rugs and wall-to-wall carpets, the write-downs vary between 20 % (6 months not moving) and 75 % (12 months not moving).

For slow moving yarns to produce contract tiles, the write-downs vary between 50 % (12 months not moving) and 90 % (16 months not moving).

Materials and other supplies (such as wool) held for use in the production of finished goods are not written down if these finished goods are expected to be sold at or above cost.

An individual assessment of the recoverability of the items of inventories is also made on a regular basis, in addition to the application of general accounting policies described above. When the circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value.

Costs of production of joint products are allocated between the products on a rational and consistent basis (e.g. on the relative sales value of each product when they become identifiable in the production process or at the completion of production).

When by-products are immaterial, they may be measured at net realizable value, this value being deducted from the cost of the main product.

### Note 1.11. Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less bad debt allowance.

Trade receivables are reviewed on a continuing basis. A bad debt allowance is recorded when collectability of the receivable is questionable. The bad debt allowance covers the net estimated risk for the company and is taking into account the coverage expected to be received from the credit insurance.

### Note 1.12. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

### Note 1.13. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects is included in equity attributable to the Company's equity holders.

### Note 1.14. Government grants

Grants from the government are recognized at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the statement of comprehensive income within other income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

### Note 1.15. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Supplier finance arrangements are recognized as a financial liability unless the original trade payable is extinguished or its terms are significantly modified to the extent that it qualifies for de-recognition under IAS 39 (we refer to the accounting policy on debt extinguishment and debt modification).

### Note 1.16. Financial liabilities measured at fair value through profit or loss

Some instruments that have the legal form of a liability are, in substance, equity. A financial instrument is classified as a financial liability or an equity instrument depending on the substance of the arrangement rather than the legal form. Liabilities arise when the issuer is contractually obligated to deliver cash or another financial asset to the holder. An instrument is an equity instrument only if the issuer has no such obligation, i.e. it has an unconditional right to avoid settlement in cash or another financial asset. The ability to defer payment is not enough to achieve equity classification, unless payment can be deferred indefinitely. Generally an obligation for the entity to deliver its own shares is not a financial liability because an entity's own shares are not considered its financial assets. An exception to this is where an entity is obliged to deliver a variable number of its own equity instruments.

Subordinated loans issued to shareholders (PECS) include embedded derivatives and are accounted for at fair value through profit or loss in accordance with IAS 32.26 ("Fair value option").

### Note 1.17. Senior Secured Notes and Bank and other borrowings

Senior Secured Notes, Bank and other Borrowings are recognized initially at fair value, net of transaction costs incurred. They are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

### Note 1.18. Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where IAS 39 de-recognition criteria are not met, the receivables continue to be recognized in the statement of financial position, while the proceeds received by the Group under any financing/factoring arrangements are recognized as a financial liability.

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or when the existing liability is transferred to a different lender and the Group obtains a legal release from the initial lender, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognized in the consolidated statement of comprehensive income.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least ten per cent different from the discounted present value of the remaining cash flows of the original financial liability.

### Note 1.19. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the company's subsidiaries operate and generate taxable income. In line with paragraph 46 of IAS 12 'income taxes', management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This evaluation is made for tax periods open for audit by the competent authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax is not discounted.

## Note 1.20. Employee benefits

***Pension obligations***

IAS 19 distinguishes two types of post-employment benefit plans:

- Defined contribution plans (DC plans) are post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund or group insurance contract) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current or prior periods;

- Defined benefit plans (DB plans) are post-employment benefit plans other than defined contribution plans.

Group companies operate one defined benefit plan for a group of managers and various pension schemes funded through payments to insurance companies. Because of the Belgian legislation applicable to 2nd pillar pension plans (so-called "Law Vandenbroucke"), all Belgian Defined Contribution plans have to be considered under IFRS as Defined Benefit plans. Law Vandenbroucke states that in the context of defined contribution plans, the employers must guarantee a minimum return of 3.75 % on employee contributions and 3.25 % on employer contributions. However, shortly before year-end 2015, a change in the Belgian Law was enacted resulting in a decrease of the guaranteed return from 3.25 % to a minimum interest rate defined based upon the Belgian 10-year interest rate but within the range 1.75% - 3.25%. The new rate (currently 1.75%) applies for the years after 2015 on future contributions and also on the accumulated past contributions as of 31 December 2015 if the financing organism does not guarantee a certain result on contributions until retirement age. If the organism does guarantee such a result, the rates 3.25%/2.75% still apply.

Because of this minimum guaranteed return, the employer is exposed to a financial risk: further contributions could be required if the return on the assets would not be sufficient to reach the minimum benefits to be paid. The group has plans that are financed through insurance contracts. A simplified methodology has been used, taking the limited magnitude of the obligation into account, when it was assessed that reliable estimated could be made. The related assumptions, the defined benefit obligations and related plan assets are further disclosed in the related notes.

***Other post-employment obligations***

The Group does not have other post-employment obligations.

***Termination benefits***

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes a liability and expense for termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

In Belgium, the system of early retirement pension ensures that elderly people who are dismissed by their employer or who are encouraged to terminate their employment and in case they fulfill certain conditions, are eligible for payment of supplementary unemployment allowance to be paid by their former employer on top of the unemployment allowances paid by social security. This benefit is generally paid until normal retirement age, which is 65 years.

Within Balta, several former employees benefit from the system of "early retirement fee or pension", based on several Belgian Collective Labor Agreements (CLA's) in place for the sector (textielnijverheid en breiwerk/ industrie textile et de la bonneterie) or specifically for Balta. These CLA's describe the different possibilities for employees of the sector to benefit from "early retirement fee or pension", the creation of a sector fund (fonds voor bestaanszekerheid/ fonds de sécurité d'existence), part-time work, education and training etc. Certain CLA's exist for blue collar workers and others for white collar workers.

For those early retirement fees or pensions which are directly paid out by the employer, a provision should be made under IAS 19. It has been determined as the present value of the best estimate of future cash flows. The discount rate used is based on the return on high quality corporate bonds (AA rated) of a maturity equivalent to the duration of the liabilities.

***Bonus plans***

The Group recognizes a provision for annual bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

### Note 1.21. Share-based payments

An equity-settled share-based payment transaction is a transaction in which the Group receives services as consideration for its own shares (or share options). The fair value of the services received in exchange for the grant of the shares (or share options) measured by reference to the grant date fair value of the shares (or share options), is recognized as an expense over the vesting period.

A cash-settled share-based payment plan: The goods or services acquired and the liability are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at the end of each reporting period and at the date of settlement with any changes in fair value recognized in profit and loss for the period.

### Note 1.22. Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

The Group has environmental obligations relating to its past operations which are based on the Group's environmental management plans, in compliance with current environmental regulatory requirements. Provisions for site remediation costs are made when there is a present legal obligation, it is probable that the

expenditure on remediation work will be required and the cost can be estimated within a reasonable range of possible outcomes. The costs are based on currently available facts, technology expected to be available at the time of the clean-up, laws and regulations presently or virtually certain to be enacted and prior experience in remediation of contaminated sites.

Provisions for restructuring are only recognized if the Group demonstrates a constructive obligation to restructure at the reporting date. The constructive obligation should be demonstrated by: (a) a detailed formal plan identifying the main features of the restructuring; and (b) raising a valid expectation to those affected that it will carry out the restructuring by starting to implement the plan or by announcing its main features to those affected.

### Note 1.23. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

***Sales of goods***

Sales of goods are recognized when the risks and rewards are transferred to the customers, in most cases when the goods are made available for collection at the Group's premises (factory, warehouse) on the date agreed upon with the customer (International Commercial Terms - EXW) and the customer accepted the goods in accordance with the sales contract.

Amounts billed to the customer in respect of transportation of product to the customer's premises are included in revenue. Associated transportation costs incurred by the group are included in other expenses.

***Interest income***

Interest income is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognized using the original effective interest rate.

***Dividend income***

Dividend income is recognised when the right to receive payment is established.

### Note 1.24. Leases

The Group leases certain property, plant and equipment.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, purchase option (when there is reasonable certainty that the lessee will obtain ownership by the end of the lease term), are included in "Borrowings". The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset or if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

### Note 1.25. Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### Note 1.26. Levies

The Group has adopted IFRIC 21 'Levies'. IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy, and when a liability should be recognised. The Group is mainly subject to property taxes. Although that the Group does not expect IFRIC 21 to have a significant effect on the results for the financial year ending December 31, 2015 the adoption of the interpretation results in an earlier recognition of these property taxes, namely, in the first quarter instead of over a linear period throughout the year.

### Note 1.27. Cash flow statement

The cash flows of the Group are presented using the indirect method. This method reconciles the movement in cash for the reporting period by adjusting net profit for the year for any non-cash items and changes in working capital, and identifying investing and financing cash flows for the reporting period.

### Note 1.28. Non-GAAP measures

"Operating profit/loss before exceptional items" is a non-IFRS measure of performance. Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable readers to gain a full understanding of the Group's financial performance. Transactions which may give rise to exceptional items are principally transactions costs in relation to business combinations, restructuring provisions and their reversal, impairments of property, plant and equipment, the reversal of such write downs or impairments, legal claims, disposals of items of property, plant and equipment or investments in subsidiaries, negative goodwill resulting from business combinations, early termination of debt instruments and reversals of provisions.

EBITDA is a non-IFRS measure of performance defined as "Operating profit/loss" plus depreciation, amortization on tangible and intangible fixed assets".

EBIT is a non-IFRS measure of performance defined as "Operating profit/loss before exceptional items".

EBITDA margin is the reconciliation of non-IFRS measure defined as EBITDA divided by revenue.

Adjusted EBITDA is a reconciliation of non-IFRS measure of performance defined as operating profit / loss before exceptional items adjusted for depreciation and amortization.

Adjusted EBITDA margin is a non-IFRS measure defined as Adjusted EBITDA margin divided by revenue.

The non-GAAP measures are included in these consolidated financial statements because management believes they are useful to many investors, securities analysts and other interested parties as additional measures of performance.

