LSF9 Balta Issuer S.A.

Annual Report to Noteholders

€290,000,000 7.75% Senior Secured Notes due 2022

Annual report ended December 31, 2016

LSF9 Balta Issuer S.A.

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

Table of Contents

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 of Balta Finance 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 of Balta Finance. The acquisition of Balta Finance 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 of Balta Finance and December 31, 2015.

To enable the Noteholders to view the business as a whole, and to provide meaningful and relevant financial information that is useful in evaluating the Issuer's ongoing operations, in the same manner as management views and operates the business, the Company has opted to split the annual report in three sections as set out below. In each case, the 2016 financial performance is identical but the 2015 comparative figures are different.

- **Section I - Management Report**: The 2016 financial performance is compared to the 2015 combined financial performance as presented in section II of the 2015 annual report to the Noteholders. The 2015 combined financial performance has been determined by aggregating the consolidated results of Balta Finance for the period from January 1, 2015 to August 10, 2015 ("Predecessor Period") and the stand-alone results of Balta Issuer and Balta Investments from incorporation until the end of the period and consolidated results of Balta Finance as from August 11, 2015 ("Successor Period"). In section I , the impact of the purchase price allocation has been excluded for the year 2015.

- **Section II – Combined Financial Statements**: The 2016 financial performance is compared to the 2015 combined financial performance as presented in section II of the 2015 annual report to the Noteholders. The 2015 figures have been prepared on the basis of the recognition and measurement principles of IFRS, reflecting the impact of the purchase price allocation. The principal characteristic of the 2015 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 of Balta Finance. An assurance report on the 2015 Combined Financial Statements has been issued 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.

- **Section III – Consolidated Financial Statements**: The 2016 financial performance of Balta Issuer is compared to the 2015 financial performance during the period August 11, 2015 until December 31, 2015. 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. 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.

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.

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, 2016, our revenue and Adjusted EBITDA reached €557.7 million and €81.4 million, a 0.2% and 7.8% increase, respectively, compared to the year ended December 31, 2015. Our ratio of Net Debt to Adjusted EBITDA is equal to 3.3x as of December 31, 2016.

The increase in Adjusted EBITDA is mainly due to the continued growth of our rugs (in particular in North America), our commercial tiles division, and the successful introduction of higher margin products in our Residential division, which have partially offset the adverse impact of foreign exchange movements. Similarly, we have successfully defended our pricing levels to retain the benefits from benign raw material prices.

	For the twelve months ended December 31,	
(€ thousands)	**2016**	**2015**
Results		
Revenue	557,685	556,822
Adjusted EBITDA [1]	81,367	75,467
Adjusted EBITDA margin [2]	14.6%	13.6%
Non-recurring items	(3,518)	(33,687)
EBITDA [1]	77,849	41,780
Depreciation / amortisation	(28,666)	(24,098)
Impairment and write-off	-	-
Operating profit / (loss)	49,183	17,682
Profit / (loss) for the period	25,345	(27,468)
Cash flow		
Cash at the beginning of period	45,462	66,654
Net cash flow from operating activities	66,257	39,618
Net cash flow from investing activities	(35,569)	(309,739)
Of which: capital expenditure	(35,569)	(36,900)
Of which: Acquisition	-	(272,838)
Net cash flow from financing activities	(30,163)	248,928
Cash at the end of period	45,988	45,462
Financial position		
Net debt [3]	268,511	273,952
Net debt / Adjusted EBITDA	3.3x	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 €6.8 million accrued interest) and capital leases (€17.9 million) less cash and cash equivalents (€46.0 million). Capitalised financing fees, equal to €13.1 million as of December 31, 2016, 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.

As explained in section I.5 and I.6, the Company acquired Bentley Mills ("Bentley") in March 2017. Bentley is a leading player in the US premium commercial tiles and broadloom market serving diverse end markets with a balanced geographic mix across the US. Pro forma for the acquisition of Bentley, revenue and Adjusted EBITDA would have been €668.3 million and €97.4 million, respectively. Pro forma net debt as of 31 December 2016 was €384.2 million and pro forma leverage would have been 3.9x Adjusted EBITDA.

I.2. Business Review

	For the twelve months ended December 31,	
	2016	**2015**
Volumes (millions of square meters)	**121.7**	**122.1**
Rugs	28.8	26.5
Residential	53.9	56.5
Commercial	8.9	8.8
Non-Woven	30.2	30.3
Revenue (€ thousands)	**557,685**	**556,822**
Rugs	214,545	204,076
Residential	236,758	247,495
Commercial	80,050	79,243
Non-Woven	26,332	26,008
Adjusted EBITDA (€ thousands)	**81,367**	**75,467**
Rugs	37,969	34,184
Residential	28,411	27,742
Commercial	12,067	11,194
Non-Woven	2,920	2,346
Revenue by geography (€ thousands)	**557,685**	**556,822**
Europe	429,580	439,873
North-America	73,843	64,229
Rest of World	54,262	52,720
Revenue by geography (%)	**100%**	**100%**
Europe	77%	79%
North-America	13%	12%
Rest of World	10%	9%

Rugs

Revenue and volumes increased by 5% and 9% for the twelve months ended December 31, 2016. The growth in volumes and revenues is driven by strong performance in North America (+14%) and Europe (+6%). North America is a strategic focus of the Rugs division and our continued investments in business development, product development and expanding customer relationships are reflected in the financial performance. The relative growth in revenue in Europe is lower, given the differences in customer and product mix as compared to North America, yet the absolute contribution to the growth of this division remains important. The growth rate of revenue is less than the growth rate in volume due to (i) the strong growth of lower priced flatweave qualities and (ii) a partial pass through of lower raw material prices. The Adjusted EBITDA Margin has increased from 16.8% in 2015 to 17.7% in 2016.

Residential

Revenue and volumes decreased with 5% and 4% respectively for the twelve months ended December 31, 2016. This decrease was driven by unfavourable market conditions in Germany and Central and Eastern Europe (affecting volumes and revenue) and by the devaluation of the GBP (affecting revenue, with volumes sold in the UK just 1% below last year). We have however been pursuing a strategy aimed at maximizing margins as opposed to revenue. In 2016, we have successfully introduced higher margin products that have partially offset the adverse impact of foreign exchange movements. Similarly, we have successfully defended our pricing levels to retain the benefits from benign raw material prices. As a result of this strategy; the division has been able to increase its EBITDA margin by 0.8% versus last year.

Commercial

Revenue and volumes both increased with 1% for the twelve months ended December 31, 2016. Sales in commercial tiles have grown strongly, resulting in an increase both in volumes sold (6%) and revenue (4%). These figures are a result of strong performance in Eastern Europe (the segment's largest market) and Asia Pacific. 2016 has been a year of transition for Balta's sales of commercial tiles in the UK following the decision to terminate an agency agreement and to build a direct sales approach. As a result, volume growth in the UK market has been moderate whilst revenue has been affected by the depreciation of the GBP.

Revenue and volumes in Commercial Broadloom decreased by 5% and 7% respectively, due to weaker performances in Germany and France. The profitability of this business has however improved, with an increase in Adjusted EBITDA margin of almost 2%.

The Adjusted EBITDA for the Commercial segment as a whole shows an increase of 8% compared to last year, driven by the topline growth in commercial tiles (representing approx. 70% of this segment) and the improved profitability of commercial broadloom.

Non-Woven

Revenue increased by 1% whilst volumes decreased by 0.5% for the twelve months ended December 31, 2016, as compared to the same period in 2015. This results from the strategy of an increased focus on high-margin technical applications and has contributed to an increase in Adjusted EBITDA margin of close to 2%.

I.3. Financial Review

Operating profit

Operating profit increased by €31.5 million to €49.2 million for the twelve months ended December 31, 2016. In addition to reflecting the improvement in the operational performance, this increase is strongly influenced by the significant reduction in non-recurring expenses.

In 2015, total non-recurring expenses amounted to €33.7 million, of which €30.9 million were in relation to transaction expenses and exit bonuses arising from the acquisition of Balta Finance and (aborted) IPO expenses. In 2016, the net non-recurring expenses has been reduced to €3.5 million. This includes a gain of €1.6 million on the sale of machinery and non-recurring charges of €5.1 million. The latter comprises various items which are considered by management as non-recurring or unusual by nature. This includes costs incurred in relation to changes in senior management in 2016, advisory fees for tax and legal services regarding one-off transactions and restructuring, non-recurring idle IT costs and closure of the wool spinning department. The charges also include the non-recurring reversal of a purchase price allocation impact of the prior recognition of fixed price electricity purchase commitments.

Depreciation charges have increased by €4.6 million, mainly as a result of the fair-value step-up on buildings recorded in the context of the purchase price allocation, together with the impact of increased capital expenditure.

Financial result and taxation

Combined net financial expenses amount to €28.6 million in 2016, as compared to €38.5 million in 2015. The decrease results from the new financing structure which has been put in place in August 2015. Since then, finance expenses are driven by interest on the Senior Secured Notes and also include interest charges on the financial leasing debt, commitment fees on the Revolving Credit Facility and interest charges attributable to the factoring and forfaiting agreements.

Of the €28.6 million net financial expenses, €25.3 million relate to cash expenses whilst €3.3 million relates to non-cash expenses, comprising the write-off of capitalized financing fees and unrealized foreign exchange losses on euro-denominated intercompany balances between a Belgian entity of the Group and its Turkish subsidiary.

(€ thousands)	2016	2015
Total finance expenses	**28,608**	**38,541**
Finance expenses related to debt existing as of December 31, 2016	**27,647**	**13,228**
Senior Secured Notes	24,898	10,132
Of which: interest	22,537	9,177
Of which: financing fees	2,360	955
Revolving Credit Facility	403	731
Financial leasing	504	581
Factoring/Forfaiting/Bank charges	1,841	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	**962**	**17,387**
Interest expense on liabilities with related parties	-	11,988
Foreign exchange losses on intercompany transactions	962	5,399

Income taxes represent an income of €4.7 million in 2016, as compared to an expense of €6.7 million in 2015. This change is driven by the recognition of tax credits for which the recognition criteria were previously not met. The latter results in a deferred tax income of €10.8 million and more than offsets the charge recorded in relation to current taxes (€3.0 million) and the remaining net charges recorded in relation to deferred taxes (€3.1 million). As a reminder, in 2015, the Group incurred non-recurring transaction and restructuring fees leading to substantial tax losses. As it was 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 in 2015, despite a loss before income taxes.

Cash flow statement

For the year ended December 31, 2016, cash flow from operations increased to €66.3 million compared to €39.6 million for the year ended December 31, 2015, partially driven by better trading performance and driven by the lower transaction costs.

Net cash used in investing activities is equal to €35.6 million for the twelve months ended December 31, 2016. This comprises €38.0 million of capital expenditure and proceeds from disposals of €2.4 million.

Net cash used by financing activities is equal to €30.2 million for the year ended December 31, 2016. This comprises €27.8 million of interest and other finance charges paid (which corresponds to the €25.3 cash interest expense as described above together with a reduction of accrued interest on the Senior Secured Notes by €2.6 million) and €2.3 million repayment of financial leasing debt.

I.4. Statement of Comprehensive Income for the Twelve Month Period Ended December 31, 2016

The table below compares the audited 2016 statement of comprehensive income to the 2015 pro forma combined statement of comprehensive income. The latter has been prepared on the basis of a non-IFRS framework, given that it excludes the impact of the purchase price accounting in 2015 and that the figures combine the statement of comprehensive income of the Predecessor with the statement of comprehensive income of the Successor.

(€ thousands)	Successor	Combined
	Twelve months ended December 31, 2016	Twelve months ended December 31, 2015
	(audited)	(unaudited)
I. CONSOLIDATED INCOME STATEMENT		
Revenue	557,685	556,822
Raw material expenses	(259,472)	(258,859)
Changes in inventories	6,055	(2,525)
Employee benefit expenses[1]	(130,054)	(128,515)
Other income[1]	8,171	5,948
Other expenses	(101,017)	(97,403)
Adjusted EBITDA[2]	**81,367**	**75,467**
Depreciation / amortization	(28,666)	(24,098)
Adjusted Operating Profit [2]	**52,701**	**51,369**
Gains on asset disposals	1,610	-
Integration and restructuring expenses	(5,128)	(33,687)
Operating profit/(loss)	**49,183**	**17,682**
Finance income	57	79
Finance expenses	(28,608)	(38,541)
Net finance expenses	**(28,552)**	**(38,462)**
Profit / (loss) before income taxes	**20,632**	**(20,780)**
Income tax benefit / (expense)	4,713	(6,688)
Profit / (loss) for the period from continuing operations	**25,345**	**(27,468)**
Profit / (loss) for the period from discontinued operations	-	-
Profit / (loss) for the period	**25,345**	**(27,468)**
II. CONSOLIDATED OTHER COMPREHENSIVE INCOME		
Items in other comprehensive income that may be subsequently reclassified to P&L		
Exchange differences on translating foreign operations	(8,013)	5,705
Change in fair value of hedging instruments qualifying for cash flow hedge accounting	(116)	-
Items in other comprehensive income that will not be reclassified to P&L		
Changes in deferred taxes	285	(587)
Changes in employee defined benefit obligations	(882)	1,830
Other comprehensive income for the period, net of tax	**(8,727)**	**6,948**
Total comprehensive income for the period	**16,618**	**(20,520)**

(1) In order to provide more relevant information, payroll tax incentives for the twelve months ended December 31, 2015 amounting to €4.9 million have been restated from other income to employee benefit expenses. The same approach has been applied for the twelve months ended December 31, 2016 (the equivalent amount is equal to €5.4 million) and will be presented as such consistent over time going forward.

(2) Adjusted EBITDA and Adjusted Operating profit before exceptional items are non-GAAP measures as described in the Important Notice. We define Adjusted Operating profit 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, 2015 and 2016.