The Group presents non-IFRS measures in addition to financial measures determined in accordance with IFRS. Non-IFRS measures as reported by the Group may differ from similar measures presented by other companies.

## Note 2. Critical accounting estimates and judgements

The amounts presented in the combined financial statements involve the use of estimates and assumptions about the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions will seldom equal the related actual results. The estimates and assumptions that could have an impact on the combined financial statements are discussed below.

***Determination of fair values in business combinations***

The Company has applied estimates and judgements in order to determine the fair value of assets acquired and liabilities assumed by way of a business combination. The value of assets, liabilities and contingent liabilities recognized at the acquisition date are recognized at fair value. In determining fair value the Company has utilized valuation methodologies including discounted cash flow analysis. The company's estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which would not reflect unanticipated events and circumstances that may occur. Any significant change in key assumptions may cause the acquisition accounting to be revised including the recognition of additional goodwill or a discount on acquisition.

***Goodwill***

The amount of goodwill initially recognized as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgment. Allocation of the purchase price affects the results of the Group as finite lived intangible assets are amortized, whereas indefinite lived intangible assets, including goodwill, are not amortized and could result in differing amortization charges based on the allocation to indefinite lived and finite lived intangible assets.

***Impairment testing***

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgment, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- growth in EBITDA, calculated as adjusted operating profit before depreciation and amortization;
- timing and quantum of future capital expenditure;
- long-term growth rates; and
- the selection of discount rates to reflect the risks involved.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results. The Group's review includes the key assumptions related to sensitivity in the cash flow projections. Further details are provided in Note 4.

***Fair value estimate of preferred equity certificates***

The acquisition of Balta Finance has been partially funded through Preferred Equity Certificates (PECs). Depending on the circumstances in which the PECs are settled, the Company may have the right to redeem the PECs in shares. Given that the Company does not have an unconditional right to avoid delivering cash to settle the PECs, the contract must be classified as a financial liability under IFRS. The presence of early redemption and conversion options implies that the contract contains multiple embedded derivatives. Given the inability to separate the embedded derivatives from the host contract, the entire contract is measured at fair value through profit or loss.

A range of valuation techniques can be used when measuring the fair value of unquoted liability instruments. In reaching estimates of fair value of the PECs, management judgment is involved. In order to select the most appropriate valuation, management will employ several valuation methodologies and select the amount within the ranges of values which it believes is most representative of the fair value of the PECs. Because of the nature of the inputs used in the valuation techniques (for example, unobservable inputs such as budgets and forecasts), the resulting measurement is categorized within Level 3 of the fair value hierarchy.

***Income taxes***

The Company operates in various tax jurisdictions and therefore has to determine tax positions under respective local tax laws and tax authorities' views which can be complex and subject to different interpretations of tax payers and local tax authorities.

The Group has tax credits in respect of losses carried forward, Dividend Received Deduction (relief for dividend payments by qualifying EU subsidiaries to qualifying EU parent companies, to avoid double taxation of dividend income), and Notional Interest Deduction. These tax credits can be used to offset against future taxable profits. The valuation of this asset depends on a number of judgmental assumptions regarding the future taxable profits of different Group subsidiaries in different jurisdictions and on the outcome of tax planning strategies. These estimates are made prudently based on current knowledge and reasonable long-term projections. Where circumstances should change and the final tax outcome would be different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

***Trade receivables***

The Company makes significant judgements in determining the bad debt allowance with respect to trade receivables when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The assessment is performed on an individual basis in consideration of various factors such as historical experience, credit quality, age of the accounts receivables and economic conditions that may affect a customer's ability to pay.

The amount of the bad debt allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The estimated future cash flow is determined based upon the significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

## Note 3. Business combinations

***Transaction overview and allocation of purchase price paid***

As previously discussed, the acquisition by Balta Investments of Balta Finance was consummated on August 11, 2015.

The Acquisition was recorded using the acquisition method of accounting, in accordance with IFRS 3 Business Combinations. As a result, the total purchase price has been allocated to the identifiable assets and liabilities acquired, based on the estimated fair values at the date of acquisition.

The purchase price paid in cash was equal to €272.8 million, as compared to a net asset value of Balta Finance of €71.2 million at Completion Date. There is no contingent consideration outstanding in relation to the Acquisition as of December 31, 2015. Consequently, the preliminary goodwill – before purchase price allocation - was equal to €201.6 million. As a result the purchase price allocation €77.0 million of goodwill was allocated to identifiable assets and liabilities. This allocation is shown below:

| (€ thousands) | Net assets at Completion Date before allocation goodwill | Fair value adjustments | Net assets at Completion Date after allocation goodwill |
|---|---|---|---|
| **Assets acquired** | **438,324** | **114,716** | **553,039** |
| Property, plant & equipment | 204,084 | 89,091 | 293,175 |
| Intangible assets | 1,438 | - | 1,438 |
| Other non-current assets | 8,407 | 161 | 8,568 |
| Total non-current assets | 213,930 | 89,252 | 303,182 |
| Inventories | 137,359 | 25,381 | 162,740 |
| Trade and other receivables | 46,002 | (799) | 45,203 |
| Cash and cash equivalents | 40,656 | - | 40,656 |
| Other current assets | 377 | 881 | 1,258 |
| Total current assets | 224,394 | 25,463 | 249,857 |
| **Liabilities assumed** | **(367,212)** | **(37,742)** | **(404,954)** |
| Deferred income tax liabilities | (36,212) | (35,274) | (71,486) |
| Other non-current liabilities | (35,309) | - | (35,309) |
| Total non-current liabilities | (71,521) | (35,274) | (106,796) |
| Current income tax liabilities | (3,789) | (2,110) | (5,899) |
| Other current liabilities | (291,902) | (357) | (292,259) |
| Total current liabilities | (295,691) | (2,467) | (298,158) |
| **Purchase Price Paid in Cash** | **272,758** | **-** | **272,758** |
| Identifiable assets and liabilities | 71,112 | 76,974 | 148,085 |
| Goodwill | 201,646 | (76,974) | 124,673 |

The fair value adjustment of property, plant and equipment is driven by a revaluation of land and buildings. The Company increased the carrying value of the land and buildings on the basis of recent valuation reports prepared by an independent appraiser and management's assessment of the acquired assets condition.

The preliminary estimate of fair value for inventories was based on computations which considered many factors, including the estimated selling price of the inventory and the sales effort required to bring the products to the market. As a result, the Company increased the carrying value of inventory by €25.4 million.

The carrying amount of the trade receivables were reduced by €0.8 million in order to reflect the probability that certain trade receivables may not be fully collected.

The Company has identified certain fixed price commitments that are considered to be part of the identifiable assets and liabilities. Firstly, the Company has recognized an asset of €0.9 million as of the valuation date in relation to forward purchases of gas and electricity. Secondly, the Company has recognized a liability of €0.3 million in relation to forward purchases of raw materials for contracts. These contracts were entered into late 2014 and are in relation to deliveries in 2015 and 2016. In both cases, these fixed price transactions will be

settled by physical delivery. Given that the market value of these agreements change in response to changes in the underlying commodity price, we have opted to present the contracts as derivative financial instruments.

The Company has increased the current income tax liabilities by €2.1 million. This adjustment reflects the fact that certain tax positions in Belgium and Turkey could be measured reliably but were previously not considered probable as of the valuation date.

The remaining assets and liabilities, including items such as cash and trade payables were stated at their historical carrying values, which approximate fair value, given the short-term nature of these assets and liabilities.

The incremental depreciation of the fair value step-up for IFRS purposes will result in a pre-tax income that is lower for IFRS purposes than for tax purposes. Consequently, a deferred tax liability of €35.2 million has been recognized to reflect the fact that cash taxes payable will be higher than the tax charge reported in the income statement under IFRS.

The excess of the purchase price over the preliminary amounts allocated to identifiable assets and liabilities is equal to €124.7 million and has been included in goodwill. This amount represents, amongst other things, the value of the longstanding customer relationships, the Company's market position, brand and reputation, as well as the value of the Company's workforce. The goodwill has been allocated to the Rugs and Commercial division, given that these two divisions are expected to benefit most from the Acquisition. Goodwill will be tested for impairment on an annual basis, as described in Note 4.

The Company has incurred €10.4 million of fees and expenses in relation to the Transaction, see Note 8.

The following condensed pro forma summary presents the effect of the Acquisition as though the Acquisition has been done as of January 1, 2015. The pro forma adjustments are based upon unaudited financial information.

| (€ thousands) | Successor (a) Period from August 11, 2015 to December 31, 2015 Incl. impact PPA | Successor (b) Period from August 11, 2015 to December 31, 2015 Impact PPA | Successor (c) Period from August 11, 2015 to December 31, 2015 Excl. impact PPA | Predecessor (d) Period from January 1, 2015 to August 10, 2015 Excl. impact PPA | Combined (e) Twelve months ended December 31, 2015 Excl. impact PPA | Predecessor (f) Twelve months ended December 31, 2014 |
|---|---|---|---|---|---|---|
| Revenue | 194,777 | - | 194,777 | 362,045 | 556,822 | 519,529 |
| **Gross Profit** | **75,820** | **25,695** | **101,515** | **193,923** | **295,438** | **271,768** |
| Employee benefit expenses | (46,972) | - | (46,972) | (86,474) | (133,446) | (128,191) |
| Other income / (expenses) | (27,542) | - | (27,542) | (58,982) | (86,524) | (78,428) |
| **Adjusted EBITDA[1]** | **1,305** | **25,695** | **27,000** | **48,467** | **75,467** | **65,149** |
| Depreciation / amortization | (8,014) | - | (8,014) | (16,084) | (24,098) | (24,802) |
| **Operating profit before exceptional items[1]** | **(6,709)** | **25,695** | **18,986** | **32,383** | **51,369** | **40,348** |
| Non-recurring expenses | (10,396) | - | (10,396) | (23,291) | (33,687) | (2,101) |
| Impairment and write-off | - | - | - | - | - | (12,690) |
| **Operating profit/(loss)** | **(17,105)** | **25,695** | **8,590** | **9,092** | **17,682** | **25,556** |
| **Net finance expenses** | **(9,495)** | **-** | **(9,495)** | **(28,967)** | **(38,462)** | **(32,176)** |
| **Profit / (loss) before income taxes** | **(26,600)** | **25,695** | **(905)** | **(19,875)** | **(20,780)** | **(6,619)** |
| Income tax benefit / (expense) | 4,606 | (9,637) | (5,031) | (1,657) | (6,688) | 7,856 |
| **Profit / (loss) for the period** | **(21,995)** | **16,058** | **(5,936)** | **(21,532)** | **(27,468)** | **1,236** |