(€ thousands)	Successor Twelve months ended December 31, 2016	Combined Twelve months ended December 31, 2015
Operating profit	**49,183**	**17,682**
Adjusted for:		
Depreciation / amortization	28,666	24,098
EBITDA	**77,849**	**41,780**
Adjusted for:		
Gains on asset disposals[1]	(1,610)	-
Integration and restructuring expenses[2]	5,128	33,687
Adjusted EBITDA	**81,367**	**75,467**

(1) Gains on assets disposals in 2016 consists of the gain realised on the sale of an obsolete felt line for the production of fibers.

(2) Integration and restructuring expenses in 2016 comprises various items are considered by management as non-recurring or unusual by nature. In 2015, total non-recurring expenses amounted to €33.7 million, of which €30.9 million were in relation to transaction expenses and exit bonuses arising from the acquisition of Balta Finance and (aborted) IPO expenses. In 2016, the net non-recurring expenses has been reduced to €3.5 million. This includes a gain of €1.6 million on the sale of machinery and non-recurring charges of €5.1 million. The latter comprises various items which are considered by management as non-recurring or unusual by nature. This includes costs incurred in relation to changes in senior management in 2016, advisory fees for tax and legal services regarding one-off transactions and restructuring, non-recurring idle IT costs and closure of the wool spinning department. The charges also include the non-recurring reversal of a purchase price allocation impact of the prior recognition of fixed price electricity purchase commitments.

I.5. Events after the reporting date

On March 17, 2017, the Company has entered into an agreement to acquire Bentley Mills, Inc. ("Bentley"). Bentley is a leading provider of premium specified carpet tile and broadloom carpets for commercial interiors. Bentley is a leading player in the US premium commercial tiles and broadloom market serving diverse end markets with a balanced geographic mix across the US. Bentley has witnessed strong revenue growth over the last three years, complemented by EBITDA margin improvements driven by cost improvements and efficiencies, operational leverage and strategic repositioning. The acquisition was completed on March 22, 2017 via the closing of a €75 million senior term loan facility. In section I.6 the pro forma financial information for the Company and Bentley on a standalone basis and pro forma for the acquisition of Bentley, as if this had occurred on January 1, 2016.

Finally the Balta Group is strengthening its market position organically and is considering various opportunities in the M&A markets and the capital markets to finance its growth, which may include public or private equity or debt capital markets. However, other than with respect to the Bentley Mills acquisition, no definitive decision has been taken as to whether to proceed with any transaction.

I.6. Unaudited Pro Forma Financial Information

Highlights

The tables below provide the key financial information for the Company and Bentley on a standalone basis and pro forma for the acquisition of Bentley, as if this had occurred at the beginning of the period. Where pro forma financial information is presented by segment, Bentley's contribution is included in the Company's "Commercial carpet & tiles" segment.

Pro forma revenue, Adjusted EBITDA and capex

	Year ended December 31, 2016		
	Balta	Bentley	Pro forma for Bentley acquisition
		(€ millions, unless otherwise stated)	
Revenue	**557.7**	**110.7**	**668.3**
Adjusted EBITDA[1]	**81.4**	**16.0**	**97.4**
Adjusted EBITDA[1] Margin (% revenue)	**14.6%**	**14.5%**	**14.6%**

(1) Adjusted EBITDA refers to operating profit / (loss) adjusted for depreciation and amortization, impairments and write-offs, results from acquisitions and disposals, gain from discontinued operations, legal costs and integration and restructuring expenses.

Pro forma revenue by segment and geography

	Year ended December 31, 2016			
	Rugs	Residential Carpet & Tiles	Commercial Carpet & Tiles	Total[1]
		(% pro forma revenue)		
UK and Ireland	5%	54%	5%	22%
Rest of Europe	50%	38%	32%	42%
North America	33%	1%	58%	28%
Rest of World	12%	8%	5%	8%

Pro forma Adjusted EBITDA by segment

	Year ended December 31, 2016			
	Rugs	Residential Carpet & Tiles	Commercial Carpet & Tiles	Total[1]
	(€ millions, unless otherwise stated)			
Pro forma Adjusted EBITDA[2]	38.0	28.4	28.1	97.4
Pro forma Adjusted EBITDA[2] Margin (% revenue)	18%	12%	15%	14.6%
% of Total Pro forma Adjusted EBITDA[2]	39%	29%	29%[3]	100%

(1) Includes the Non-Woven division, which accounted for €2.9 million, or 3.0% of Balta's pro forma Adjusted EBITDA in 2016.

(2) Pro forma Adjusted EBITDA refers to operating profit / (loss) adjusted for depreciation and amortization, impairments and write-offs, results from acquisitions and disposals, gain from discontinued operations, legal costs and integration and restructuring expenses, pro forma for the Bentley acquisition, as if this had occurred at the beginning of the period.

(3) This percentage includes 13% in the European Union and 16% in the United States (which reflects Bentley's contribution)

Pro forma leverage

Bentley was acquired in a two-step process: first, the acquisition by Lone Star Fund IX on February 1st 2017, and second, on March 22, 2017, the transfer of the Bentley from Lone Star into the Balta Group. The first step of the acquisition was partly financed through equity and by the issuance of a term loan of $33.0 million and a drawdown of $11.1 million on a revolving credit facility of $18.0 million. The debt incurred by Bentley was used to repay existing lines of credits and to pay all transaction and financing-related expenses. The equity transferred totalled $73.5 million. The transfer of Bentley from Lone Star into the Balta Group was financed by entering into a €75 million Senior Term Loan agreement. The latter was used as consideration in the acquisition of the relevant partnership interests and to pay all transaction and financing-related expenses. The partial overfunding of €1.8 million was kept as cash on the balance sheet.

The Senior Term Loan will bear interest rate at a rate per annum equal to Euribor plus a margin of 5.0% per annum, subject to a margin ratchet based on the Consolidated Senior Secured Net Leverage Ratio (as defined therein), and will mature on the date that is 60 months after the first drawdown of the facility. The facility will rank pari passu with the Notes and benefit from the same security and guarantees as the Notes. The facility contains customary loan style affirmative covenants and events of default, with incurrence covenants that are substantially the same as those applicable to the Notes.

As a result, the pro forma debt and leverage as of December 31, 2016 can be summarized as follows:

(€ thousands)	**December 31, 2016**
Cash	(48.2)
Senior Secured Notes (€290 million principal, incl accrued interest)	296.6
Senior Term Loan	75.0
Finance leases	17.9
Revolving credit facility Bentley	10.5
Term loan Bentley	31.3
Bank overdrafts (uncleared cheques)	1.1
Net Financial debt	**384.2**
Pro forma leverage	**3.9x**

Pro forma income statement

The unaudited pro forma consolidated income statement has been prepared on the basis of the notes set out below to illustrate the effect of the acquisition of Bentley Mills by the Group as if it had taken place on January 1, 2016 and the unaudited pro forma consolidated statement of financial position has been prepared

on the basis of the notes set out below to illustrate the effect of the acquisition of Bentley Mills by the Group as if it had taken place at December 31, 2016. The unaudited pro forma financial information has been established in application of European Commission Regulation EC No 809/2004, using the acquisition method in accordance with IFRS.

The unaudited pro forma financial information has been derived from the audited consolidated financial statements of LSF9 Balta Issuer S.A. and its subsidiaries as of and for the year ended December 31, 2016, adjusted to give effect to (i) the acquisition of Bentley Mills by the Group, (ii) U.S. GAAP to IFRS differences as well as alignment to the financial presentation and accounting policies of the Group, and (iii) pro forma adjustments presenting the transaction and financing, and are prepared in accordance with the basis of preparation as described in the notes to the unaudited pro forma financial information.

	For the year ended December 31, 2016					
	LSF9 Balta Issuer S.A. IFRS *(audited)*	**BPS Parent, Inc. U.S. GAAP** *(audited)*[1]	**BPS Parent, Inc. U.S. GAAP** *(unaudited)*[2]	**U.S. GAAP to IFRS Adjustments**	**Pro Forma Adjustments**	**Pro Forma Consolidated Statement of Comprehensive Income**
	(€ thousands)	*($ thousands)*	*(€ thousands)*	*(€ thousands)*	*(€ thousands)*	*(€ thousands)*
Revenue	557,685	122,495	110,665	—	—	668,350
Raw material expenses	(259,472)	(47,755)	(43,143)	—	—	(302,615)
Employee benefits expenses	(130,054)	(32,199)	(29,089)	—	—	(159,143)
Other income	8,171	—	—	—	—	8,171
Other expenses	(101,017)	(27,594)	(24,929)	—	1,024	(124,922)
Adjusted EBITDA	**81,367**	**16,575**	**14,975**	—	**1,024**	**97,366**
Depreciation, amortization	(28,666)	(5,712)	(5,161)	144	—	(33,682)
Adjusted Operating Profit	**52,701**	**10,863**	**9,814**	**144**	**1,024**	**63,684**
Gains on asset disposals	1,610	(32)	(29)	—	—	1,581
Integration and restructuring expenses	(5,128)	—	—	—	(98)	(5,226)
Operating profit / (loss)	**49,183**	**10,831**	**9,785**	**144**	**926**	**60,039**
Finance income	57	0	0	—	—	57
Finance expenses	(28,608)	(926)	(836)	—	(6,104)	(35,548)
Net financial expenses	**(28,552)**	**(926)**	**(836)**	**—**	**(6,104)**	**(35,491)**
Profit / (loss) before income taxes	**20,632**	**9,905**	**8,949**	**144**	**(5,177)**	**24,547**
Income tax income / (expense)	4,713	(3,614)	(3,265)	(52)	1,605	3,001
Profit / (loss) for the period from Continuing Operations	**25,345**	**6,292**	**5,684**	**91**	**(3,573)**	**27,548**
Profit / (loss) for the period from discontinued operations	—	—	—	—	—	—
Profit / (loss) for the period	**25,345**	**6,292**	**5,684**	**91**	**(3,573)**	**27,548**
Attributable to:						

	For the year ended December 31, 2016					
	LSF9 Balta Issuer S.A. IFRS *(audited)*	**BPS Parent, Inc. U.S. GAAP** *(audited)*[1]	**BPS Parent, Inc. U.S. GAAP** *(unaudited)*[2]	**U.S. GAAP to IFRS Adjustments**	**Pro Forma Adjustments**	**Pro Forma Consolidated Statement of Comprehensive Income**
	(€ thousands)	*($ thousands)*	*(€ thousands)*	*(€ thousands)*	*(€ thousands)*	*(€ thousands)*
Equity holders of the parent	25,345	6,191	5,593	90	(3574)	27,454
Non-controlling interest	—	101	91	1	1	93

(1) Using the same presentation as LSF9 Balta Issuer S.A.

(2) Converted at a rate of €1.00:$1.1069.

Unaudited Pro Forma Consolidated Statement of Financial Position

	As of December 31, 2016					
	LSF9 Balta Issuer S.A. IFRS *(audited)*	**BPS Parent, Inc. U.S. GAAP** *(audited)*[1]	**BPS Parent, Inc. U.S. GAAP** *(unaudited)*[2]	**U.S. GAAP to IFRS Adjustments**	**Pro Forma Adjustments**	**Pro Forma Consolidated Statement of Comprehensive Income**
	(€ thousands)	*($ thousands)*	*(€ thousands)*	*(€ thousands)*	*(€ thousands)*	*(€ thousands)*
Property, plant and equipment	299,237	14,722	13,967	—	—	313,204
Other non current assets	146,138	4,431	4,203	(554)	81,826	231,612
Total non-current assets	**445,375**	**19,153**	**18,170**	**(554)**	**81,826**	**544,816**
Inventories	135,320	17,496	16,598	—	—	151,919
Trade and other receivables	54,930	15,002	14,232	—	—	69,162
Cash and cash equivalents	45,988	710	673	—	1,553	48,214
Other current assets	80	—	—	—	—	80
Total current assets	**236,318**	**33,208**	**31,504**	**—**	**1,553**	**269,375**
Total assets	**681,693**	**52,361**	**49,674**	**(554)**	**83,379**	**814,192**
Total equity	136,319	19,062	18,084	(352)	(16,730)	137,321
Total non-current liabilities	369,519	3,089	2,930	(202)	111,260	483,507
Total current liabilities	175,856	30,210	28,659	—	(11,152)	193,363
Total liabilities	**545,374**	**33,299**	**31,590**	**(202)**	**100,108**	**676,870**
Total equity and liabilities	**681,693**	**52,361**	**49,674**	**(554)**	**83,379**	**814,192**

(1) Under the same presentation as LSF9 Balta Issuer S.A. Please see note 3.1 below.
(2) Converted at a rate of €1.00:$1.0541.

Notes to the Unaudited Pro Forma Financial Information

The purchase price allocation required under IFRS 3 Business Combinations has not yet been performed and is not reflected in the unaudited pro forma financial information. The purchase price allocation has not yet been performed because the acquisition of Bentley Mills was only completed on March 22, 2017 and therefore management of the Balta Group has only recently had full access to all information of BPS Parent, Inc. and its subsidiaries and has not yet been able to complete a fair value analysis of the identifiable assets and liabilities acquired before the issuance of this unaudited pro forma financial information. As such, the fair value of the identifiable assets and liabilities acquired will be measured at a later stage and will result in an adjustment in the goodwill presented. We mainly expect differences in valuation of Intangible assets, Property, plant and equipment, and Inventory.

Section II: Combined Financial Statements

II.1. Basis of Preparation

LSF9 Balta Issuer S.A. ("the Company", "Balta Issuer" 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 of Balta Finance was reached on August 11, 2015 (the "Completion Date").

In connection with the acquisition of Balta Finance, 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 of Balta Finance, 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 of Balta Finance.