(a) Stand-alone results of Balta Issuer and Balta Investments from incorporation until the end of the period and consolidated results of Balta Finance S.à r.l. as from August 11, 2015. This column reflects the impact of the purchase price allocation and corresponds to the profit/loss for the period as reported in the consolidated financial statements.
(b) This column reflects the impact of the purchase price allocation on the consolidated financial statements.
(c) Stand-alone results of Balta Issuer and Balta Investments from incorporation until the end of the period and consolidated results of Balta Finance S.à r.l. as from August 11, 2015. This column excludes the impact of the purchase price allocation.
(d) Consolidated profit/(loss) of Balta Finance S.à r.l. and its subsidiaries for the period prior to the Acquisition, i.e. from August 11 to December 31, 2015
(e) Combined profit/loss for the period from January 1 to December 31, 2015. This is the sum of columns (c) and (d) and hence excludes the impact of the purchase price accounting
(f) Consolidated profit/loss as reported by Balta Finance S.à r.l. at the end of 2014

## Note 4. Goodwill

The net purchase price for the Acquisition amounts to €272.8 million. In accordance with IFRS 3 "Business Combinations", the purchase price needs to be allocated to identifiable assets and liabilities acquired based on estimated fair values at the date of acquisition, with the excess of the purchase price amount allocated to goodwill. Our purchase price allocation has been substantially finalized and the total identifiable net assets acquired amount to €148.1 million, resulting in a remaining amount of goodwill of €124.7 million. The latter represents, amongst other things, the value of the longstanding customer relationships, the Company's market position, brand and reputation, as well as the value of the Company's workforce.

Goodwill is not amortized, but instead tested for impairment annually, as well as whenever there are events or changes in circumstances (triggering events) which suggest that the carrying amount may not be recoverable. Goodwill is carried at cost less accumulated impairment losses.

The goodwill impairment test is performed at the level of a cash-generating unit or a group of cash-generating units, which is the lowest level at which goodwill is monitored for internal management purposes. Our CGUs are generally in line with our segments, with our Residential segment broken down into two CGUs, Balta Broadloom (polypropylene broadloom) and ITC (polyamide broadloom).

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating units that are expected to benefit most from the business combination. Consequently, the goodwill resulting from the Acquisition (€124.7 million) has been solely allocated to Rugs (€94.3 million) and Commercial (€30.3 million).

If the carrying amount of the cash-generating unit to which the goodwill has been allocated exceeds its recoverable amount, an impairment loss on goodwill allocated to the cash-generating unit is recognized. The recoverable amount is the higher of the cash-generating unit's fair value less costs to sell and its value in use. If either of these amounts exceeds the carrying amount, it is not always necessary to determine both amounts. These values are generally determined based on discounted cash flow calculations.

The impairment testing has been performed as of August 31, 2015. Management considers the likelihood that an updated calculation as of December 31, 2015 would indicate the recoverable amounts to be less than the carrying amounts to be remote. The assets and liabilities comprising the CGU have not changed significantly since the most recent calculation. In addition, there are no indications that recoverable amounts have decreased.

The table below provides an overview of the value in use (derived using discounted cash flow analysis) and the carrying amount (book value of capital employed) per cash-generating unit at December 31, 2015. As

shown, the recoverable amount exceeds the carrying amount and hence the goodwill is not impaired. Key assumptions on which management has based its determinations of the value in use include terminal value growth rates of 2% and an after-tax discount rate of 7.9%. Cash flows were projected for the next three years based on the business plan prepared by Balta Finance in the context of the Acquisition.

| **Comparison recoverable amount vs. carrying amount per CGU (€ thousands)** | **Recoverable amount** | **Carrying amount** | **Excess recoverable amount** |
|---|---|---|---|
| Rugs | 288.9 | 284.2 | 4.8 |
| Balta Broadloom | 68.5 | 57.1 | 11.4 |
| ITC | 20.9 | 18.6 | 2.3 |
| Commercial | 93.2 | 55.0 | 38.2 |
| Non-Woven | 17.9 | 11.0 | 6.9 |
| **Total** | **489.4** | **425.8** | **63.6** |

The value in use is mainly driven by the terminal value which is particularly sensitive to changes in the assumptions on the terminal value growth rate and discount rate. Discount rates are based on the weighted average cost of capital. Terminal value growth rates take into consideration external macroeconomic sources of data and industry specific trends. The table below presents the extent in which these two assumptions would need to change in order to reduce the value in use to the carrying amount. Note that the decrease in headroom between the value in use and the carrying amount is a direct result of the purchase price allocation, and is hence not driven by changes in the underlying business performance.

| **Sensitivity analysis per CGU** | **Growth rate** | **Discount rate** |
|---|---|---|
| Rugs | (0.1%) | 0.1% |
| Balta Broadloom | (1.3%) | 1.2% |
| ITC | (0.8%) | 0.7% |
| Commercial | (35.8%) | 21.4% |
| Non-Woven | (4.2%) | 3.6% |

A small change in assumptions for Rugs reduces the recoverable amount to the carrying amount. This is a direct result of the Acquisition and is not driven by changes in the underlying business performance. In the context of the purchase price allocation, the net asset value of the Group was increased by €201.6 million, of which €76.9 million has been allocated to identifiable assets and liabilities and of which €124.7 million has been recognized as goodwill. Given that a significant amount of goodwill has been allocated to the Rugs division, it follows that the difference between the recoverable amount and the carrying amount has been reduced.

## Note 5. Employee benefit expenses

| **(€ thousands)** | **2015** |
|---|---|
| **Total employee benefit expenses** | **46,972** |
| Wages and salaries | 34,257 |
| Social security costs | 10,286 |
| Pension costs | 396 |
| Other employee benefit expenses | 2,033 |

The average number of employees for the four months ended December 31, 2015 was 3,182 (in full time equivalents). Part-time employees are included on a proportionate basis.

| | **2015** |
|---|---|
| **Average number of total employees** | **3,182** |
| Average number of employees – blue collar | 2,661 |
| Average number of employees – white collar | 521 |

## Note 6. Other income and expenses

| (€ thousands) | 2015 |
|---|---|
| **Other income** | **5,586** |
| Foreign exchange gains | 1,543 |
| Payroll tax incentive | 1,581 |
| Rental income from solar rooftop installations | 626 |
| Other | 1,836 |
| **Other expenses** | **33,128** |
| Services and other goods | 21,238 |
| Selling expenses | 11,261 |
| Foreign exchange losses | 153 |
| Other | 477 |

One of the main components of other income is the payroll tax incentive for night or shift work, whereby the Company can benefit from a partial exemption of payment of withholding tax due on wages paid to workers in team or night shifts. The salary withholding tax is retained on the remunerations paid but the amount of tax so retained must not be fully paid to the tax authorities.

Other income also comprises rental payments received from renting certain rooftops to a solar development company. The residual component of other income is in relation to the re-charge of certain expenses incurred, and the derecognition of old credit notes to issue for potential commercial settlements.

Services and other goods mainly comprises electricity and gas, maintenance and repair and interim blue collars. Selling expenses mainly comprise freight and commissions.

## Note 7. Depreciation / amortization

The components of depreciations and amortizations can be summarized as follows:

| (€ thousands) | 2015 |
|---|---|
| **Depreciation / amortization** | **8,014** |
| Amortization of intangible assets | 147 |
| Depreciation property, plant and equipment | 8,332 |
| Release deferred revenue sale & leaseback | (465) |

The release of deferred revenue sale and lease back relates to the gradual recognition of the capital gain realized on the sale and lease back of one of the Group's manufacturing facilities in 2014. This deferred revenue is recognized as partial offset to depreciation charges over the period of the lease.

## Note 8. Integration and restructuring expenses

The total integration and restructuring expenses incurred in the four months ended December 31, 2015 amount to €10.4 million. This relates to transaction expenses arising from the business combination and other one-time charges and non-operating expenses, such as organizational realignment costs and strategic advisory services.

## Note 9. Finance expenses

| (€ thousands) | 2015 |
|---|---|
| **Finance expenses** | **9,495** |
| Interest expense on Senior secured notes | 9,177 |
| Interest expense on Bank borrowings (including leasing) | 376 |
| Debt modification costs | 955 |
| Other finance costs | 879 |
| Foreign exchange result on intercompany transactions | (1,891) |

Following the Business Combination, the Group's finance expenses are driven by interest charges on the Senior Secured Notes, the Revolving Credit Facility and on the finance leasing obligations. We refer to Note 22 for a description of these facilities.

## Note 10. Income tax benefit / expense

| (€ thousands) | 2015 |
|---|---|
| **Income tax benefit / (expense)** | **4,606** |
| Current tax | (803) |
| Deferred tax | 5,409 |

| (€ thousands) | 2015 |
|---|---|
| **Income tax benefit / (expense)** | **4,606** |
| Income tax calculated at Luxembourg tax rate (31.47%) | 8,371 |
| Rate differential due to transactions with Belgium, Turkey and US | 487 |
| Tax-exempted revenues | 1,994 |
| Deferred tax assets recognised | 1,907 |
| Utilization of previously not recognized tax assets | 397 |
| Tax losses for which no deferred tax asset is recognized | (8,074) |
| Disallowed expenses | (197) |
| Other | (280) |

In assessing whether deferred tax assets should be recognized, management considers the extent to which it is probable that the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax losses carried forward become deductible. Management considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment.

In 2015, the Company has incurred certain tax losses subject to significant limitations (tax losses for which no deferred tax asset is recognized). For those losses, deferred tax assets are not recognized, as it is not probable that taxable profit will be generated to offset those losses.

## Note 11. Other intangible assets

| (€ thousands) | Software and licences | Internally generated intangible assets | Total |
|---|---|---|---|
| **Opening net book value** | | | |
| Business combination | 330 | 1,110 | 1,440 |
| Additions | 223 | 146 | 369 |
| Disposals | - | (1) | (1) |
| Transfers | 10 | (11) | (1) |
| Amortisation charge | (35) | (112) | (147) |
| Exchange differences | 6 | - | 6 |
| **Closing net book value** | **534** | **1,132** | **1,667** |
| **At December 31, 2015** | | | |
| Cost or valuation | 3,701 | 8,091 | 11,792 |
| Accumulated amortisation, impairment and other adjustments | (3,167) | (6,959) | (10,126) |
| **Closing net book value** | **534** | **1,132** | **1,667** |

The internal and external software development costs are capitalized under the internally generated intangible assets. These projects are mainly related to SAP implementation, SAP upgrades and the automation of production processes.

The Group incurred €1.7 million of research and development expenses during the 4 months ended in December 31, 2015 which are included in the statement of comprehensive income as other expenses.

The total amortization expense of €0.1 million is included in the line "Depreciation, amortization and impairment" in the statement of comprehensive income.

## Note 12. Property, plant and equipment

| (€ thousands) | Land and buildings | Plant and machinery | Other equipment | Total |
|---|---|---|---|---|
| **Opening net book value** | | | | |
| Business combinations | 176,895 | 99,485 | 16,795 | 293,175 |
| Additions | 395 | 11,135 | 1,980 | 13,510 |
| Disposals | - | (35) | (44) | (79) |
| Depreciation charge | (1,857) | (2,701) | (3,774) | (8,332) |
| Exchange differences | 301 | 700 | 55 | 1,056 |
| **Closing net book value** | **175,734** | **108,584** | **15,012** | **299,332** |
| **At December 31, 2015** | | | | |
| Cost or valuation | 234,421 | 522,710 | 46,443 | 803,574 |
| Accumulated depreciation, impairment and other adjustments | (58,687) | (414,125) | (31,429) | (504,242) |
| **Closing net book value** | **175,734** | **108,584** | **15,012** | **299,332** |

A total of €293.2 million of property, plant and equipment was acquired in the context of the business combination. Refer to Note 3 for further details. Following the business combination, a total of €13.5 million has been invested, in particular in plant and machinery.

The total depreciation expense of €8.3 million has been charged in the line "Depreciation, amortization and impairment" in the statement of comprehensive income.

The Group's assets which are pledged as security for the borrowings are described in Note 21.

Operating leases expenses amounting to €1.1 million in 2015 and relating to the lease of various buildings, equipment, machinery and vehicles have been included in "Other expenses" in the statement of comprehensive income.

Exchange differences (€1.1 million) mainly relate to fluctuations in the closing exchange rate of our Turkish entities which have a significant amount of land & buildings and plant & machinery recorded on the statement of financial position.

The Group leases various industrial buildings, plant and machinery under non-cancellable finance lease agreements. The lease terms are between 5 and 15 years, and ownership of the assets lie within the Group.

The table below shows the net book amount of the "land and buildings" and "plant and machinery" which are subject to a finance lease agreement:

| (€ thousands) | December 31, 2015 |
|---|---|
| **Net book value - Land and Buildings** | **15,726** |
| Cost-Capitalised finance leases | 18,412 |
| Accumulated depreciation | (2,685) |

| (€ thousands) | December 31, 2015 |
|---|---|
| **Net book value – Plant and machinery** | **5,888** |
| Cost-Capitalised finance leases | 6,608 |
| Accumulated depreciation | (720) |

## Note 13. Deferred income tax assets and liabilities

IFRS requires the deferred taxes for each jurisdiction to be presented as a net asset or liability. Offsetting of deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction is not allowed. The table below presents the net deferred tax position in accordance with these presentation principles.

| (€ thousands) | 2015 |
|---|---|
| **Deferred tax assets** | **8,573** |
| Deferred tax assets to be reversed after more than 12 months | 8,177 |
| Deferred tax assets to be reversed within 12 months | 396 |
| **Deferred tax liabilities** | **(67,879)** |
| Deferred tax liabilities to be reversed after more than 12 months | (62,503) |
| Deferred tax liabilities to be reversed 12 months | (5,376) |
| **Net deferred tax liabilities** | **(59,306)** |

The movement in the net deferred tax liabilities can be summarized as follows:

| (€ thousands) | 2015 |
|---|---|
| **At incorporation** | **-** |
| Business combinations | (64,197) |
| Income statement charge | 5,094 |
| Exchange differences | (203) |
| **December 31, 2015** | (59,306) |

In contrast to the table above, the table below shows the movement in deferred taxes on a gross basis, i.e. without netting deferred tax liabilities and deferred tax assess within the same jurisdiction.

### Deferred tax assets

| (€ thousands) | Tax losses carried forward | Deferred income sale and leaseback | Intangible assets | Borrowings | Employee benefits | Inventory | Other | Total |
|---|---|---|---|---|---|---|---|---|
| **Beginning of period** | - | - | - | - | - | - | - | - |
| Business combination | 10,125 | 5,017 | 3,186 | 1,903 | 2,079 | 202 | 2,741 | 25,253 |
| Charged/(credited) to the income statement | (272) | (158) | (319) | - | (467) | 480 | (1,697) | (2,434) |
| Exchange differences | (437) | - | - | - | - | - | - | (437) |
| **December 31, 2015** | **9,416** | **4,859** | **2,867** | **1,903** | **1,612** | **683** | **1,044** | **22,384** |

The Group has recorded €1.4 million of deferred tax assets in the context of the purchase price allocation, mainly driven by an expected change in the transfer pricing methodology between our Belgian and Turkish subsidiary with retroactive effect. Balta Floorcovering renders contract manufacturing services to Balta Industries and is remunerated on the basis of an appropriate transfer pricing method. Changes in the transfer pricing method will result in an increased taxable basis in Turkey (resulting in the recognition of a deferred tax liability) and in increased tax losses carried forward being recognized in Belgium (Balta Industries) to reflect the decrease in the taxable basis.

In assessing the realizability of deferred tax assets, management considers the extent to which it is probable that the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax loss carryforwards become deductible. Management considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is probable the Company will realize the benefits of these deductible differences. As of December 31, 2015, the Company has certain tax losses subject to significant limitations. For those losses deferred tax assets are not recognized, as it is not probable that gains will be generated to offset those losses.

As of December 31, 2015 total tax credits amounted to €498 million, resulting in a potential deferred tax asset of €157 million of which the Company only recognized €9.4 million. The majority of the tax credits are

incurred at the level of the Belgian legal entities where - with the exception of the tax credits in relation to the Notional Interest Deduction - there is no expiry date regarding the tax credits.

### Deferred tax liabilities

| (€ thousands) | Property, plant and equipment | Inventory | Income tax liability | Intangible assets | Other | Total |
|---|---|---|---|---|---|---|
| **At incorporation** | - | - | - | - | - | - |
| Business combination | (75,003) | (12,043) | (1,500) | (407) | (497) | (89,450) |
| Charged/(credited) to the income statement | (1,661) | 9,649 | 96 | (13) | (544) | 7,527 |
| Exchange differences | 234 | - | - | - | - | 234 |
| **December 31, 2015** | **(76,430)** | **(2,394)** | **(1,404)** | **(420)** | **(1,040)** | **(81,689)** |

An additional deferred tax liability of €39.6 million has been recorded in the context of purchase price accounting.

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Aggregate unremitted earnings are equal to €160.8 million as of December 31, 2015.

## Note 14. Inventories

The table below provides a breakdown of total inventories as of December 31, 2015.

| (€ thousands) | December 31, 2015 |
|---|---|
| **Total inventories** | **129,438** |
| Raw materials and consumables | 60,736 |
| Work in progress | 18,548 |
| Finished goods | 50,153 |

The movement in 'Work in progress' and 'Finished goods' can be detailed as follows:

| (€ thousands) | December 31, 2015 |
|---|---|
| **Beginning of period** | - |
| Business combination | 84,841 |
| Income statement | (16,140) |
| Of which: impact purchase price allocation | (14,879) |
| Of which: actual movements in inventory | (1,261) |
| **December 31, 2015** | **68,701** |

The Company increased the provision for obsolete inventory in 2015 with €0.2 million which is included in "Raw materials used" and "Changes in inventories of finished goods and work in progress" respectively related to raw materials and finished goods (including work in progress).

The cost of inventories recognised as expenses amount to €140.9 million for the four months ended December 31, 2015. The Group recorded an inventory allowance of €2.4 million as of December 31, 2015 in addition to the application of the general accounting policies as also explained in Note 1.10.

## Note 15. Trade and other receivables

| (€ thousands) | December 31, 2015 |
|---|---|
| **Total Trade and other receivables** | **46,634** |
| **Trade and other receivables (non-current)** | **91** |
| Other amounts receivable | 91 |
| **Trade and other receivables (current)** | **46,544** |
| Net trade receivables | 32,892 |
| Trade receivables | 35,426 |
| Less: Bad debt allowance | (2,535) |
| Prepayments and accrued income | 1,124 |
| Other amounts receivable | 12,528 |

The fair value of the trade and other receivables approximates their carrying amount as the impact of discounting is not significant.

As part of its normal course of business, the Group has entered into non-recourse factoring agreements with financial parties. The Group has derecognized the accounts receivable for which substantially all risk and rewards of ownership have been transferred.

As of December 31, 2015 trade receivables that were past due amounted to €8.2 million.

The Group uses credit insurance as a means to transfer the credit risk related to trade receivables. Furthermore, our trade receivables portfolio is very diversified, in terms of both segmentation and client base, which mitigates the credit risk. The credit quality of the trade receivables that are neither past due nor impaired is good.