To enable the Noteholders to view the business as a whole, and to provide meaningful and relevant financial information that is useful in evaluating the Issuer's ongoing operations, in the same manner as management views and operates the business, the Company has prepared this section of the annual report by comparing the following financial information:

- For the period ended December 31, 2016: the consolidated results of the Issuer. These results correspond to the audited 2016 financial information as presented in Section III *Consolidated Financial Statements* of this report

- For the period ended December 2015, the aggregation of the consolidated results of Balta Finance for the period from January 1, 2015 to August 10, 2015 ("Predecessor Period") and the stand-alone results of Balta Issuer and Balta Investments from incorporation until the end of the period and consolidated results of Balta Finance as from August 11, 2015 ("Successor Period"). We refer to these figures as "combined" figures. These figures correspond to Section II *Combined Financial Statements* of the 2015 annual report to the Noteholders

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 2016. These have not had an impact on the 2016 financial statements of the Company.

- Amendments to IAS 1 ‘Presentation of financial statements’, effective for annual periods beginning on or after 1 January 2016. The amendments to IAS 1 are part of the initiative of the IASB to improve presentation and disclosure in financial reports and are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. The amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

- Amendment to IAS 19, 'Employee benefits', on defined benefit plans (effective 1 July 2014 and endorsed for 1 February 2015). These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary

- Annual improvements 2010-2012 (effective 1 July 2014 and endorsed for 1 February 2015). These amendments include changes from the 2010-12 cycle of the annual improvements project, that affect 7 standards: IFRS 2, ‘Share-based payment’, IFRS 3, ‘Business Combinations’, IFRS 8, ‘Operating segments’, IFRS 13, ‘Fair value measurement’, IAS 16, ‘Property, plant and equipment’, and IAS 38, ‘Intangible assets’, Consequential amendments to IFRS 9, ‘Financial instruments’, IAS 37, ‘Provisions, contingent liabilities and contingent assets’, and IAS 39, Financial instruments – Recognition and measurement’.

- Annual improvements 2012-2014 (effective and endorsed for 1 January 2016). These set of amendments impacts 4 standards: IFRS 5, ‘Non-current assets held for sale and discontinued operations’ regarding methods of disposal; IFRS 7, ‘Financial instruments: Disclosures’, (with consequential amendments to IFRS 1) regarding servicing contracts; IAS 19, ‘Employee benefits’ regarding discount rates; IAS 34, ‘Interim financial reporting’ regarding disclosure of information.

- Amendments to IFRS 10 ‘Consolidated financial statements’, IFRS 12 ‘Disclosure of interests in other entities’ and IAS 28, ‘Investments in associates and joint ventures’, effective for annual periods beginning on or after 1 January 2016. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

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 2016 and have 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, de-recognition of financial assets and financial liabilities and general hedge accounting. On the classification and measurement the Company’s current assessment did not indicate any material impact. IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables either on a 12-month or lifetime basis. While the Group has not yet undertaken a detailed assessment of how its provisions would be affected by the new model, it may result in an earlier recognition of credit losses. Nevertheless the Group does not expect any material impact since it uses credit insurances as a means to transfer credit risk related to trade receivables and the historic default rates for 2015 and 2016 are

not exceeding 0,1 % for 2015 and 2016 (Note 18). Moreover there are no significant receivables due more than 3 months for which no provision has been set up (Note 18). Finally currently the Group is only applying limited cash flow hedging for expected cash flows (Note 1.6). No significant changes are expected under IFRS 9 for the current cash flow hedge documentation and accounting treatment.

- IFRS 15 'Revenue from contracts with customers'. Companies using IFRS will be required to apply the revenue standard for annual periods beginning on or after 1 January 2018. IFRS 15 specifies how and when revenue is recognized and is prescribing relevant disclosures. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and a number of revenue related interpretations. The new standard provides a single, principles-based five-step model to be applied to all contracts with customers. Furthermore, it provides new guidance on whether revenue should be recognized at a point in time or over time.

  The revenue is currently recognized when the goods are delivered which is the point in time at which the customer accepts the goods and the related legal title, i.e. when risks and rewards of the ownership are transferred. Revenue is only recognized at this moment after other requirements are also met, such as, no continuing management involvement with goods, revenue and costs can be reliably measured and probable recovery of the considerations. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. Based on the initial assessment, the Company did not identify material differences between the transfer of control and the current transfer of risk and rewards. As such, at this stage the Company does not anticipate material difference in the timing of revenue recognition for the sale of products.
  Volume discounts and rebates are currently accrued over the year based on the sales realized per customer and taking into account the expected yearly volumes per customer. There are no any other significant incremental contract costs. Consequently the Company does not expect any material impact under IFRS 15. In general the Group has not any material contracts that include separate performance obligations nor any special transactions such as consignment, bill and hold arrangements, warranty programs, upfront payments or any third party involvement

The following new standards, amendments and interpretation to standards have been issued, but are not mandatory for the first time for the financial year beginning 1 January 2016 and have not been endorsed by the European Union:

- IFRS 16 'Leases'. This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We refer to Note 24, in which we provide a summary of the lease commitments Company. The total present value of operating lease commitments as of December 31, 2016 is equal to €10.5 million and hence represents the maximum liability that could be recognized upon implementation of IFRS 16.

- Amendments to IAS 12,'Income taxes' on Recognition of deferred tax assets for unrealized losses (effective 1 January 2017). These amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

- Amendments to IAS 7, Statement of cash flows (effective 1 January 2017). These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes

in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

- Amendments to IFRS 15, 'Revenue from contracts with customers' - Clarifications (effective 1 January 2018). These amendments compromise clarification guidance on identifying performance obligations, accounting for licenses of intellectual property and the principle versus agent assessment. The amendment also includes more illustrative examples.

- Amendments to IFRS 2: Share-based payments (effective 1 January 2018): The amendment clarifies the measurement basis for cash-settled payments and the accounting for modifications that change an award from cash settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay the amount to the tax authorities.

- Annual improvements 2014-2016 applicable to three standards of which changes on IFRS 1 et IAS 28 are applicable as of 1 January 2018 and changes on IFRS 12 are applicable as of 1 January 2017. These set of amendments impacts 3 standards: IFRS 1,' First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10; IFRS 12,'Disclosure of interests in other entities' regarding clarification of the scope of the standard (these amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017) and IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value.

- IFRIC 22,' Foreign currency transactions and advance consideration (effective 1 January 2018): 'This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

II.2. Impact Purchase Price Allocation

When comparing the current period to the previous period throughout this section of the annual report, the reader must be mindful that the 2015 comparative figures reflect the impact of the purchase price allocation. The manner in which the purchase price paid has been allocated to identifiable assets and liabilities has been described in Section II.3 of the 2015 annual report to the noteholders. The table below reflects the impact of the purchase price allocation on the 2015 income statement:

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

(€ thousands)	Before PPA Twelve months ended December 31, 2015	PPA Twelve months ended December 31, 2015	After PPA 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)
Employee benefit expenses	(128,515)	-	(128,515)
Other income	5,948	-	5,948
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.

II.3. Combined Statement of Comprehensive Income for the Twelve Month Period Ended December 31

(€ thousands)	Note	Successor Twelve months ended December 31, 2016	Combined Twelve months ended December 31, 2015
I. CONSOLIDATED INCOME STATEMENT			
Revenue	Note3/4	557,685	556,822
Raw material expenses	Note 5	(259,472)	(269,675)
Changes in inventories	Note 6	6,055	(17,405)
Employee benefit expenses[2]	Note 7	(130,054)	(128,515)
Other income[2]	Note 8	8,171	5,948
Other expenses	Note 8	(101,017)	(97,403)
Depreciation / amortization	Note 9	(28,666)	(24,098)
Adjusted Operating Profit[1]		**52,701**	**25,674**
Gains on asset disposals		1,610	-
Integration and restructuring expenses	Note 10	(5,128)	(33,687)
Operating profit/(loss)		**49,183**	**(8,013)**
Finance income		57	79
Finance expenses	Note 11	(28,608)	(38,541)
Net finance expenses		**(28,552)**	**(38,462)**
Profit / (loss) before income taxes		**20,632**	**(46,475)**
Income tax benefit / (expense)	Note 12	4,713	2,949
Profit / (loss) for the period from continuing operations		**25,345**	**(43,526)**
Profit / (loss) for the period from discontinued operations		-	-
Profit / (loss) for the period		**25,345**	**(43,526)**
II. CONSOLIDATED OTHER COMPREHENSIVE INCOME			
Items in other comprehensive income that may be subsequently reclassified to P&L			
Exchange differences on translating foreign operations		(8,013)	5,705
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting		(116)	-
Items in other comprehensive income that will not be reclassified to P&L			
Changes in deferred taxes		285	(587)
Changes in employee defined benefit obligations		(882)	1,830
Other comprehensive income for the period, net of tax		**(8,727)**	**6,948**
Total comprehensive income for the period		**16,618**	**(36,578)**

(1) Adjusted Operating profit is a non-GAAP measure as described in Note 1.22..

(2) In order to provide more relevant information, payroll tax incentives for the twelve months ended December 31, 2015 amounting to €4.9 million have been restated from other income to employee benefit expenses. The same approach has been applied for the twelve months ended December 31, 2016 (the equivalent amount is equal to €5.4 million) and will be presented as such consistent over time going forward.

II.4. Combined Statement of Financial Position as at December 31

(€ thousands)	Note	Successor As of December 31 2016	Successor As of December 31 2015
Property, plant and equipment			
Land and buildings	Note 13	169,203	175,734
Plant and machinery	Note 13	115,016	108,584
Other fixtures and fittings, tools and equipment	Note 13	15,019	15,012
Goodwill	Note 14	124,673	124,673
Intangible assets		2,376	1,667
Deferred income tax assets	Note 15	18,950	8,573
Trade and other receivables	Note 18	138	91
Total non-current assets		**445,375**	**434,334**
Inventories	Note 16	135,320	129,438
Derivative financial instruments	Note 17	46	786
Trade and other receivables	Note 18	54,930	46,544
Current income tax assets		34	28
Cash and cash equivalents	Note 19	45,988	45,462
Total current assets		**236,318**	**222,257**
Total assets		**681,693**	**656,590**
Share capital	Note 20	171	171
Share premium	Note 20	1,260	1,260
Preferred equity certificates	Note 21	138,600	-
Other comprehensive income		(7,063)	1,664
Retained earnings and other reserves		3,351	(21,995)
Total equity		**136,319**	**(18,900)**
Preferred Equity Certificates	Note 21	-	138,600
Senior Secured Notes	Note 22	279,277	276,826
Bank and Other Borrowings	Note 23	15,388	17,787
Deferred income tax liabilities	Note 15	69,775	67,879
Employee benefit obligations	Note 27	5,079	4,191
Total non-current liabilities		**369,519**	**505,283**
Senior Secured Notes	Note 22	4,234	6,864
Bank and Other Borrowings	Note 23	2,614	2,490
Employee benefit obligations	Note 27	31,246	31,554
Provisions for other liabilities and charges		64	64
Derivative financial instruments	Note 17	162	-
Trade and other payables	Note 28	131,562	124,404
Income tax liabilities		5,974	4,831
Total current liabilities		**175,856**	**170,207**
Total liabilities		**545,374**	**675,490**
Total equity and liabilities		**681,693**	**656,590**

II.5. Combined Statement of Cash Flows

	Note	Successor Twelve months ended December 31, 2016	Combined Twelve months ended December 31, 2015
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit / (loss) for the period		**25,345**	**(43,526)**
Adjustments for:			
Income tax expense / (income)	Note 12	(4,713)	(2,949)
Finance income		(57)	(79)
Finance expense	Note 11	28,608	38,541
Depreciation, amortisation	Note 9	28,666	24,098
(Gain)/loss on disposal of non-current assets		(1,610)	-
Fair value of derivatives	Note 1725	786	(504)
Non-cash impact of Purchase Price Allocation			25,695
Cash generated before changes in working capital		**77,025**	**41,275**
Changes in working capital:			
Inventories		(5,883)	(3,212)
Trade receivables		(8,433)	(1,141)
Trade payables		10,485	6,962
Other working capital		(5,459)	(3,384)
Cash generated after changes in working capital		**67,735**	**40,501**
Net income tax (paid)		(1,478)	(883)
Net cash generated / (used) by operating activities		**66,257**	**39,618**
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition & disposal of property, plant and equipment		(36,483)	(36,158)
Acquisition of intangibles		(1,494)	(744)
Proceeds from non-current assets		2,408	2
Acquisition of subsidiary	II.2		(272,838)
Net cash used by investing activities		**(35,569)**	**(309,739)**
CASH FLOW FROM FINANCING ACTIVITIES			
Interest and other finance charges paid, net	Note 11	(27,814)	(6,666)
Proceeds from issuance of ordinary shares and share premium		-	1,431
Proceeds from issuance of preferred equity certificates	Note 21	-	138,600
Proceeds from issuance of Senior Secured Notes	Note 22	-	290,000
Proceeds from borrowings with third parties	Note 23	-	-
Repayments of borrowings with third parties	Note 23	(2,349)	(157,994)
Payment of debt financing costs	Note 22	-	(16,442)
Net cash generated / (used) by financing activities		**(30,163)**	**248,928**
NET INCREASE / (DECREASE) IN CASH AND BANK OVERDRAFTS		**526**	**(21,192)**
Cash, cash equivalents and bank overdrafts at the beginning of the period		45,462	66,654
Cash, cash equivalents and bank overdrafts at the end of the period	Note 19	45,988	45,462

II.6. Combined Statement of Changes in Equity

The changes in equity for the Successor for the twelve months ended 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)**

The changes in equity for the twelve months ended December 31, 2016 are as follows:

(€ thousands)	Share capital	Share premium	PECs	Other comprehensive income	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2016	**171**	**1,260**	**-**	**1,664**	**(21,995)**	**(18,900)**	**-**	**(18,900)**
Recognition of PECs as equity instrument			138,600			138,600		138,600
Profit / (loss) for the period	-	-		-	25,345	25,345	-	25,345
Other comprehensive income	-	-		-	-	-	-	-
Exchange differences on translating foreign operations				(8,013)		(8,013)		(8,013)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting				(116)		(116)		(116)
Changes in deferred taxes				285		285		285
Changes in employee defined benefit obligations	-	-		(882)	-	(882)	-	(882)
Total comprehensive income for the period	**-**	**-**		**(8,727)**	**25,345**	**16,618**	**-**	**16,618**
Balance at December 31, 2016	**171**	**1,260**	**138,600**	**(7,063)**	**3,351**	**136,319**	**-**	**136,319**

(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.7. 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.