The assessment to set up a bad debt allowance is performed on an individual basis in consideration of various factors such as historical experience, credit quality, age of the accounts receivables and economic conditions that may affect a customer's ability to pay. For the year ended December 31, 2015 there are no significant receivables due more than 3 months for which no provisioning has been set up.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

| (€ thousands) | December 31, 2015 |
|---|---|
| **Total trade and other receivables** | **46,634** |
| EUR | 28,073 |
| USD | 6,097 |
| GBP | 3,105 |
| TRY | 9,359 |

Movements in the Group's bad debt allowance with respect to trade receivables are as follows:

| (€ thousands) | 2015 |
|---|---|
| **Beginning of period** | - |
| Business combination | (2,142) |
| Impairment loss recognized | (513) |
| Receivables written off during the year as uncollectible | 115 |
| Unused amounts reversed | 5 |
| **December 31, 2015** | **(2,535)** |

The creation and release of allowance for impaired receivables has been included in other income/expenses in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is not expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. As per December 31, 2015 the Group holds collateral (letters of credit and corporate or bank guarantees) for an amount of €0.4 million.

## Note 16. Cash and cash equivalents

| (€ thousands) | December 31, 2015 |
|---|---|
| **Total cash and cash equivalents** | **45,462** |
| Cash at bank and on hands | 36,586 |
| Short-term bank deposits | 2,933 |
| Cash from local financing | 5,943 |

The cash from local financing relates to cash and cash equivalent balances held by subsidiaries that operate in countries where legal restrictions apply and as such the cash and cash equivalents are not directly available for general use by the parent or other subsidiaries.

The credit quality of the banks and financial institutions is disclosed in Note 24. The Group's assets which are pledged as security for the borrowings are described in Note 21.

## Note 17. Share capital and share premium

The legal issued share capital of the Company is set at €171 thousand divided into 171,000 ordinary shares with a nominal value of 1 EUR each. The Company is incorporated with an initial share capital of €31 thousand which was subsequently increased with €140 thousand to €171 thousand. The capital of the Company may be increased or reduced by a resolution of shareholders adopted in the manner required for amendment of the articles of association in addition to any approvals required by statutory law and requires approval from LSF9 Balta Midco S.à r.l. (registered with the Luxembourg Trade and Companies Register under number B 197722). All shares issued by the Company were fully paid, together with a share premium of €1.3 million.

## Note 18. Retained earnings

| (€ thousands) | 2015 |
|---|---|
| **Beginning of period** | - |
| Loss for the period | (21,995) |
| **December 31, 2015** | **(21,995)** |

Five percent of the net profit of the year of the Company is allocated to an undistributable legal reserve. This deduction ceases to be compulsory when such reserves amount to ten percent of the issued share capital of the Company.

The balance may be distributed to shareholders upon decision of a general meeting of shareholders, taking into account the restrictions as defined in the senior facilities agreement.

## Note 19. Other comprehensive income

Components of other comprehensive income (OCI) are items of income and expenses (including reclassification adjustments) that are not recognized in the profit or loss as required or permitted by other IFRSs. The Group has other comprehensive income which mainly relate to the remeasurements of post-employee defined benefit obligations and the gains and losses arising from translating the financial statements of foreign entities.

The movements in other comprehensive income are summarized in the table below:

| (€ thousands) | 2015 |
|---|---|
| **Cumulative translation reserves as of December 31** | **720** |
| Cumulative translation reserves at beginning of the period | - |
| Exchange differences on translating foreign operations | 720 |
| **Changes in employee defined benefit obligations at December 31** | **944** |
| Changes in employee defined benefit obligations at beginning of the period | - |
| Changes in employee defined benefit obligations | 944 |
| **Total other comprehensive income at December 31** | **1,664** |

### *Cumulative translation reserves*

The cumulative translation reserves arise from translating the non-monetary financial assets such as equity of the foreign entities (Balta USA (USD), Balta Oriënt and Balta Floorcovering (TRY), into the currency of the group (EUR). The exchange rates used to translate the foreign operations are disclosed in Note 1.3.

### *Employee defined benefit obligations*

The Group operates defined benefit pension plans. The changes in pension liabilities are accounted for through other comprehensive income when the changes relate to a change in actuarial assumptions from one year to another.

In the recent past, several insurance companies have decided to reduce the technical interest rate on group insurance contracts to a level below the minimum return guaranteed by law for Belgian defined contribution pension plans. Because the employer has to guarantee the statutory minimum return on these plans, not all actuarial and investment risks relating to these plans are transferred to the insurance company or pension fund managing the plans. Therefore these plans do not meet the definition of defined contribution plans under IFRS and should by default be classified as defined benefit plans. Refer to Note 25 for further details.

The liability has been measured using a discount rate of 2.05%.

## Note 20. Preferred Equity Certificates

In connection with the Acquisition, the Issuer has issued 1,108,800 preferred equity certificates ("PECs") having a nominal value of €125, for an aggregate amount of €138.6 million. The aggregate amount has been paid in cash to the Company on August 10, 2015. The terms and conditions of the preferred equity certificates are governed by and construed in accordance with the laws of Luxembourg. The main characteristics of the PECs are as follows:

- Each PEC is entitled to receive a return which is mainly driven by any income derived by the Company from its investment in LSF9 Balta Investments S.àr.l., it being understood that the Company shall retain a margin on an annual basis on its financing activity as determined from time to time by a transfer price study

- Mandatory redemption at maturity, December 31, 2045

- Optional redemption prior to the maturity date, subject to certain restrictions including that the redemption payment will not violate any covenant contained in or result in a default under any agreement or other financial obligation of the Company or any of its subsidiaries after making such payment

- In the event that the Company would sell all or part of the shares of LSF9 Balta Investments S.à r.l. or in the event that LSF9 Balta Investments S.à r.l. would sell the preferred equity certificates it has issued and to which the Company has subscribed, the Company shall be entitled to convert any or all

of the PECs into shares of the Company. Any shares issued to the holder(s) of the PECs shall be subject to a pledge or other security interest in favor of the Company's creditor under the senior debt documents if and to the extent such creditors are secured by a pledge on the then-issued and outstanding shares of the Company

- The number of shares to be issued per converted PEC equals the quotient determined by dividing the sum of the par value of the PEC plus the amount of any accrued yield that is unpaid by the nominal value of the shares

Given that the Company does not have an unconditional right to avoid delivering cash to settle the PECs, the contract must be classified as a financial liability under IFRS. The presence of early redemption and conversion options implies that the contract contains multiple embedded derivatives. Given the inability to separate the embedded derivatives from the host contract, the entire contract is measured at fair value through profit or loss.

As of December 31, 2015, management believes that the cash consideration paid is a reliable measure of fair value (see Note 2). This measure is a Level 3 estimate, as described in Note 23.

## Note 21. Senior Secured Notes

| (€ thousands) | December 31, 2015 |
|---|---|
| **Total Senior Secured Notes** | **283,690** |
| **Non-Current portion** | **276,826** |
| Of which: gross debt | 290,000 |
| Of which: capitalised financing fees | (13,174) |
| **Current portion** | **6,864** |
| Of which: gross debt | 9,177 |
| Of which: capitalised financing fees | (2,314) |

The Issuer issued €290 million aggregate principal amount of 7.75% Senior Secured Notes due 2022 as part of the financing of the Acquisition. The Indenture is dated August 3, 2015 and the principal amount was released from the escrow account at Completion Date.

Interest on the Senior Secured Notes accrue at the rate of 7.75% per annum and are payable semi-annually in arrears on March 15 and September 15 of each year, commencing on March 15, 2016.

Costs related to the issuance of Senior Secured Notes are capitalized and amortized into profit or loss over the term of the debt in accordance with the effective interest method. Total costs capitalized amounted to €16.4 million, of which €15.5 million remain capitalized as of December 31, 2015.

The current portion of the debt associated with the Senior Secured Notes relates to accrued interest payable at the next interest payment date and the portion of the capitalized financing fee that will be amortized into profit or loss over the next 12 months.

The Senior Secured Notes are subject to certain incurrence covenants that restrict, among other things, our ability to:

- incur or guarantee additional indebtedness and issue certain preferred stock
- create or permit to exist certain liens
- make certain restricted payments, including dividends or other distributions
- prepay or redeem subordinated debt or equity

- make certain investments or acquisitions, including participation in joint ventures
- engage in certain transactions with affiliates
- sell, lease or transfer certain assets, including stock of restricted subsidiaries
- guarantee debt of the Issuer or any Guarantor without also guaranteeing the Senior Secured Notes
- create certain restrictions on the ability of restricted subsidiaries to pay dividends or make other payments to
- the Issuer or a restricted subsidiary
- create unrestricted subsidiaries
- merge or consolidate with other entities or transfer all or substantially all of the Issuer and its restricted
- subsidiaries' assets or a Guarantor's assets
- impair the security interest for the benefit of the holders of the Senior Secured Notes

The Senior Secured Notes are secured by first-ranking security interests over the following collateral:

- the issued shares of the Guarantors
- the issued preferred equity certificates of the Issuer and Balta Investments
- certain bank accounts of the Guarantors
- certain moveable assets of certain of the Guarantors
- certain intra-group loans and receivables of the Guarantors
- a business pledge with respect to the business of Balta Industries NV, Balta Oudenaarde NV and Modulyss NV

The collateral also secures the Revolving Credit Facility (see Note 22) and certain hedging obligations on an equal and ratable basis. Under the terms of the Intercreditor Agreement, in the event of enforcement of the security over the collateral, holders of the Senior Secured Notes will receive proceeds from the enforcement of the collateral only after indebtedness in respect of the Revolving Credit Facility and certain hedging obligations have been repaid in full. Any such proceeds will, after all obligations under the Revolving Credit Facility and such hedging obligations have been repaid from such recoveries, be applied pro rata in repayment of all obligations under the Indenture and any other obligations that are permitted to be secured over the Collateral under the Indenture on an equal and ratable basis.

## Note 22. Bank and other borrowings

In 2015, the proceeds from the issuance of capital, preferred equity certificates and Senior Secured Notes were partially used to repay €160.5 million of existing financial debt. This comprised the repayment in full o August 11, 2015 of all outstanding borrowings under the Senior Facility Agreement, the Reverse Factoring Agreement and the subordinated shareholder debt agreement, together with the full repayment of the debt outstanding under the Halkbank Facility.

The table below details the bank and other borrowings that remained as at December 31, 2015.

| (€ thousands) | December 31, 2015 |
|---|---|
| **Total Bank and other borrowings** | **20,277** |
| **Non-Current portion** | **17,787** |
| Finance lease liabilities | 17,787 |
| **Current portion** | **2,490** |
| Bank borrowings | 40 |
| Of which: gross bank borrowings | 40 |
| Finance lease liabilities | 2,450 |

### *Bank borrowings*

On August 3, 2015, Balta Issuer and Balta Investments entered into a Revolving Credit Facility Agreement providing for a €40 million Revolving Credit Facility. The Revolving Credit Facility is secured by first-ranking security interests over the collateral, which also secure the Senior Secured Notes and the Guarantees. Under the Revolving Credit Facility, a lender may make available an ancillary facility, such as overdrafts, guarantees, short-term loan facilities, derivatives or foreign exchange facilities subject to the satisfaction of certain conditions precedent, to a Borrower or an Affiliate of a Borrower in place of all or part of its unutilized commitment under the Revolving Credit Facility. Amounts drawn under the Revolving Credit Facility may be used for working capital and other general corporate purposes of the Restricted Group, operational restructurings or permitted reorganizations of the Group.

The initial facility commitments of ING Belgium NV and KBC Bank NV were each converted into an Ancillary Facility Agreement for an aggregate amount of €35.0 million.

The Revolving Credit Facility Agreement contains customary and certain deal specific affirmative loan style covenants and restrictive covenants. Set out below is a brief description of such covenants, all of which are subject to customary and certain deal specific exceptions.

- **Incurrence covenants**. These are substantially the same as those applicable to the Notes

- **Affirmative covenants**. These require, among other things, (i) the provision of certain financial information, (ii) the provision of certain financial information, (ii) the obtaining, compliance with and maintenance of authorizations required by law or regulation to enable each Obligor to (a) perform its obligations under the finance documents under the Revolving Credit Facility and the Acquisition Documents (b) ensure the legality, validity, enforceability or admissibility in evidence of any Finance Document and the Acquisition Documents to which it is a party, and (c) to enable it to own its property and assets and to carry on its business; (iii) compliance in all material respects with applicable laws and regulations; (iv) payment of taxes; (v) preservation of assets; (vi) maintenance of pari passu ranking of any unsecured and unsubordinated claims of a Finance Party against each Obligor under the Finance Documents with the claims of other unsecured and unsubordinated creditors (except where such claims are mandatorily preferred by law); (vii) commercially reasonable steps to preserve and enforce material rights under the Acquisition Documents; (viii) maintenance of insurances; (ix) the preservation and maintenance of intellectual property; (x) certain further

assurances with respect to the Collateral; (xi) access to books, accounts and records, viewing of assets and discussion with management following an Event of Default; and (xiii) compliance with sanctions and anti-money laundering laws.

- **Negative covenants**: These include, among others, restriction with respect to changes of center of main interests.

- **Financial covenants**: the Issuer is required to ensure compliance with a Total Net Leverage Ratio financial covenant, requiring the Issuer to ensure that (to the extent tested) the Total Net Leverage Ratio as at the end of each relevant quarter period does not exceed 6.50:1. The financial covenant shall only apply to the extent that the aggregate principal amount of all outstanding loans under the Revolving Credit Facility and all outstanding cash drawings under any ancillary facilities on the last day of the applicable relevant quarter period is greater than 30% of the total commitments in respect of the Revolving Credit Facility as at the end of the relevant quarter period. This financial covenant will be (to the extent tested) tested quarterly on a rolling 12-month basis.

We confirm that as of December 31, 2015, the aggregate Base Currency Amount of the outstanding principal amount of all Loans and all cash drawings under the ancillary facilities is less than 30% of the Total Commitments and therefore the financial covenants does not apply.

The Revolving Credit Facility is guaranteed by each Guarantor. The initial borrowers and guarantors of the Revolving Credit Facility were the Company and Balta Investments. On October 10, 2015 the following members of the Group acceded to the Revolving Credit Facility as borrower and guarantor: Balta Finance, Balta NV, Balta Industries NV, Balta Oudenaarde NV and Modulyss NV. The collateral that secures the Senior Secured Notes, as described in Note 21, also secures the Revolving Credit Facility. Under the terms of the Intercreditor Agreement, in the event of enforcement of the security over the collateral, holders of the Senior Secured Notes will receive proceeds from the enforcement of the collateral only after indebtedness in respect of the Revolving Credit Facility and certain hedging obligations have been repaid in full.

The Revolving Credit Facility also provides that (i) the aggregate consolidated EBITDA (as defined in the Revolving Credit Facility Agreement) of the Guarantors (provided that for this purpose where any Guarantor has negative earnings before interest, tax, depreciation and amortization (calculated on the same basis as Consolidated EBITDA) its earnings before interest, tax, depreciation and amortization shall be deemed zero) is required to exceed 80% of the Restricted Group's Consolidated EBITDA and (ii) the aggregate of the total assets (excluding good will and intra-Group items) of the Guarantors is required to exceed 70% of the total assets of the Restricted Group ((i) and (ii) together, the "Guarantor Coverage Test"). Subject to the Agreed Security Principles, the Issuer shall procure that any other member of the Group required to become an additional Guarantor in order to ensure compliance with the Guarantor Coverage Test accedes to the Revolving Credit Facility as a Guarantor.

We confirm that the aggregate of the Adjusted EBITDA of the Guarantors (without double counting) exceeds 80% of the Adjusted EBITDA of the Group and the aggregate of the total assets of the Guarantors (without double counting) exceeds 70% of the total assets of the Group.

### *Finance lease liabilities*

The gross investment in leases and the present value of minimum future lease payments are due as follows:

| **(€ thousands)** | **December 31, 2015** |
|---|---|
| **Gross finance lease liabilities – minimum lease payments** | **20,136** |
| No later than 1 year | 2,850 |
| Later than 1 year and no later than 5 years | 7,990 |
| Later than 5 years | 12,302 |
| Future charges on finance leases | (3,006) |

| (€ thousands) | December 31, 2015 |
|---|---|
| **Total present value of finance lease liabilities** | **20,136** |
| No later than 1 year | 2,349 |
| Later than 1 year and no later than 5 years | 6,612 |
| Later than 5 years | 11,175 |

### *Factoring*

As part of its normal course of business, the Group has entered into two non-recourse receivables financing agreements, whereby it may sell trade receivables arising from the normal course of business at face value less certain reserves and fees. The insolvency risk related to the factored receivables has been transferred to the factoring company, who in turn has transferred this risk to a credit insurance company. Under the non-recourse agreements, the Group collects payments from its customers on behalf of the factoring company to which it has factored its receivables. Given that substantially all of the risks and rewards of ownership has been transferred, the trade receivables assigned to the factoring companies have been derecognized from the statement of financial position.

Whilst the factoring program described above relates the portfolio of credit insured trade receivables, the Group has also entered into a forfaiting agreement where a financial institution agrees to purchase (forfait) on a revolving basis the receivables from individually identified debtors. The credit risk related to these receivables is fully transferred from the Group to the financial institution and as a result hereof, the financial institution bears the risk of non-payment by the debtor. The Group has been mandated to collect the forfeited receivables for the account of and on behalf of the financial institution. The eligible portion of the trade receivables that have been transferred and financed under this agreement have been derecognized from the Group's statement of financial position. The Group continues to recognize a portion of the receivables to the extent of its continuing involvement, in accordance with IAS 39 "Financial instruments: recognition and measurement".

The Group is also party to an Accounts Receivables Purchase Agreement with a financial institution, in the framework of a supply chain financing program offered by a large customer. Under the agreement, the Group offers to sell some or all of its accounts receivable due from this customer to the financial institution. Given the non-recourse nature of the agreement, the accounts receivables are derecognized on the moment the cash is received.

## Note 23. Additional disclosures on financial instruments

The following table presents the carrying amounts and fair values of each category of financial assets and financial liabilities:

| (€ thousands) | December 31, 2015 Carrying amount | December 31, 2015 Fair value |
|---|---|---|
| **Assets as per statement of financial positions** | **92,883** | **92,883** |
| **Loans and receivables** | **92,097** | **92,097** |
| Trade and other receivables | 46,635 | 46,635 |
| Cash and cash equivalents | 45,462 | 45,462 |
| **Assets at fair value through profit or loss** | **786** | **786** |
| Foreign exchange derivative financial instruments | 273 | 273 |
| Fixed price electricity purchase commitments | 512 | 512 |
| **Liabilities as per statement of financial positions** | **560,105** | **584,879** |
| **Financial liabilities measured at amortised cost** | **421,505** | **446,279** |
| Senior Secured Notes | 276,826 | 301,600 |
| Bank and other borrowings | 20,277 | 20,277 |

| | | |
|---|---|---|
| Trade and other payables | 124,402 | 124,402 |
| **Financial liabilities measured at fair value through profit or loss** | **138,600** | **138,600** |
| Preferred equity certificates | 138,600 | 138,600 |

The different levels of valuation method have been defined as follows:

- Level 1: are valuations derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: are valuations derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3: are valuations derived from inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of the Senior Secured Notes is based on a Level 1 estimate, with a price of approximately 104% as of December 31, 2015.

The fair value of the PECs has been determined using Level 3 estimates, see Note 2 and Note 20.

The fair value of all other financial instruments, with the exception of cash- and cash equivalents, has been determined using Level 2 estimates. The fair value of the forward foreign exchange contracts have been determined using forward exchange rates that are quoted in an active market. A similar valuation approach has been applied to determine the fair value of the fixed price electricity purchase commitments at the Completion Date. The effects of discounting are generally insignificant for Level 2 derivatives. For trade and other receivables, as well as trade and other payables, the carrying amount is considered to be a good estimate of the fair value, given the short term nature of these items.