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 is recognized as goodwill. 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.

Segment reporting

Note 3 provides the Company's segment information, in line with IFRS 8. The Company operates its business through four segments, which are organized by product and sales channel. The Rugs segment designs, manufactures and distributes a broad range of machine-made rugs to major retailers (such as home improvement, furniture, specialist, discount and DIY stores) and wholesalers. The Residential segment designs, manufactures and distributes branded broadloom carpets (*Balta Broadloom* and *ITC* brands) and tiles to major retailers and wholesalers. The Commercial segment designs, manufactures and distributes modular carpet tiles mainly for offices and public projects through the Company's modulyss brand and broadloom carpets mainly for the hospitality sector through its *arc edition* brand to architects, designers, contractors and distributors. Finally, the Non-Woven segment designs, manufactures and distributes soft flooring for events such as fairs and expositions and specialized fabrics for insulation, lining, cars, carpet backing and banners through its *Captiqs* brand.

Operating segments are reported in a manner consistent with the internal reporting provided to the Board and the Management Committee. Items that are provided on a monthly basis to the Management Committee are revenues, Adjusted EBITDA, net inventory, accounts receivable and inventory. The segment information provided in Note 3 has been selected on this basis. It follows that other items such as total assets and liabilities per segment are not reviewed internally and hence not disclosed. Interest income, interest expense and taxes are managed centrally and accordingly such items are not presented by segment as they are excluded from the measure of segment profitability.

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 income statement within "Finance income and expense". All other foreign exchange gains and losses are presented in the income statement within "Other income" or "Other expenses" which is part of the operating profit.

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

	December 31, 2016		December 31, 2015	
	Closing	Average	Closing	Average
USD	1.0541	1.1069	1.0887	1.1094
TRY	3.7099	3.3375	3.1776	3.0187
GBP	0.8562	0.8195	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 income statement 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 income statement as part of the gain or loss on sale.

Foreign exchange gains and losses that relate to borrowings and transactions between group companies in a different currency compared to the functional currency, are presented in the income statement 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 income statement 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.2), 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 income statement.

Note 1.4. Intangible assets

Goodwill

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. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill ae not reversed. Gains and losses on the disposal of a cash generating unit include the carrying amount of goodwill relating to the cash generating unit sold.

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.

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.

Note 1.6. 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 income statement 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.

Cash flow hedge accounting has been initiated on June 1, 2016. Derivative financial instruments used to hedge the exposure to variability in future cash flows are designated as hedges under cash-flow hedge accounting. Changes in fair value of the forward contracts before this date have been recorded directly in P&L before June 1, 2016. The effective portion of changes in fair value as from the designation date of the cash flow hedge are recorded in the cash flow hedge reserve, part of other comprehensive income. Amounts recorded in the cash flow hedge reserve will be recognized in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement. This coincides with the settlement date of the forward contracts

When the underlying hedged transactions do no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs.

When the underlying hedged transaction is no longer expected to occur, the cumulative gains or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective shall be reclassified from equity to profit or loss as a reclassification adjustment.

Note 1.7. 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.

Note 1.8. 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 1.9. 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 1.10. 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 1.11. 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 income statement 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 income statement on a straight-line basis over the expected useful lives of the related assets.

Note 1.12. 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 1.13. 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.

Note 1.14. 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 income statement over the period of the borrowings using the effective interest method.

Note 1.15. 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 income statement.

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 1.16. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, 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 1.17. 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 (1.75% per December 2016 and 2015) applies for the years after 2015 on future contributions and also on the accumulated past contributions as of December 31, 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 Projected Unit Credit (PUC) method has been used as the actuarial technique to measure the defined benefit obligation whereby the fair value of the plan assets are considered to be equal to the mathematical reserves of the insurance contract. The method is simplified because we only take into account existing contributions made by the employer and employee. 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. 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.

Bonus plans

Bonuses received by company employee and management are based on pre-defined company and individual target achievement. The estimated amount of the bonus is recognized as an expense in the period the bonus is earned.

Note 1.18. 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 for rebates and discounts 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 1.19. 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 income statement 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 income statement 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 1.20. 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 1.21. 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 1.22. Non-GAAP measures

Operating Profit(Loss), Adjusted Operating Profit (Loss), Adjusted EBITDA and Adjusted EBITDA Margin are measures utilized by the Group to demonstrate the Group's underlying performance.

Operating Profit (Loss) is calculated as profit (loss) for the period from continuing operations, adjusted for income tax benefits (expenses), finance income and finance expenses.

Adjusted Operating Profit (Loss) is calculated as Operating Profit (Loss) adjusted for gains from disposal of assets and integration and restructuring expenses.

Adjusted EBITDA is calculated as Adjusted Operating Profit (Loss) adjusted for depreciation and amortization charges.

Adjusted EBITDA margin calculated as Adjusted EBITDA dividend 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 14.

Fair value estimate of preferred equity certificates

In 2015 the acquisition of Balta Finance has been partially funded through Preferred Equity Certificates (PECs). The PECs have been subscribed to by LSF9 Balta Midco S.à.r.l.. 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 has been classified as a financial liability under IFRS per December 31, 2015. 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.

Immediately following December 31, 2015, the Subscriber and the Issuer discussed and agreed on changes to be made to the PEC agreement. These changes are describe in Note 21.

Based on the separate agreement, the Company will have an unconditional right to avoid delivering cash to settle the PECs. Consequently, the contract no longer meets the definition of a financial liability under IFRS, but instead qualifies as an equity instrument. The financial liability has been extinguished on January 1, 2016 and the book value at this date has been recognized as an increase in the Company's equity.

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.

Brexit

The United Kingdom held a referendum on June 23, 2016, to determine whether the United Kingdom should leave the European Union (the "EU") or remain as a member state, and the outcome of that referendum was in favor of leaving the EU (commonly referred to as "Brexit"). The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to EU markets, and, while such impacts are difficult to predict, Belgian exports may be negatively affected. In the year ended December 31, 2016, our sales in the United Kingdom represented €148.6 million, or 26.6% of our revenue, mainly comprised of sales in our Residential segment. Any reduction in consumers' willingness or ability to spend due to Brexit-related changes in the economic environments of the United Kingdom and Europe could materially affect our revenue. In addition, lack of clarity about future UK laws and regulations as the United Kingdom determines which EU laws to replace or replicate in the event of a withdrawal may increase costs associated with operating in either or both of the United Kingdom and Europe.

Note 3. Segment Reporting

Segment information is presented in respect of the Company's business segments as defined earlier. The performances of the segments is reviewed by the chief operating decision maker, which is the Management Committee.

(€ thousands)	2016	2015
Revenue by segment	**557,685**	**556,822**
Rugs	214,545	204,076
Residential	236,758	247,495
Commercial	80,050	79,243
Non Woven	26,332	26,008
Revenue by geography	**557,685**	**556,822**
Europe	429,580	439,871
North America	73,843	64,231
Rest of World	54,262	52,720
Adjusted EBITDA by segment	**81,367**	**49,773**
Rugs	37,969	23,041
Residential	28,411	17,026
Commercial	12,067	8,047
Non Woven	2,920	1,659
Capital expenditure by segment	**35,569**	**36,900**
Rugs	16,119	16,561
Residential	12,460	15,275
Commercial	6,259	4,876
Non Woven	732	187
Net inventory by segment	**135,320**	**129,438**
Rugs	63,642	56,794
Residential	52,718	53,577
Commercial	15,346	15,608
Non Woven	3,614	3,460
Trade receivables by segment	**41,326**	**32,892**
Rugs	17,263	11,846
Residential	16,502	14,443
Commercial	6,149	5,623
Non Woven	1,411	980

Given the international sales footprint of the Company, 98% of revenue is realized outside Belgium, with sales in Belgium being equal to €12.5 million in 2016. The group has one customer (within the Rugs segment) representing 12% of the Group's revenue in 2016.

As of December 31, 2016, non-current assets amount to €445 million, of which €275 million is located in Belgium (mainly factories) and €170 million outside Belgium.

Note 4. Revenue

The following table presents our revenue for the years ended December 31, 2016 and 2015.

(€ thousands)	Successor 2016	Combined 2015
Revenue	**557,685**	**556,822**
Rugs	214,545	204,076
Residential	236,758	247,495
Commercial	80,050	79,243
Non-Woven	26,332	26,008
Revenue by geography	**557,685**	**556,822**
Europe	429,580	439,873
North-America	73,843	64,229
Rest of World	54,262	52,720

During the year ended December 31, 2016, our revenue increased slightly by €0.9 million to €557.7 million from €556.8 million for the year ended December 31, 2015.

Revenue growth is driven by the strong growth in the rugs segment, but partially offset by the depreciation of the GBP. Revenue in the Rugs segment has increased by 5%, driven by further growth in both North America and Europe. Whilst revenue growth in the commercial division is limited to 1%, sales of commercial tiles have continued to grow strongly by 4%. Finally, revenue in the Residential division has decreased by 4% as a result of the depreciation of the GBP and a decrease of volumes sold in Germany and CEE.

From a geographical perspective, the share of North America continues to increase, driven by a 15% increase in revenue as compared to a decline in revenues in Europe.

Note 5. Raw material expenses

(€ thousands)	Successor 2016	Combined 2015
Raw material expenses	(259,472)	(269,675)
Of which: ordinary course of business	(259,472)	(258,859)
Of which: PPA adjustment	-	(10,816)
As % of revenue	46.6%	48.4%

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.

In the absence of PPA adjustments, the raw material expenses in 2015 were equal to €258.9 million (46.5% of revenue). In 2016, raw material expenses are equal to €259.5 million which also represents 46.6% of revenue

Note 6. Changes in inventories

(€ thousands)	Successor 2016	Combined 2015
Changes in inventory	6,055	(17,405)
Of which: actual movements in inventory	6,055	(2,547)
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 increased from €68.7 million as of December 31, 2015 to €74.8 million as of December 31, 2016, resulting in the recognition of an income of €6.1 million. In 2015, as a result of the purchase price allocation adjustment described earlier, 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 7. Employee benefit expenses

(€ thousands)	Successor 2016	Combined 2015
Total employee benefit expenses	**130,054**	**128,515**
Wages and salaries	92,289	95,995
Social security costs	29,974	25,928
Pension costs	1,603	1,327
Other employee benefit expenses	6,188	5,265

The Company can benefit from partial exemption of payment of withholding tax due on wages paid to workers in team or nights 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. In 2015, €4.9 million of such incentives were presented as part of the "other income". For 2016, the equivalent amount is equal to €5.4 million and has been deducted from employee benefit expenses. As the reclassification from other income to employee benefit expenses provides more reliable and relevant information for the Group, the change has been adjusted retrospectively for 2015 (in deduction of the employee benefit expenses instead as other income).

The average number of employees in 2016 and 2015 was 3,238 and 3,233 (in full time equivalents) respectively. Part-time employees are included on a proportionate basis.

	Successor 2016	Combined 2015
Average number of total employees	**3,238**	**3,233**
Average number of employees – blue collar	2,694	2,698
Average number of employees – white collar	544	535

Note 8. Other income and expenses

(€ thousands)	Successor 2016	Combined 2015
Other income	**8,171**	**5,948**
Foreign exchange gains	3,800	1,186
Rental income from solar rooftop installations	1,410	1,463
Grants	602	171
Recharge of costs	755	807
Other	1,603	2,320
Other expenses	**101,017**	**97,403**
Services and other goods	67,772	61,531
Selling expenses	28,824	32,647
Foreign exchange losses	2,253	59
Real estate tax	2,156	2,644
Other	12	522

The note with respect to other income of 2015 has been restated due to change in accounting policy of the payroll tax incentive (see note 7).

Other income comprises a gain of €3.8 million in relation to foreign exchange movements, of which €2.8 million is realized income on the settlement of forward exchange contracts entered into as part of the Company's hedging policy.

Finally, other income also comprises €1.4 million rental payments received from renting certain rooftops to a solar development company. The residual component of other income, €1.6 million and €2.3 million in 2016 and 2015, respectively, is in relation to the re-charge of certain expenses incurred, the sale of waste and the de-recognition of old credit notes to issue for potential commercial settlements.

Other expenses increased by €3.6 million to €101.0 million for the year ended December 31, 2016 from €97.4 million for the year ended December 31, 2015. Services and other goods for the twelve months ended December 31, 2016 mainly comprises electricity and gas (€21.0 million), maintenance and repair (€10.4 million) and interim blue collars (€7.0 million). Selling expenses mainly comprise freight (€20.8 million) and commissions (€3.8 million).

Note 9. Depreciation / amortization

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

(€ thousands)	Successor 2016	Combined 2015
Depreciation / amortization	**28,666**	**24,098**
Amortization of intangible assets	785	680
Depreciation property, plant and equipment	29,276	24,813
Release deferred revenue sale & leaseback	(1,395)	(1,395)

Depreciation / amortization increased by €4.6 million to €28.7 million for the year ended December 31, 2016 from €24.1 million for the year ended December 31, 2015.