## Note 24. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The objective is to identify, quantify, manage and then monitor events or actions that could lead to financial losses. Derivative financial instruments are used to hedge certain risk exposures at Group level. The Group did not apply hedge accounting to these transactions during the period covered by these consolidated financial statements.

### Qualitative and quantitative disclosures about market risk

***Foreign Exchange Risk***

We have significant exposure to the value of the British Pound, the U.S. dollar and the Turkish lira. Consequently, our financial results have been, and in the future will likely continue to be, subject to currency transaction and translation effects resulting from fluctuations in exchange rates, primarily the EUR/USD, EUR/GBP and EUR/TRY exchange rates. The proportion of our revenue recognized in each currency does not exactly correspond with the revenue derived from each geography, as we sometimes invoice customers in currencies other than their local currency. For instance, many of our sales in the United Kingdom are invoiced in euro.

Our Consolidated Financial Statements are prepared in euro. We are therefore exposed to translation risk on the preparation of our Consolidated Financial Statements when we translate the financial statements of our subsidiaries which have a functional currency other than euro. A portion of our assets, liabilities, revenue and costs are denominated in various currencies other than euro, principally GBP, USD and TRY. As a result, our

consolidated results of operations, which are reported in euro, are affected by currency exchange rate fluctuations.

Transaction risk arises when our subsidiaries execute transactions in a currency other than their functional currency. We mitigate this risk through four primary methods. First, for USD, we historically have been able to match cash inflows and cash outflows, resulting in a natural hedge between assets and liabilities. The natural hedge position is assessed on a semi-annual basis, whereby the amount of our remaining exposure is closely monitored. Secondly, we have also entered into commercial arrangements with two of our key customers to review the impact of EUR/GBP and EUR/TRY fluctuations and with the potential to adjust prices accordingly. Thirdly, we also use forward exchange contracts to hedge our residual exposure to GBP. Finally, even with respect to commercial arrangements that do not provide for exchange rate-based price-adjustment mechanisms, our established relationships with our customers imply that both positive and negative currency fluctuations are generally passed on through price revisions over the medium term. Fluctuations in the value of the USD and TRY relative to the euro typically have a short-term impact on our gross margin as on the revenue side both we and our customers seek to adjust prices in response to foreign currency fluctuations. On the expense side, both we and our suppliers also seek to adjust prices. As a significant percentage of certain of our suppliers' costs are fixed in U.S. dollars, foreign exchange rates relative to the U.S. dollar influence the prices we pay for some of our raw materials. In addition, our industry is competitive and elastic, as demonstrated by price rebalancing across the industry in response to foreign currency and raw material price fluctuations. Changes in foreign exchange rates also have a long-term impact on our sales volumes. For example, if there is long-term depreciation of the euro, our sales volumes may increase as we become more competitive in non-Eurozone markets. In contrast, a long-term strengthening of the euro may decrease our volumes and price competitiveness as in non-European markets.

The following table presents the main statement of financial position items affected by foreign exchange risk.

| (€ thousands) | EUR | GBP | USD | TRY | Total |
|---|---|---|---|---|---|
| **December 31, 2015 Net Exposure** | **(40,032)** | **(2,201)** | **1,993** | **7,844** | **(32,396)** |
| Trade and other receivables | 27,983 | 3,105 | 6,097 | 9,359 | 46,544 |
| Cash and cash equivalents | 36,791 | 4,199 | 1,707 | 2,766 | 45,462 |
| Trade and other payables | (104,806) | (9,505) | (5,811) | (4,281) | (124,402) |

The following table presents the sensitivity analysis of the year-end statement of financial position positions in GBP, USD and TRY in case the euro would weaken by 10%:

| (€ thousands) | 2015 |
|---|---|
| **GBP denominated** | **(1,713)** |
| Changes in fair value of derivative financial instruments | (1,468) |
| Changes in carrying amount of monetary assets and liabilities | (245) |
| **USD denominated** | **221** |
| Changes in fair value of derivative financial instruments | - |
| Changes in carrying amount of monetary assets and liabilities | 221 |
| **TRY denominated** | **872** |
| Changes in fair value of derivative financial instruments | - |
| Changes in carrying amount of monetary assets and liabilities | 872 |

The following table presents the sensitivity analysis of the year-end statement of financial position positions in GBP, USD and TRY in case the euro would strengthen by 10%:

| (€ thousands) | 2015 |
|---|---|
| **GBP denominated** | **1,402** |
| Changes in fair value of derivative financial instruments | 1,201 |
| Changes in carrying amount of monetary assets and liabilities | 200 |

| **USD denominated** | **(181)** |
|---|---|
| Changes in fair value of derivative financial instruments | - |
| Changes in carrying amount of monetary assets and liabilities | (181) |

| **TRY denominated** | **(713)** |
|---|---|
| Changes in fair value of derivative financial instruments | - |
| Changes in carrying amount of monetary assets and liabilities | (713) |

### *Commodity Price Risk*

We are exposed to fluctuations in the price of major raw material commodities used in the manufacturing process. Our key raw materials are polypropylene granulates, yarn, latex and polyamide granulates.

When we hedge, we typically do so by entering into fixed price contracts with our suppliers. In October 2015, we entered into a fixed price agreement to hedge approximately 8% of our annual consumption of polypropylene granulates. We typically use 65,000 tons of polypropylene granulates per year, with 50,000 tons purchased under contracts and 15,000 tons purchased on the spot market.

### *Interest Rate Risk*

Our interest rate risk principally relates to external indebtedness that bear interest at variable rates. Only the amounts that we borrow under the Revolving Credit Facility, our capital leases and our factoring and forfaiting arrangements are subject to variable interest rates, as the Notes carry interest at a fixed rate. We therefore do not expect to use interest rate swaps in respect of our financing going forward.

| | Four months ended December 31, 2015 | |
|---|---|---|
| **(€ thousands)** | **25bps downward shift in EUR yield curve** | **25bps upward shift in EUR yield curve** |
| **Total impact on interest expenses/income** | **11** | **(11)** |
| Interest rate derivatives | - | - |
| Non-derivative floating rate financial liabilities | 11 | (11) |

## Qualitative and quantitative disclosures about credit risk

Our credit risk is managed on a Group-wide basis. We assess the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual credit limits are set based on historical experience, in-depth knowledge of the customer and in close cooperation with the business unit manager. These credit limits are regularly reviewed by the business unit managers. If a credit limit needs to be increased, the approval of the CFO is required. In addition, we have obtained credit insurance to cover a large portion of the credit default risk. Finally, credit risk is also mitigated through non-recourse factoring and forfaiting of the trade receivables whereby the insolvency risk has been transferred to the counterparty. Trade receivables are spread over a number of countries and counterparties. There is no large concentration of trade receivables. For derivative financial assets, credit quality has been assessed based on the Fitch rating of the counterparty. All our forward exchange contract are over the counter with a financial institution as counterparty. Our fixed price purchase commitments are entered into with the counterparty of our long term procurement contracts.

Excess liquidities are invested for very short periods and are spread over a limited number of banks, all enjoying a satisfactory credit rating. For cash at bank and short-term bank deposits, the table below gives an overview of credit ratings for banks used by the Group.

| **(€ thousands)** | **December 31, 2015** |
|---|---|
| **Total cash at bank and short-term bank deposits** | **45,462** |
| A rating | 41,623 |
| BBB rating | 3,839 |

The creditworthiness of the commodity and forward exchange hedge counterparties is shown below:

| (€ thousands) | December 31, 2015 |
|---|---|
| **Derivative financial assets** | **786** |
| A rating | 273 |
| A- rating | 518 |
| BBB+ rating | (6) |

## Qualitative and quantitative disclosures about liquidity risk

We monitor cash flow forecasts and liquidity requirements centrally, ensuring that we have sufficient cash to meet operational needs while maintaining sufficient headroom on our undrawn committed borrowing facilities at all times so that we do not breach borrowing limits or covenants on any of our borrowing facilities.

The operating activities of our subsidiaries and the resultant cash inflows are our main source of liquidity. Our cash pooling system enables us to benefit from surplus fund of certain subsidiaries to cover the financial requirements of other subsidiaries. We invest surplus cash in interest-bearing current accounts and short-term cash deposits, selecting instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

In order to meet our cash outflow obligations, we use cash flows generated from operating activities and credit facilities with financial institutions if necessary. In addition, we have entered into factoring agreements with financial institutions whereby cash is made available to us in consideration for certain trade receivables generated by us.

Our primary sources of liquidity have historically been our senior facility agreements, cash flows from operations and our non-recourse factoring agreements. The principal financing arrangements that are in place as per December 31, 2015 are the Notes, the Revolving Credit Facility and capital lease agreements.

The following table reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. The amounts disclosed are undiscounted net cash outflows, based on the market conditions existing at December 31, 2015.

The cash flows related to the preferred equity certificates have been determined based on the contractual mandatory redemption date of December 31, 2045 and reflect a fixed return of 1% per year. The Company expects that the PECs will be redeemed earlier.

| (€ thousands) | Less than 6 months | Between 6 months and 1 year | Between 1 year and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|---|
| **Total as of December 31, 2015** | **(139,440)** | **(12,660)** | **(25,299)** | **(72,591)** | **(485,852)** |
| Finance lease liabilities | (1,428) | (1,422) | (2,824) | (5,166) | (12,302) |
| Preferred equity certificates | - | - | - | - | (185,000) |
| Senior Secured Notes | (13,860) | (11,238) | (22,475) | (67,425) | (334,950) |
| Trade and other payables | (124,404) | - | - | - | - |
| Gross settled derivative financial instruments – outflows | (13,761) | - | - | - | - |
| Gross settled derivative financial instruments –inflows | 14,013 | - | - | - | - |

A key factor in maintaining a strong financial profile is our credit rating which is affected by, among other factors, our capital structure, profitability, ability to generate cash flows, geographic and customer diversification and our competitive market position. Our current corporate credit ratings from Moody's Investor Service (Moody's) and Standard & Poor's Ratings Services (S&P) are noted as follows:

| (€ thousands) | December 31, 2015 Moody's | December 31, 2015 S&P |
|---|---|---|
| Long-term issue rating Senior Secured Notes | B2 | B |
| Corporate rating | B2 | B |

On August 10, 2015, Moody's Investors Service (Moody's) assigned a definitive B2 rating to the €290 million Senior Secured Notes issued by LSF9 Balta Issuer S.A., the parent holding company of the Balta group, following a review of the final bond documentation. The corporate family rating (CFR) of B2 and the probability of default rating (PDR) of B2-PD remain unchanged. The outlook on all the ratings is stable.