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 on a straight line basis over a 12 year period as partial offset to depreciation charges over the period of the lease. The annual amount recognized in the income statement is €1.4 million, with the balance of deferred income equal to €12.9 million as at December 31, 2016.

Note 10. Integration and restructuring expenses

The following table sets forth integration and restructuring expenses for the years ended December 31, 2016 and 2015. This comprises various items which are considered by management as non-recurring or unusual by nature.

(€ thousands)	2016	2015
Integration and restructuring expenses	**5,128**	**33,687**
Corporate restructuring	1,920	1,195
Business restructuring	670	-
Acquisition related expenses	-	31,143
Idle IT costs	703	-
Strategic advisory services	1,324	1,060
Other	496	290

Integration and restructuring expenses decreased by €28.6 millionto €5.1 million for the year ended December 31, 2016. This decrease was primarily due to the absence of acquisition related expenses in 2016, whilst this amounted to €31.1 million in 2015 following the acquisition of Balta Finance mid 2015. In 2016, corporate restructuring expenses were equal to €1.9 million and reflect costs in relation to changes in senior management. In 2015, corporate restructuring expenses were equal to €1.2 million and were primarily in relation to legal and tax services aimed at a potential simplification of the group structure by further aligning legal entity structure to business segment. Expenses for business restructuring were equal to €0.7 million in 2016, comprising a fee paid to terminate an agency agreement in the UK as part of the strategy to further develop our *modulyss* brand in Europe through a direct sales approach. In addition, given the minor share of

wool in our raw material mix, the decision was taken to close the wool spinning department and, going forward, to buy wool yarns from third party suppliers. In 2016, we incurred €0.7 million of incremental (idle) IT costs in relation to a legacy IT system used for a limited number of activities within the Group. The legacy system triggers incremental costs for extended licenses and premium vendor support assistance given that the original support timeline has been surpassed. These incremental costs are temporary only given that the company has started a project to migrate the legacy system to the new platform already used by the majority of business activities elsewhere in the group. Finally, €1.3 million of strategic advisory expenses were incurred in 2016 (vs €1.1 million in 2015) in relation to non-recurring tax, legal and financial advisory services.

Note 11. Finance expenses

Combined net financial expenses amount to €28.6 million in 2016, as compared to €38.5 million in 2015. The decrease results from the new financing structure which has been put in place in August 2015. Since then, finance expenses are driven by interest on the Senior Secured Notes and also include interest charges on the financial leasing debt, commitment fees on the Revolving Credit Facility and interest charges attributable to the factoring and forfaiting agreements.

Of the €28.6 million net financial expenses, €25.2 million relate to cash expenses whilst €3.3 million relates to non-cash expenses, comprising the write-off of capitalized financing fees and unrealized foreign exchange losses on euro-denominated intercompany balances between a Belgian entity of the Group and its Turkish subsidiary.

The finance expenses can be classified in the following categories:

(€ thousands)	Successor 2016	Combined 2015
Total finance expenses	**28,608**	**38,541**
Finance expenses related to debt existing as of December 31, 2016	**27,647**	**13,228**
Senior Secured Notes	24,898	10,132
Of which: interest	22,537	9,177
Of which: financing fees	2,360	955
Revolving Credit Facility	403	731
Financial leasing	504	581
Factoring/Forfaiting/Bank charges	1,841	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	**962**	**17,387**
Interest expense on liabilities with related parties	-	11,988
Foreign exchange losses on intercompany transactions	962	5,399

In 2015, 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 2015 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 2016.

Even though intercompany balances are eliminated in consolidation, translating the Turkish entity's financial statements from its functional 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.

Note 12. Income tax benefit / expense

(€ thousands)	Successor 2016	Combined 2015
Income tax benefit / (expense)	**4,713**	**2,949**
Current tax	(3,014)	(1,571)
Deferred tax	7,727	4,520

Income taxes represent a 'benefit' in both 2016 and 2015, driven by the net positive deferred tax income. In 2015, the latter was driven by the net loss of the period whilst in 2016 this is driven by the recognition of a deferred tax asset of €10.8 million in relation to tax credits for which the recognition criteria were previously not met.

Current tax charges have increased from €1.6 million in 2015 to €3.0 million in 2016. Current tax charges increased compared to last year because our tax losses of Balta US and Balta floorcovering fully were consumed in the course of 2016 as a result of the positive statutory results which are realized in those entities and because we realized better results in Modulyss as a result of better performance. Last year the company was still able to offset the positive results of Balta US and Balta floorcovering with tax losses carried forward from previous years which resulted in a lower current tax rate.

(€ thousands)	Successor 2016	Combined 2015
Income tax benefit / expense	**4,713**	**2,949**
Income tax calculated at Luxembourg tax rate (31.47%)	(6,495)	14,626
Rate differential due to transactions with Belgium, Turkey and US	1,000	445
Tax-exempted revenues	323	5,491
Deferred tax assets recognised	10,789	1,907
Utilization of previously not recognized tax assets	3,153	172
Tax losses for which no deferred tax asset is recognized	(2,878)	(17,639)
Disallowed expenses	(730)	(2,265)
Other	(449)	212

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 2016 and 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 have not been recognized, as it is not probable that taxable profit will be generated to offset those losses.

Note 13. Property, plant and equipment

(€ thousands)	Land and buildings	Plant and machinery	Other equipment	Total
Period ended December 31, 2015				
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**
Period ended December 31, 2016				
Opening net book value	**175,734**	**108,584**	**15,012**	**299,332**
Additions	1,446	23,787	11,249	36,483
Disposals	-	(1,543)	(234)	(1,777)
Depreciation charge	(5,854)	(12,706)	(10,923)	(29,483)
Exchange differences	(2,124)	(3,107)	(86)	(5,316)
Closing net book value	**169,203**	**115,016**	**15,019**	**299,237**
At December 31, 2016				
Cost or valuation	232,628	528,504	46,983	808,115
Accumulated depreciation, impairment and other adjustments	(63,426)	(413,488)	(31,964)	(508,877)
Closing net book value	**169,203**	**115,016**	**15,019**	**299,237**

During the twelve months ended December 31, 2016, the net book value of property, plant and equipment remained stable at just below €300 million.

Our capital expenditures for the period amounted to €36.5 million and comprised: €15.8 million of efficiency and growth capex, €12.7 million of maintenance capital expenditures and €8.0 million of samples. Of our total capital expenditures for the period, €14.9 million were incurred in our Rugs segment, €13.4 million were incurred in our Residential segment, €5.9 million were incurred in our Commercial segment, €0.7 million were incurred in our Non-woven segment and €1.6 million on Corporate level.

Exchange differences (€5.3 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.

Note 14. Goodwill

The net purchase price for the acquisition of Balta Finance 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. As part of the of purchase price allocation, Adjusted EBITDA was adversely affected by €25.7 million due to the fair value measurement (so-called fair value step-up) of the inventory. This non-cash impact has therefore been reversed in the 2015 cash flow statement.

The goodwill 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 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 of Balta Finance (€124.7 million) has been solely allocated to Rugs (€94.3 million) and Commercial (€30.4 million).

The impairment testing has been performed on September 30, 2016. 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.

Based on the comparison 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 September 30, 2016, the company has been able to demonstrate that 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% (2015: 2%) and an after-tax discount rate of 7.9% (2015: 7.9%). Cash flows were projected for the next three years and is based on the updated business plan prepared in 2016.

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.

Sensitivity analysis per CGU	**Decrease in growth rate**	**Increase in discount rate**
Rugs	2.4%	2.6%
Balta Broadloom	2.8%	3.1%
ITC	5.2%	5.8%
Commercial	17.0%	21.5%
Non-Woven	23.7%	32.7%

The relative small headroom for the Rugs division is a direct result of the acquisition of Balta Finance and is not driven by changes in the underlying business performance. As explained above, €94.3 million of goodwill has been allocated to the Rugs division.

Note 15. 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)	Successor 2016	Successor 2015
Deferred tax assets	**18,950**	**8,573**
Deferred tax assets to be reversed after more than 12 months	18,111	8,177
Deferred tax assets to be reversed within 12 months	839	396
Deferred tax liabilities	**(69,775)**	**(67,879)**
Deferred tax liabilities to be reversed after more than 12 months	(64,491)	(62,503)
Deferred tax liabilities to be reversed 12 months	(5,283)	(5,376)
Net deferred tax liabilities	**(50,825)**	**(59,306)**

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

(€ thousands)	Successor 2016	Combined 2015
January 1st	**(59,306)**	**(27,858)**
Impact Purchase Price Allocation		(35,113)
Income statement charge	7,727	4,520
Other comprehensive income	285	-
Exchange differences	469	(855)
December 31st	**(50,825)**	**(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 assets 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, 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	(283)	(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**
January 1, 2016	**9,416**	**4,859**	**2,867**	**1,903**	**1,612**	**683**	**1,044**	**22,384**
(Charged)/credited to the income statement	9,451	(474)	(956)		(22)	325	(987)	7,338
Other comprehensive income					285			285
Exchange differences	12							12
December 31, 2016	**18,879**	**4,385**	**1,911**	**1,903**	**1,875**	**1,007**	**57**	**30,018**

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, 2016, 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, 2016 total tax credits amounted to €453.6 million, resulting in a potential deferred tax asset of €151 million of which the Company only recognized €18.9 million in 2016. 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 in 2015 and 2016 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, 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)**
January 1, 2016	**(76,430)**	**(2,394)**	**(1,404)**	**(420)**	**(1,040)**	**(81,689)**
Charged/(credited) to the income statement	(1,636)	(388)	1,404	(31)	1,041	390
Exchange differences	457	-	-	-	-	457
December 31, 2016	**(77,610)**	**(2,782)**	**-**	**(451)**	**1**	**(80,843)**

In 2015, 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 €150.1 million as of December 31, 2016 (as compared to €160.8 million as of December 31, 2015).

Note 16. Inventories

The table below provides a breakdown of total inventories as of December 31, 2016 and 2015:

(€ thousands)	Successor December 31, 2016	Successor December 31, 2015
Total inventories	**135,320**	**129,438**
Raw materials and consumables	60,564	60,736
Work in progress	19,087	18,548
Finished goods	55,670	50,153

Inventories increased by €5.9 million as compared to December 31, 2015, mainly driven by an increase in the finished goods (€5.5 million). The raw materials and the work in progress remained relatively stable at respectively €60.6 and €19.1 million.

The sum of the raw material expenses and the changes in inventories recognized as expenses amount to €253.4 million for the twelve months ended December 31, 2016 (as compared to €287.1 million for the twelve months ended December 31, 2015).

Note 17. Derivative financial instruments

(€ thousands)	Successor December 31, 2016	Successor December 31, 2015
Derivative financial instruments (assets)	**46**	**786**
Foreign exchange forwards	46	273
Fixed price electricity purchase commitments as a result of the purchase price allocation		512
Derivative financial instruments (liabilities)	**162**	**-**
Foreign exchange forwards	162	-

In 2016, derivative financial instruments mainly comprise foreign exchange forwards related to GBP hedging. In 2015 it also comprised the fixed price electricity purchase commitments. The nominal principal amounts of

the outstanding forward foreign exchange derivative financial instruments at December 31,2016 amounted to €15.7 million for the inflows and €15.9 million to the outflows in comparison to December 31, 2015 where it 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 18. Trade and other receivables

(€ thousands)	Successor December 31, 2016	Successor December 31, 2015
Total Trade and other receivables	**55,068**	**46,634**
Trade and other receivables (non-current)	**138**	**91**
Other amounts receivable	138	91
Trade and other receivables (current)	**54,930**	**46,544**
Net trade receivables	41,325	32,892
Trade receivables	42,658	35,426
Less: Bad debt allowance	(1,333)	(2,535)
Prepayments and accrued income	1,945	1,124
Other amounts receivable	11,661	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, 2016 trade receivables that were past due amounted to €8.7 million compared to €8.2 million at December 31, 2015.

The group has one external customer, representing 12% of the Group's revenue.

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, 2016 and 2015 there are no significant receivables due more than 3 months for which no provision 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, 2016	Successor December 31, 2015
Total trade and other receivables	**55,068**	**46,634**
EUR	32,650	28,073
USD	9,723	6,097
GBP	2,352	3,105
TRY	10,344	9,359

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

(€ thousands)	Successor 2016	Combined 2015
Beginning of period (As at January 1)	**(2,535)**	**(2,483)**
Impairment loss recognized	(39)	(638)
Additional bad debt allowance recognized through PPA	-	(718)
Receivables written off during the year as uncollectible	761	1,174
Unused amounts reversed	479	120
Fx differences	-	10
End of period (As at December 31)	**(1,333)**	**(2,535)**

The creation and release of allowances for impaired receivables has been included in other income/expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no 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, 2016 the Group holds collateral (letters of credit and corporate or bank guarantees) for an amount of €0.3 million (as compared to €0.4 million as of December 31, 2015).

Note 19. Cash and cash equivalents

(€ thousands)	Successor December 31, 2016	Successor December 31, 2015
Total cash and cash equivalents	**45,988**	**45,462**
Cash at bank and on hands	38,553	36,586
Short-term bank deposits	2,035	2,933
Cash from local financing	5,400	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 23. The Group's assets which are pledged as security for the borrowings are described in Note 21.

Note 20. 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 21. Preferred Equity Certificates

In connection with the acquisition of Balta Finance, 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 at the end 2015 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 has been classified as a financial liability under IFRS per December 2015. 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 was measured at fair value through profit or loss. As of December 31, 2015, management believes that the cash consideration received was a reliable measure of fair value. This measure is a Level 3 estimate, as described in Note 25.

Immediately following December 31, 2015, the Subscriber and the Issuer discussed and agreed on changes to be made to the PEC agreement. The terms and conditions were formalized later in a separate agreement which came into effect on January 1, 2016. In this agreement, the parties have confirmed to amend the PEC agreement as follows:

- The Issuer has the option in its discretion to request the extension of the maturity date, each time for a period of one year;

- Upon the occurrence of a mandatory redemption trigger event, which is an event at the full discretion of the Issuer, the Issuer shall mandatorily redeem the then outstanding PECs for an amount equal to the sum of their relevant par value and any accrued and unpaid yield.

The amended and restated terms and conditions will become effective on and as from the earlier of (i) the date the Senior Secured Notes are repaid in full and (ii) the date any security interest over the PECs are irrevocable and unconditionally released (the "Effective Date"). Until the occurrence of the Effective Date, the PECs will remain subject to the original terms and conditions as outlined above.

Based on the separate agreement, the Company will have an unconditional right to avoid delivering cash to settle the PECs. Consequently, the contract no longer meets the definition of a financial liability under IFRS, but instead qualifies as an equity instrument. The financial liability has been extinguished on January 1, 2016 and the book value at this date has been recognized as an increase in the Company's equity.

Note 22. Senior Secured Notes

(€ thousands)	Successor December 31, 2016	Successor December 31, 2015
Total Senior Secured Notes	**283,510**	**283,690**
Non-Current portion	**279,277**	**276,826**
Of which: gross debt	290,000	290,000
Of which: capitalised financing fees	(10,723)	(13,174)
Current portion	**4,234**	**6,864**
Of which: gross debt	6,618	9,177
Of which: capitalised financing fees	(2,384)	(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 of Balta Finance. The Indenture is dated August 3, 2015 and the principal amount was released from the escrow account at Completion Date. The maturity date of the Senior Secured Notes is September 15, 2022.

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.

At the end of December 2015, accrued interest related to the period August 3, 2015 until December 31, 2015, i.e. five months, given that the first interest payment had not yet occurred. As from 2016, accrued interest at the end of December is lower given that interest accrues over a shorter period of time, namely from September 15 until December 31.

Costs related to the issuance of Senior Secured Notes have been included in the carrying amount and are 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 €13.1 million remain capitalized as of December 31, 2016 (as compared to €15.5 million on 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 23) 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 23. Bank and other borrowings

In 2015, a portion of the proceeds from the issuance of capital, preferred equity certificates and Senior Secured Notes were used to repay €160.5 million of the existing debt, 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 repayment in full of the debt outstanding under the Halkbank facility.

The table below provides an overview of the bank and other borrowings that continue to exist on December 31, 2015 and 2016.

(€ thousands)	Successor December 31, 2016	Successor December 31, 2015
Total Bank and other borrowings	**18,002**	**20,277**
Non-Current portion	**15,388**	**17,787**
Finance lease liabilities	15,388	17,787
Current portion	**2,614**	**2,490**
Bank borrowings	120	40
Finance lease liabilities	2,494	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; which was increased to €45 million in 2016. 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 €40.0 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, 2016 and 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.

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 to 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 24. Leases

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, 2016	Successor December 31, 2015
Net book value - Land and Buildings	**14,193**	**15,726**
Cost-Capitalised finance leases	18,412	18,412
Accumulated depreciation	(4,219)	(2,685)
Net book value – Plant and machinery	5,558	**5,888**
Cost-Capitalised finance leases	6,608	6,608
Accumulated depreciation	(1,050)	(720)
Net book value – Total leased Property, Plant & Equipment	**19,751**	**21,614**
Cost-Capitalised finance leases	25,020	25,020
Accumulated depreciation	(5,270)	(3,405)

The finance lease liabilities have decreased from €20.1 million as of December 31, 2015 to €17.8 million as of December 31, 2016. 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, 2016	Successor December 31, 2015
Gross finance lease liabilities – minimum lease payments	**20,293**	**23,142**
No later than 1 year	2,824	2,850
Later than 1 year and no later than 5 years	6,479	7,990
Later than 5 years	10,990	12,302

(€ thousands)	Successor December 31, 2016	Successor December 31, 2015
Total present value of finance lease liabilities	**17,787**	**20,136**
No later than 1 year	2,399	2,349
Later than 1 year and no later than 5 years	5,263	6,612
Later than 5 years	10,125	11,175

Operating leases

The Group leases various equipment, machinery and vehicles under operating lease agreements. The lease terms are between 3 and 12 years.

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

(€ thousands)	December 31, 2016	December 31, 2015
Total present value of operating lease commitments	**10,460**	**7,145**
No later than 1 year	3,358	2,360
Later than 1 year and no later than 5 years	5,595	4,785
Later than 5 years	1,507	-

Note 25. 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)	Fair value hierarchy	Successor December 31, 2016 Carrying amount	Successor December 31, 2016 Fair value	Successor December 31, 2015 Carrying amount	Successor December 31, 2015 Fair value
Assets as per statement of financial positions		**101,102**	**101,102**	**92,883**	**92,883**
Loans and receivables		**101,056**	**101,056**	**92,097**	**92,097**
Trade and other receivables		55,068	55,068	46,635	46,635
Cash and cash equivalents	Level 1	45,988	45,988	45,462	45,462
Assets at fair value through profit or loss		**-**	**-**	**786**	**786**
Foreign exchange derivative financial instruments	Level 2	-	-	273	273
Fixed price electricity purchase commitments	Level 2	-	-	512	512
Assets at fair value through OCI		**46**	**46**	**-**	**-**
Foreign exchange derivative financial instruments	Level 2	46	46	-	-
Liabilities as per statement of financial positions		**433,237**	**468,726**	**560,105**	**584,879**
Financial liabilities measured at amortised cost		**433,075**	**468,564**	**421,505**	**446,279**
Senior Secured Notes	Level 1	283,511	319,000	276,826	301,600
Bank and other borrowings	Level 2	120	120	40	40
Finance lease liabilities	Level 2	17,881	17,881	20,237	20,237
Trade and other payables		131,562	131,562	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
Financial liabilities measured at fair value through OCI		**162**	**162**	**-**	**-**
Foreign exchange derivative financial instruments	Level 2	162	162	-	-

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 110% as of December 31, 2016 (compared to a price of approximately 104% as of December 31, 2015).

The fair value of the PECs per December 31, 2015 has been determined using Level 3 estimates, see Note 2 and Note 21.

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 26. 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, 2016 Net Exposure	**(42,328)**	**(795)**	**5,028**	**7,589**	**(30,506)**
Trade and other receivables	32,650	2,352	9,723	10,344	55,068
Cash and cash equivalents	38,436	3,237	2,227	2,088	45,988
Trade and other payables	(113,414)	(6,384)	(6,922)	(4,843)	(131,562)
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)	2016	2015
GBP denominated	**(1,710)**	**(1,713)**
Changes in fair value of derivative financial instruments	(1,622)	(1,468)
Changes in carrying amount of monetary assets and liabilities	(88)	(245)
USD denominated	**712**	**221**
Changes in fair value of derivative financial instruments	153	-
Changes in carrying amount of monetary assets and liabilities	559	221
TRY denominated	**843**	**872**
Changes in fair value of derivative financial instruments	-	-
Changes in carrying amount of monetary assets and liabilities	843	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)	2016	2015
GBP denominated	**1,399**	**1,402**
Changes in fair value of derivative financial instruments	1,327	1,201
Changes in carrying amount of monetary assets and liabilities	72	200
USD denominated	**(582)**	**(181)**
Changes in fair value of derivative financial instruments	(125)	-
Changes in carrying amount of monetary assets and liabilities	(457)	(181)
TRY denominated	**(690)**	**(713)**
Changes in fair value of derivative financial instruments	-	-
Changes in carrying amount of monetary assets and liabilities	(690)	(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.

In 2016, raw material expenses represented 46.5% of the Company's revenue. The Company is generally able to pass on increases in the cost of its raw materials to its customers, and its customers, in turn, typically also request price decreases when the raw material costs decrease. As there is typically a time delay in the Company's ability to pass through raw materials price increase, changes in the cost of raw materials typically have a short-term impact on the Company's gross margin. However, the impact on its long term performance has been limited.

If the commodity prices of polypropylene and polyamide had been 10% higher (lower), profit after tax and equity would have been €4.0 million (prior year €4.1 million) lower (higher) in the absence of any mitigating actions taken by management. This impact has been determined by multiplying the volumes of both granulates and yarns purchased on an annual basis with a 10% variance on the average purchase price of polypropylene and polyamide for the year. The sensitivity calculation takes into account the time lag between purchasing polypropylene and polyamide and recognizing the raw material expenses against sales.

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. In 2016 all the hedging contracts have come to an end. The Company did not enter into any new hedging contracts in 2017.

Interest Rate Risk

Our interest rate risk principally relates to external indebtedness that bear interest at variable rates. Following the acquisition of Balta Finance 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 2015 and 2016. 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)	Successor December 31, 2016	Successor December 31, 2015
Total cash at bank and short-term bank deposits	**45,988**	**45,462**
A rating	42,493	41,623
BBB rating	3,495	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 cash flows from operations and our non-recourse factoring agreements. The principal financing arrangements that are in place at December 31, 2016 and per 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, 2016.

(€ 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, 2016	**(144,357)**	**(12,647)**	**(24,905)**	**(71,474)**	**(323,465)**
Senior Secured Notes	(11,238)	(11,238)	(22,475)	(67,425)	(312,475)
Finance lease liabilities	(1,414)	(1,409)	(2,430)	(4,049)	(10,990)
Trade and other payables	(131,562)	-	-	-	-
Gross settled derivative financial instruments – outflows	(15,925)	-	-	-	-
Gross settled derivative financial instruments –inflows	15,782	-	-	-	-

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.

(€ 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)**	**(532,252)**
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	-	-	-	-

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, 2016 Moody's	Successor December 31, 2016 S&P	Successor December 31, 2015 Moody's	Successor December 31, 2015 S&P
Long-term issue rating Senior Secured Notes	B2	B	B2	B
Corporate rating	B2	B	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.. 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 22 and Note 23 for further details.

Note 27. 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 0.62% in 2016 and 0.92% in 2015.

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 1.17. The liability was measured using a discount rate of 1.31% and 2.05% in 2016 and 2015, respectively. The annual pension cost, relating to the pension plan is disclosed in Note 7.

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

(€ thousands)	Successor December 31, 2016	Successor December 31, 2015
Total employee benefit obligations	**36,325**	**35,745**
Holiday pay	14,136	13,842
Social security taxes	7,365	8,033
Salaries and wages payable	5,137	5,000
Pension plans	3,008	2,026
Early retirement provision	2,699	2,807
Group insurance	557	550
Withholding taxes	886	
Other	2,538	3,486
Of which current portion	**31,246**	**31,554**
Of which non-current portion	**5,079**	**4,191**
Pension plans	2,815	1,932
Early retirement pension	2,071	2,164
Pension	193	94

Pension plans: overview

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 twice pensionable salary.

Several pension plans are in place for white collars and are financed through fixed employer contributions. In addition, as part of the bonus policy for members of management, a portion of the bonus is awarded via employer contributions to a pension plan scheme.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

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 1.17 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 December 31, 2016	Successor December 31, 2015
Discount rate	1.31%	2.05%
Retirement age	65 years	65 years
Mortality	MR/FR-5	MR/FR-5

Pension plans: reported figures

For the year ended December 31, 2016, the defined benefit obligation taking into account the tax effect amounts to €8.9 million (December 31, 2015: €8.9 million), offset by plan assets of €6.5 million (December 31, 2015: €6.4 million) as per December 31, 2016.

Note 28. Trade and other payables

Trade payables as of December 31, 2016 includes the amounts for outstanding invoices (€81 million as compared to €69 million as of December 31, 2015) and invoices to be received in relation to goods and services received during the current period (€16 million, as compared to €17 million as of December 31, 2015).

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 (€13 million as compared to €14 million as of December 31, 2015);
- Deferred revenue relating to advance payments on rental agreements (€4 million remained stable in 2016);
- Accrued charges for customer discounts (€16 million and €19 million as of December 31, 2015).

(€ thousands)	Successor December 31, 2016	Successor December 31, 2015
Trade and other payables	**131,562**	**124,404**
Trade payables	96,620	86,134
Accrued charges and deferred income	33,369	38,220
Other payables	1,573	49

The increase in the outstanding trade and other payables from €124.4 million as of December 31, 2015 to €131.6 million as of December 31, 2016 is driven by the increased amounts outstanding for trade payables, reflecting the increased inventory at the end of the year. This increase is partly offset by a decrease in accrued charges (€4.9 million or 12.8%), mainly due to decreased outstanding customer rebate accruals.

Note 29. Commitments

Energy

Our fixed price purchase commitments for electricity and gas, for deliveries in 2017, are equal to €11.5 million as of December 31, 2016 compared to an amount of €15.7 million as of December 31, 2015.

Raw material

Our fixed price purchase commitments for raw materials, for deliveries in 2017, are equal to €66 million as of December 31, 2016 compared to an amount of €94 million for deliveries in 2016 as of December 31, 2015.

Capital expenditures

As of December 31, 2016 €2.4 million capital commitments are outstanding compared to no material capital commitments as of December 31, 2015.

Note 30. 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 31. Events after the reporting date

On March 17, 2017, the Company has entered into an agreement to acquire Bentley Mills, Inc. ("Bentley"). Bentley is a leading provider of premium specified carpet tile and broadloom carpets for commercial interiors, subject to financing. Bentley is a leading player in the US premium commercial tiles and broadloom market serving diverse end markets with a balanced geographic mix across the US. Bentley has witnessed strong revenue growth over the last three years, complemented by EBITDA margin improvements driven by cost improvements and efficiencies, operational leverage and strategic repositioning.