On September 14, 2015, Standard & Poor's Ratings Services assigned its 'B' long-term corporate credit rating to LSF9 Balta Investments S.à r.l., a holding company of Belgium-based rugs and carpet manufacturer Balta. The outlook is stable. At the same time, S&P assigned its 'B' long-term issue rating to LSF9 Balta Issuer S.A.'s €290 million Senior Secured Notes and its 'BB-' long-term issue rating to the €40 million super senior revolving credit facility (RCF).

## Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. The Group is closely monitoring its financial performance to comply with financial covenants. Refer to Note 21 and Note 22 for further details.

## Note 25. Employee benefit obligations

The Group foresees termination benefits (including early retirement) for its working and retired personnel. The liability was measured using a discount rate of 0.92%.

The Group also operates a pension plan and provided for pension liabilities. These benefits have been measured in compliance with IAS 19 revised and in accordance with the Group accounting policies described in Note 1.20. The liability was measured using a discount rate of 2.05%. The annual pension cost, relating to the pension plan is disclosed in Note 5.

The employee benefit obligations recognized in the financial statements are detailed below:

| (€ thousands) | December 31, 2015 |
|---|---|
| **Total employee benefit obligations** | **35,745** |
| Holiday pay | 13,842 |
| Social security taxes | 8,033 |
| Salaries and wages payable | 5,000 |
| Pension plans | 1,932 |
| Early retirement provision | 2,807 |
| Group insurance | 550 |
| Pension | 94 |
| Other | 3,486 |
| **Of which current portion** | **31,554** |
| **Of which non-current portion** | **4,191** |
| Pension plans | 1,932 |
| Early retirement pension | 2,164 |
| Pension | 94 |

**Pension plans: overview**

The line item "pension plans" in the table above comprises employer contributions paid in the context of pension plans for management and white collars and a bonus plan, as detailed below.

A pension plan has been put in place for management and is financed through employer contributions which increase depending on seniority (basis contribution of 3.75% of pensionable salary, increasing by 0.5% for every 5 years of service rendered within the group up to a maximum contribution rate of 5.75%). This plan also includes a death in service benefit amounting to 2 x pensionable salary.

Several pension plans are in place for white collars and are financed through fixed employer contributions.

In addition, bonus plans are in place for senior management and are financed through employer contributions which correspond to a fixed % of the bonus.

**Pension plans: valuation methodology**

The pension and bonus plans as described above has been classified as defined benefits. The valuation of the pension and bonus plans has been performed in accordance with IAS 19.

We refer to Note 1.20 concerning the valuation methodology which has been used. The liability is based on the difference between the present value of the "defined benefit obligation", taking into account the minimum return and a discount factor, less the fair value of any plan assets at date of closing.

**Pension plans: main valuation assumptions**

The main assumptions used to perform the valuation are described below:

| | December 31, 2015 |
|---|---|
| Discount rate | 2.05% |
| Retirement age | 65 years |
| Mortality | MR/FR-5 |

**Pension plans: reported figures**

For the year ended December 31, 2015, the defined benefit obligation taking into account the tax effect amounts to €13.5 million, offset by plan assets of €11.5 million as per December 31, 2015.

## Note 26. Provisions for other liabilities and charges

As of December 31, 2015, the Group has recorded a provision of €64 thousand for the dismantling of racks in a warehouse.

## Note 27. Trade and other payables

Trade payables as of December 31, 2015 includes the amounts for outstanding invoices (€69 million) and invoices to be received for which goods and services have already been received (€17 million).

Accrued charges and deferred income mainly relate to:

- Deferred revenue relating to the sale and lease back of one of the facilities which is recognized in profit over the leasing period of the facilities (€14 million);
- Deferred revenue relating to advance payments on rental agreements (€4 million);

- Accrued charges for customer discounts (€19 million).

| (€ thousands) | December 31, 2015 |
|---|---|
| **Trade and other payables** | **124,404** |
| Trade payables | 86,134 |
| Accrued charges and deferred income | 38,220 |
| Other payables | 49 |

## Note 28. Share based payments

As of December 31, 2015, the Company has not used any equity settled share plans to grant options, shares nor cash settled plans to its directors and employees.

## Note 29. Government grants

The Group's government grants relate to incentives given by Belgian authorities based on the Group's investment, environmental and employment policies.

The main incentives received comprise:

- Environmental grants: The Company receives governmental allowances on a yearly basis in the framework of legislative measures put into place in order to ascertain the competitiveness of industries covered by the EU Emission Trading System (the allowances for "carbon leakage"). For the four months ended December 31, 2015, €0.2 million has been received in this framework.

- Investment grants: The Company has concluded a cooperation agreement with external parties for the development of hybrid structures made with blended (preferential airlaid) technology containing waste streams of polypropylene and of polyurethane. For the four months ended December 31, 2015, no allowances in this framework have been received by the Company.

- Employment grants: The Company receive governmental allowances which are mainly related to education. For the four months ended December 31, 2015, no allowances in this framework have been received by the Company.

## Note 30. Dividends per share

The Group did not declare any dividends to shareholders for the period ended December 31, 2015.

## Note 31. Contingencies

The Group currently accounts for environmental provisions at the time a situation of non-compliance exists, at the time pollution occurs or at the time, the Group becomes aware of pollution. At this time, the type of pollution is estimated and often, an independent environmental study is performed. Provisions are then recorded, based on estimates which have been made by management, based on past performance and historical data and/or based on environment studies.

It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for.

## Note 32. Commitments

***Energy***

Our fixed price purchase commitments for electricity and gas, for deliveries in 2016, are equal to €15.7 million as of December 31, 2015.

***Raw material***

Our fixed price purchase commitments for raw materials, for deliveries in 2016, are equal to €94 million as of December 31, 2015.

***Capital expenditures***

No capital commitments are outstanding as of December 31, 2015.

***Operating leases***

The Group leases various equipment, machinery and vehicles under operating lease agreements. The lease terms are between 3 and 12 years (2013 and 2012: between 3 and 10 years).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| (€ thousands) | December 31, 2015 |
|---|---|
| **Total present value of operating lease commitments** | **7,145** |
| No later than 1 year | 2,360 |
| Later than 1 year and no later than 5 years | 4,785 |
| Later than 5 years | - |

## Note 33. List of consolidated companies

The subsidiaries and jointly controlled entities of LSF9 Balta Issuer S.A. , the Group's percentage of interest and the Group's percentage of control are presented below.

| | December 31, 2015 | |
|---|---|---|
| | % of interest | % of control |
| **Belgium** | | |
| Balta NV | 100% | 100% |
| Balta Industries NV | 100% | 100% |
| Balta Trading Comm.V | 100% | 100% |
| Modulyss NV | 100% | 100% |
| Balta Oudenaarde NV | 95% | 100% |
| Balta M BVBA | 100% | 100% |
| Balfid BVBA | 100% | 100% |
| **Luxembourg** | | |
| Balfin Services S.à r.l. | 100% | 100% |
| Balta Finance S.à r.l. | 100% | 100% |
| LSF9 Balta Investment S.à r.l. | 100% | 100% |
| **Turkey** | | |
| Balta Orient Tekstil Sanayi Ve Ticaret A.S | 100% | 100% |
| Balta Floorcovering Yer Dös¸emeleri San.ve Tic A.S¸ . | 100% | 100% |
| **USA** | | |
| Balta USA Inc. | 100% | 100% |

## Note 34. Related party transactions

100 % of shares of LSF9 Balta issuer S.A. are owned by LSF9 Balta Midco S.à r.l..

Lone Star Fund IX, through intermediate holding companies, indirectly controls 100% of the issued share capital of LSF9 Balta Issuer S.A.

The following transactions were carried out with related parties:

### *Key management compensation*

Key management means the Group's Executive Committee, which consists of the persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management compensation includes all fixed and variable remuneration and other benefits which are presented in other expenses (see 0). The compensation paid or payable to key management for employee services, including for the services provided on the basis of management or consultancy agreements with the Group, excluding termination benefits, is shown below:

| (€ thousands) | December 31, 2015 |
|---|---|
| **Total key management compensation** | **1,104** |
| Short-term employee benefits | 1,104 |

### *Borrowings from related parties*

The borrowings from shareholders relate to the Preferred Equity Certificates which will mature in 2045. We refer to Note 20 for further information.

| (€ thousands) | December 31, 2015 |
|---|---|
| **At opening** | **-** |
| Loans received during the year | 138,600 |
| **As of December 31, 2015** | **138,600** |

### *Transactions with related parties*

Year-end balances arising from daily operations:

| (€ thousands) | December 31, 2015 |
|---|---|
| Other receivables from related parties | 31 |
| Other payables to related parties | 54 |

The year-end balances mainly arise from current accounts positions at yearend as a result of payments which have been performed on behalf of the Group entities. These current accounts are respectively reflected in the trade and other receivables (Note 15) and in trade and other payables (Note 27).

## Note 35. Fees paid to the Group's auditors

| (€ thousands) | 2015 |
|---|---|
| **Audit services** | **775** |
| Audit of the Group pursuant to legislation | 493 |
| Other audit-related services | 282 |
| **Non-audit services** | **398** |
| Tax services | 369 |
| Other services | 29 |
| **Total fees paid to the Group's auditor** | **1,173** |

## Note 36. Subsequent events

We are not aware of any significant events since December 31, 2015 which could be considered as having a material influence on the financial position, financial performance and cash flows of the Company.