Finally the Balta Group is strengthening its market position organically and is considering various opportunities in the M&A markets and the capital markets to finance its growth, which may include public or private equity or debt capital markets. However, other than with respect to the Bentley Mills acquisition, no definitive decision has been taken as to whether to proceed with any transaction.

Section III: Consolidated Financial Statements

III.1. Audit report

To the Shareholders of
LSF9 Balta Issuer S.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of LSF9 Balta Issuer S.A. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the related consolidated statement of comprehensive income, statement of changes in equity and 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 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 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.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Report on other legal and regulatory requirements

The management report is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 27 April 2017

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" or "Balta Issuer") and its subsidiaries (the "Group") with respect to the period ended on December 31, 2016.

History of the Company

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 of Balta Finance 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 2016, 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 of Balta Finance, including the repayment of existing indebtedness and payment of fees and expenses for the purpose of facilitating the Transaction.

In connection with the acquisition of Balta Finance, 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. The acquisition of Balta Finance 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 LSF9 Balta Investments for the acquisition of Balta Finance 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 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 for the year ended 31 December 2015 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 of Balta Finance 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 for the twelve months ended December 31, 2016, our revenue and Adjusted EBITDA reached €557.7 million and €81.4 million, a 0.2% and 7.8% increase, respectively, compared to the year ended December 31, 2015.

The increase in Adjusted EBITDA is mainly due to the continued growth of our rugs (in particular in North America), our commercial tiles division, and the successful introduction of higher margin products in our Residential division, which have partially offset the adverse impact of foreign exchange movements. Similarly, we have successfully defended our pricing levels to retain the benefits from benign 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	Successor (f) Twelve months ended December 31, 2016
Revenue	194,777	-	194,777	362,045	556,822	557,685
Employee benefit expenses	(45,391)	-	(45,391)	(83,124)	(128,515)	(130,054)
Other income / (expenses)	(29,123)	-	(29,123)	(62,332)	(91,455)	(92,846)
Adjusted EBITDA	**1,305**	**25,695**	**27,000**	**48,467**	**75,467**	**81,367**
Depreciation / amortization	(8,014)	-	(8,014)	(16,084)	(24,098)	(28,666)
Adjusted Operating profit	**(6,709)**	**25,695**	**18,986**	**32,383**	**51,369**	**52,701**
Non-recurring expenses	(10,396)	-	(10,396)	(23,291)	(33,687)	(3,518)
Impairment and write-off	-	-	-	-	-	
Operating profit/(loss)	**(17,105)**	**25,695**	**8,590**	**9,092**	**17,682**	**49,183**
Net finance expenses	**(9,495)**	**-**	**(9,495)**	**(28,967)**	**(38,462)**	**(28,552)**
Profit / (loss) before income taxes	**(26,600)**	**25,695**	**(905)**	**(19,875)**	**(20,780)**	**20,632**
Income tax benefit / (expense)	4,606	(9,637)	(5,031)	(1,657)	(6,688)	4,713
Profit / (loss) for the period	**(21,995)**	**16,058**	**(5,936)**	**(21,532)**	**(27,468)**	**25,345**

(a) stand-alone results of LSF9 Balta Issuer S.A. and LSF9 Balta Investments S.à r.l. 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 LSF9 Balta Issuer S.A. and LSF9 Balta Investments S.à r.l. 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 of Balta Finance, 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 Issuer S.à r.l. at the end of 2016.

The net debt as of December 31, 2016 is equal to €268.5 million representing 3.3x Adjusted EBITDA compared to respectively €274.0 million and 3.6x per December 31, 2015. This definition of net debt includes the capital and accrued interest outstanding under the Senior Secured Notes (€290 million capital and €6.6

million accrued interest) and financial leasing debt (€17.9 million), less cash and cash equivalents (€46.0 million). For the year ended December 31, 2015 the net debt included the capital and accrued interest outstanding under the Senior Secured Notes (€290 million and €9.2 million) 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 and consume 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 25 of the consolidated financial statements.

Environmental and personnel matters

In 2016, the Group employed an average of 3,238 employees (expressed in full-time equivalents) compared to 3,233 per 2015. 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 €5.5 million of research and development expenses during the 12 months ended in December 31, 2016 compared to the €1.7 million of research and development expenses during the 4 months ended in December 31, 2015 which are included in the income statement as other expenses.

Important events which occurred after the end of the year

On March 17, 2017, the Company has entered into an agreement to acquire Bentley Mills, Inc. ("Bentley"). Bentley is a leading provider of premium specified carpet tile and broadloom carpets for commercial interiors. Bentley is a leading player in the US premium commercial tiles and broadloom market serving diverse end markets with a balanced geographic mix across the US. Bentley has witnessed strong revenue growth over the last three years, complemented by EBITDA margin improvements driven by cost improvements and efficiencies, operational leverage and strategic repositioning. The acquisition was completed on March 22, 2017, via the closing of a €75 million senior term loan facility. Thanks to this acquisition, pro forma revenue

and Adjusted EBITDA in 2016 would have been €668.3 million and €97.4 million, respectively. On a pro forma basis for the incurrence of the senior term loan and the acquisition of Bentley, the Company's net debt as of 31 December 2016 would be approximately €385 million.

Finally the Balta Group is strengthening its market position organically and is considering various opportunities in the M&A markets and the capital markets to finance its growth, which may include public or private equity or debt capital markets. However, other than with respect to the Bentley Mills acquisition, no definitive decision has been taken as to whether to proceed with any transaction.

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 27, 2017. 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 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: April 26, 2016
End of mandate: June 4, 2021

Michael Kolbeck
Director
Start of mandate: April 26, 2016
End of mandate: June 4, 2021

João Carlos Fernandes da Silva Loureiro
Director
Start of mandate: February 10, 2017
End of mandate: June 3, 2022

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

Philippe Detournay
Director
Start of mandate: June 22, 2015
End of mandate: July 13, 2016

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

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

(€ thousands)	Note	Period ended December 31, 2016	Period ended December 31, 2015
I. CONSOLIDATED INCOME STATEMENT			
Revenue	Note 3	557,685	194,777
Raw material expenses		(259,472)	(102,817)
Changes in inventories		6,055	(16,140)
Employee benefit expenses[2]	Note 5	(130,054)	(45,391)
Other income	Note 6	8,171	4,005
Other expenses	Note 6	(101,017)	(33,128)
Depreciation / amortization	Note 7	(28,666)	(8,014)
Adjusted Operating Profit[1]		**52,701**	**(6,709)**
Gains on asset disposals		1,610	-
Integration and restructuring expenses	Note 8	(5,128)	(10,396)
Operating profit/(loss) [1]		**49,183**	**(17,105)**
Finance income		57	-
Finance expenses	Note 9	(28,608)	(9,495)
Net finance expenses		**(28,552)**	**(9,495)**
Profit / (loss) before income taxes		**20,632**	**(26,600)**
Income tax benefit / (expense)	Note 10	4,713	4,606
Profit / (loss) for the period from continuing operations		**25,345**	**(21,995)**
Profit / (loss) for the period from discontinued operations		-	-
Profit / (loss) for the period		**25,345**	**(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		(8,013)	720
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting		(116)	
Items in other comprehensive income that will not be reclassified to P&L			
Changes in deferred taxes		285	(432)
Changes in employee defined benefit obligations		(882)	1,375
Other comprehensive income for the period, net of tax		**(8,727)**	**1,664**
Total comprehensive income for the period		**16,618**	**(20,331)**
Basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the company	Note 32	**1.5**	**(1.3)**

(1) Adjusted Operating Profit / Operating profit/(loss) are non-GAAP measures as defined in Note 1.23.

(2) In order to provide more relevant information, payroll tax incentives for the twelve months ended December 31, 2015 amounting to €1.6 million have been restated from other income to employee benefit expenses. The same approach has been applied for the twelve months ended December 31, 2016 (the equivalent amount is equal to €5.4 million) and will be presented as such consistent over time going forward.

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

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

(€ thousands)	Note	As of December 31 2016	As of December 31 2015
Property, plant and equipment			
Land and buildings	Note 12	169,203	175,734
Plant and machinery	Note 12	115,016	108,584
Other fixtures and fittings, tools and equipment	Note 12	15,019	15,012
Goodwill	Note 4	124,673	124,673
Intangible assets	Note 11	2,376	1,667
Deferred income tax assets	Note 13	18,950	8,573
Trade and other receivables	Note 15	138	91
Total non-current assets		**445,375**	**434,334**
Inventories	Note 14	135,320	129,438
Derivative financial instruments	Note 24	46	786
Trade and other receivables	Note 15	54,930	46,544
Current income tax assets		34	28
Cash and cash equivalents	Note 16	45,988	45,462
Total current assets		**236,318**	**222,257**
Total assets		**681,693**	**656,590**
Share capital	Note 17	171	171
Share premium	Note 17	1,260	1,260
Preferred equity certificates	Note 20	138,600	-
Other comprehensive income	Note 18	(7,063)	1,664
Retained earnings and other reserves	Note 19	3,351	(21,995)
Total equity		**136,319**	**(18,900)**
Preferred Equity Certificates	Note 20	-	138,600
Senior Secured Notes	Note 21	279,277	276,826
Bank and Other Borrowings	Note 22	15,388	17,787
Deferred income tax liabilities	Note 13	69,775	67,879
Employee benefit obligations	Note 26	5,079	4,191
Total non-current liabilities		**369,519**	**505,283**
Senior Secured Notes	Note 21	4,234	6,864
Bank and Other Borrowings	Note 22	2,614	2,490
Employee benefit obligations	Note 26	31,246	31,554
Provisions for other liabilities and charges	Note 27	64	64
Derivative financial instruments	Note 24	162	-
Trade and other payables	Note 28	131,562	124,404
Income tax liabilities		5,974	4,831
Total current liabilities		**175,856**	**170,207**
Total liabilities		**545,374**	**675,490**
Total equity and liabilities		**681,693**	**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

	Note	Period ended December 31, 2016	Period ended December 31, 2015
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit / (loss) for the period		**25,345**	**(21,995)**
Adjustments for:			
Income tax expense / (income)	Note 10	(4,713)	(4,606)
Finance income		(57)	
Finance expense	Note 9	28,608	9,495
Depreciation, amortisation	Note 7	28,666	8,014
(Gain)/loss on disposal of non-current assets		(1,610)	-
Movement in provisions and deferred revenue			4,338
Fair value of derivatives	Note 24	786	87
Non-cash impact of Purchase Price Allocation	Note 4	-	25,695
Cash generated before changes in working capital		**77,025**	**21,028**
Changes in working capital:			
Inventories		(5,883)	8,803
Trade receivables		(8,433)	(2,241)
Trade payables		10,485	(3,413)
Other working capital		(5,459)	16,928
Cash generated after changes in working capital		**67,735**	**41,106**
Net income tax (paid)		(1,478)	(532)
Net cash generated / (used) by operating activities		**66,257**	**40,575**
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition & disposal of property, plant and equipment		(36,483)	(14,571)
Acquisition of intangibles		(1,494)	-
Proceeds from non-current assets		2,408	
Acquisition of subsidiary	Note 4		(272,838)
Net cash from business combinations			40,656
Net cash used by investing activities		**(35,569)**	**(246,754)**
CASH FLOW FROM FINANCING ACTIVITIES			
Interest and other finance charges paid, net		(27,814)	(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	(2,349)	(160,505)
Payment of debt financing costs	Note 21	-	(16,442)
Net cash generated / (used) by financing activities		**(30,163)**	**251,641**
NET INCREASE / (DECREASE) IN CASH AND BANK OVERDRAFTS		**526**	**45,462**
Cash, cash equivalents and bank overdrafts at the beginning of the period		45,462	-
Cash, cash equivalents and bank overdrafts at the end of the period	Note 16	45,988	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, 2016

(€ thousands)	Share capital	Share premium	PECs	Other comprehensive income (Note 18)	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
Cumulative 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)**

(€ thousands)	Share capital	Share premium	PECs	Other comprehensive income (Note 18)	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2016	**171**	**1,260**	**-**	**1,664**	**(21,995)**	**(18,900)**	**-**	**(18,900)**
Recognition of PECs as equity instrument			138,600			138,600		138,600
Profit / (loss) for the period	-	-		-	25,345	25,345	-	25,345
Other comprehensive income	-	-		-	-	-	-	-
Exchange differences on translating foreign operations				(8,013)		(8,013)		(8,013)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting				(116)		(116)		(116)
Cumulative changes in deferred taxes				285		285		285
Cumulative changes in employee defined benefit obligations	-	-		(882)	-	(882)	-	(882)
Total comprehensive income for the period	**-**	**-**		**(8,727)**	**25,345**	**16,618**	**-**	**16,618**
Balance at December 31, 2016	**171**	**1,260**	**138,600**	**(7,063)**	**3,351**	**136,319**	**-**	**136,319**

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"), registered at Rue du Puits Romain, 33, L-8070 Bertrange (R.C.S. Luxembourg: B198084), and its subsidiaries ("the Group") have been prepared 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, 2016.

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.

These financial statements cover a 12 months period starting from January 1, 2016 and ending December 31, 2016. The comparative year covers the stand-alone results of LSF9 Balta Issuer S.A. and LSF9 Balta Investments from their date of incorporation, June 22, 2015 and June 10, 2015, respectively, until the end of December 31, 2015 and the consolidated results of Balta Finance S.à r.l. as from August 11, 2015 until the end of December 31, 2015.

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 2016. These have not had an impact on the 2016 financial statements of the Company.

- Amendments to IAS 1 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2016. The amendments to IAS 1 are part of the initiative of the IASB to improve presentation and disclosure in financial reports and are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. The amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

- Amendment to IAS 19, 'Employee benefits', on defined benefit plans (effective 1 July 2014 and endorsed for 1 February 2015). These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the

accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

- Annual improvements 2010-2012 (effective 1 July 2014 and endorsed for 1 February 2015). These amendments include changes from the 2010-12 cycle of the annual improvements project, that affect 7 standards: IFRS 2, 'Share-based payment', IFRS 3, 'Business Combinations', IFRS 8, 'Operating segments', IFRS 13, 'Fair value measurement', IAS 16, 'Property, plant and equipment', and IAS 38, 'Intangible assets', Consequential amendments to IFRS 9, 'Financial instruments', IAS 37, 'Provisions, contingent liabilities and contingent assets', and IAS 39, Financial instruments – Recognition and measurement'.

- Annual improvements 2012-2014 (effective and endorsed for 1 January 2016). These set of amendments impacts 4 standards: IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal; IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts; IAS 19, 'Employee benefits' regarding discount rates; IAS 34, 'Interim financial reporting' regarding disclosure of information.

- Amendments to IFRS 10 'Consolidated financial statements', IFRS 12 'Disclosure of interests in other entities' and IAS 28, 'Investments in associates and joint ventures', effective for annual periods beginning on or after 1 January 2016. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

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 2016 and have 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, de-recognition of financial assets and financial liabilities and general hedge accounting. On the classification and measurement the Company's current assessment did not indicate any material impact. IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables either on a 12-month or lifetime basis. While the Group has not yet undertaken a detailed assessment of how its provisions would be affected by the new model, it may result in an earlier recognition of credit losses. Nevertheless the Group does not expect any material impact since it uses credit insurances as a means to transfer credit risk related to trade receivables and the historic default rates for 2015 and 2016 are not exceeding 0,1 % for 2015 and 2016 (Note 15). Moreover there are no significant receivables due more than 3 months for which no provision has been set up (Note 15). Finally currently the Group is only applying limited cash flow hedging for expected cash flows (Note 18). No significant changes are expected under IFRS 9 for the current cash flow hedge documentation and accounting treatment.

- IFRS 15 'Revenue from contracts with customers'. Companies using IFRS will be required to apply the revenue standard for annual periods beginning on or after 1 January 2018. IFRS 15 specifies how and when revenue is recognized and is prescribing relevant disclosures. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and a number of revenue related interpretations. The new standard provides a single, principles-based five-step model to be applied to all contracts with customers. Furthermore, it provides new guidance on whether revenue should be recognized at a point in time or over time.

  The revenue is currently recognized when the goods are delivered which is the point in time at which the customer accepts the goods and the related legal title, i.e. when risks and rewards of the ownership are transferred. Revenue is only recognized at this moment after other requirements are also met, such as, no continuing management involvement with goods, revenue and costs can be reliably measured and probable recovery of the considerations. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. Based on the initial assessment, the Company did not identify material differences between the transfer of control and the current transfer of risk and rewards. As

such, at this stage the Company does not anticipate material difference in the timing of revenue recognition for the sale of products.
Volume discounts and rebates are currently accrued over the year based on the sales realized per customer and taking into account the expected yearly volumes per customer. There are no any other significant incremental contract costs. Consequently the Company does not expect any material impact under IFRS 15. In general the Group has not any material contracts that include separate performance obligations nor any special transactions such as consignment, bill and hold arrangements, warranty programs, upfront payments or any third party involvement

The following new standards, amendments and interpretation to standards have been issued, but are not mandatory for the first time for the financial year beginning 1 January 2016 and have not been endorsed by the European Union:

- IFRS 16 ’Leases’. This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We refer to Note 23 in which we provide a summary of the lease commitments of the Company. The total present value of operating lease commitments as of December 31, 2016 is equal to €10.5 million and hence represents the maximum liability that could be recognized upon the implementation of IFRS 16.

- Amendments to IAS 12,'Income taxes' on Recognition of deferred tax assets for unrealized losses (effective 1 January 2017). These amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

- Amendments to IAS 7, 'Statement of cash flows' (effective 1 January 2017). These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

- Amendments to IFRS 15, 'Revenue from contracts with customers' - Clarifications (effective 1 January 2018). These amendments compromise clarification guidance on identifying performance obligations, accounting for licenses of intellectual property and the principle versus agent assessment. The amendment also includes more illustrative examples.

- Amendments to IFRS 2, 'Share-based payments' (effective 1 January 2018): The amendment clarifies the measurement basis for cash-settled payments and the accounting for modifications that change an award from cash settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay the amount to the tax authorities.

- Annual improvements 2014-2016 applicable to three standards of which changes on IFRS 1 et IAS 28 are applicable as of 1 January 2018 and changes on IFRS 12 are applicable as of 1 January 2017. These set of amendments impacts 3 standards: IFRS 1,’ First-time adoption of IFRS’, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10; IFRS 12,’Disclosure of interests in other entities’ regarding clarification of the scope of the standard (these amendments should be applied retrospectively for annual periods beginning on or after 1

January 2017) and IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value.

- IFRIC 22, 'Foreign currency transactions and advance consideration' (effective 1 January 2018). 'This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

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.

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 is recognized as goodwill. 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.

Segment reporting

Note 3 provides the Company's segment information, in line with IFRS 8. The Company operates its business through four segments, which are organized by product and sales channel. The Rugs segment designs, manufactures and distributes a broad range of machine-made rugs to major retailers (such as home improvement, furniture, specialist, discount and DIY stores) and wholesalers. The Residential segment designs, manufactures and distributes branded broadloom carpets (*Balta Broadloom* and *ITC* brands) and tiles to major retailers and wholesalers. The Commercial segment designs, manufactures and distributes modular

carpet tiles mainly for offices and public projects through the Company's *modulyss* brand and broadloom carpets mainly for the hospitality sector through its *arc edition* brand to architects, designers, contractors and distributors. Finally, the Non-Woven segment designs, manufactures and distributes soft flooring for events such as fairs and expositions and specialized fabrics for insulation, lining, cars, carpet backing and banners through its *Captiqs* brand.

Operating segments are reported in a manner consistent with the internal reporting provided to the Board and the Management Committee. Items that are provided on a monthly basis to the Management Committee are revenues, Adjusted EBITDA, net inventory, accounts receivable and inventory. The segment information provided in Note 3 has been selected on this basis. It follows that other items such as total assets and liabilities per segment are not reviewed internally and hence not disclosed. Interest income, interest expense and taxes are managed centrally and accordingly such items are not presented by segment as they are excluded from the measure of segment profitability.

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 income statement within "Finance income and expense". All other foreign exchange gains and losses are presented in the income statement within "Other income" or "Other expenses" which is part of the operating profit.

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

	December 31, 2016		December 31, 2015	
	Closing	Average	Closing	Average
USD	1.0541	1.1069	1.0887	1.1094
TRY	3.7099	3.3375	3.1776	3.0187
GBP	0.8562	0.8195	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 income statement 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 income statement as part of the gain or loss on sale.

Foreign exchange gains and losses that relate to borrowings and transactions between group companies in a different currency compared to the functional currency, are presented in the income statement 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 income statement 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 income statement.

Note 1.5. Intangible assets

Goodwill

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. 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 a cash generating unit include the carrying amount of goodwill relating to the cash generating unit sold.

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 4 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.

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.

Note 1.7. 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 income statement 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.

Cash flow hedge accounting has been initiated on June 1, 2016. Derivative financial instruments used to hedge the exposure to variability in future cash flows are designated as hedges under cash-flow hedge accounting. Changes in fair value of the forward contracts before this date have been recorded directly in P&L before June 1, 2016. The effective portion of changes in fair value as from the designation date of the cash flow hedge are recorded in the cash flow hedge reserve, part of other comprehensive income. Amounts recorded in the cash flow hedge reserve will be recognized in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement. This coincides with the settlement date of the forward contracts

When the underlying hedged transactions do no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs.

When the underlying hedged transaction is no longer expected to occur, the cumulative gains or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective shall be reclassified from equity to profit or loss as a reclassification adjustment.

Note 1.8. 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.

Note 1.9. 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 1.10. 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 1.11. 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 1.12. 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 income statement 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 income statement on a straight-line basis over the expected useful lives of the related assets.

Note 1.13. 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 1.14. 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.

Note 1.15. 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 income statement over the period of the borrowings using the effective interest method.

Note 1.16. 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 income statement.

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 1.17. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, 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 1.18. 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 (1.75% per December 31, 2016 and per December 31, 2015) 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 Projected Unit Credit (PUC) method has been used as the actuarial technique to measure the defined benefit obligation whereby the fair value of the plan assets are considered to be equal to the mathematical reserves of the insurance contract. The method is simplified because we only take into account existing contributions made by the employer and employee. 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. 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.

Bonus plans

Bonuses received by company employees and management are based on pre-defined company and individual target achievement. The estimated amount of the bonus is recognized as an expense in the period the bonus is earned.

Note 1.19. 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 for rebates and discounts 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 1.20. 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 income statement 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 income statement 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 1.21. 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 1.22. 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 1.23. Non-GAAP measures

Operating Profit (Loss), Adjusted Operating Profit (Loss), Adjusted EBITDA and Adjusted EBITDA Margin are measures utilized by the Group to demonstrate the Group's underlying performance.

Operating Profit (Loss) is calculated as profit (loss) for the period from continuing operations, adjusted for income tax benefits (expenses), finance income and finance expenses.

Adjusted Operating Profit (Loss) is calculated as Operating Profit (Loss) adjusted for gains from disposal of assets and integration and restructuring expenses.

Adjusted EBITDA is calculated as Adjusted Operating Profit (Loss) adjusted for depreciation and amortization charges.

Adjusted EBITDA margin calculated as Adjusted EBITDA 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 4.

Fair value estimate of preferred equity certificates

In 2015 the acquisition of Balta Finance has been partially funded through Preferred Equity Certificates (PECs). The PECs have been subscribed to by LSF9 Balta Midco S.à r.l.. 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 has been classified as a financial liability under IFRS per December 31, 2015. 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.

Immediately following December 31, 2015, the Subscriber and the Issuer discussed and agreed on changes to be made to the PEC agreement. These changes are describe in Note 20.

Based on the separate agreement, the Company will have an unconditional right to avoid delivering cash to settle the PECs. Consequently, the contract no longer meets the definition of a financial liability under IFRS, but instead qualifies as an equity instrument. The financial liability has been extinguished on January 1, 2016 and the book value at this date has been recognized as an increase in the Company's equity.

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.

Brexit

The United Kingdom held a referendum on June 23, 2016, to determine whether the United Kingdom should leave the European Union (the "EU") or remain as a member state, and the outcome of that referendum was in favor of leaving the EU (commonly referred to as "Brexit"). The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to EU markets, and, while such impacts are difficult to predict, Belgian exports may be negatively affected. In the year ended December 31, 2016, our sales in the United Kingdom represented €148.6 million, or 26.6% of our revenue, mainly comprised of sales in our Residential segment. Any reduction in consumers' willingness or ability to spend due to Brexit-related changes in the economic environments of the United Kingdom and Europe could materially affect our revenue. In addition, lack of clarity about future UK laws and regulations as the United Kingdom determines which EU laws to replace or replicate in the event of a withdrawal may increase costs associated with operating in either or both of the United Kingdom and Europe

Note 3. Segment Reporting

Segment information is presented in respect of the Company's business segments as defined earlier. The performances of the segments is reviewed by the chief operating decision maker, which is the Management Committee.

(€ thousands)	2016	2015
Revenue by segment	**557,685**	**194,778**
Rugs	214,545	73,664
Residential	236,758	84,797
Commercial	80,050	27,101
Non Woven	26,332	9,216
Revenue by geography	**557,685**	**194,778**
Europe	429,580	158,248
North America	73,843	20,900
Rest of World	54,262	15,630
Adjusted EBITDA by segment	**81,367**	**n.a.**
Rugs	37,969	n.a.
Residential	28,411	n.a.
Commercial	12,067	n.a.
Non Woven	2,920	n.a.
Capital expenditure by segment	**35,569**	**14,572**
Rugs	16,119	6,554
Residential	12,460	5,687
Commercial	6,259	2,085
Non Woven	732	246
Net inventory by segment	**135,320**	**129,439**
Rugs	63,642	56,794
Residential	52,718	53,577
Commercial	15,346	15,608
Non Woven	3,614	3,460
Trade receivables by segment	**41,326**	**32,892**
Rugs	17,263	11,846
Residential	16,502	14,443
Commercial	6,149	5,623
Non Woven	1,411	980

Given the international sales footprint of the Company, 98% of revenue is realized outside Belgium, with sales in Belgium being equal to €12.5 million in 2016. The group has one customer representing 12% of the Group's revenue in 2016.

As of December 31, 2016, non-current assets amount to €445 million, of which €275 million is located in Belgium (mainly factories) and €170 million outside Belgium (mainly Turkey, and to a lesser extent the US).

Note 4. Goodwill

The net purchase price for the acquisition of Balta Finance 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. As part of the of purchase price allocation, Adjusted EBITDA was adversely affected by €25.7 million due to the fair value measurement (so-called fair value step-up) of the inventory. This non-cash impact has therefore been reversed in the 2015 cash flow statement.

The goodwill 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 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 of Balta Finance (€124.7 million) has been solely allocated to Rugs (€94.3 million) and Commercial (€30.4 million).

The impairment testing has been performed on September 30, 2016. 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.

Based on the comparison 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 September 30, 2016, the company has been able to demonstrate that 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% (2015: 2%) and an after-tax discount rate of 7.9% (2015: 7.9%). Cash flows were projected for the next three years and is based on the updated business plan prepared in 2016.

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.

Sensitivity analysis per CGU	Decrease in growth rate	Increase in discount rate
Rugs	2.4%	2.6%
Balta Broadloom	2.8%	3.1%
ITC	5.2%	5.8%
Commercial	17.0%	21.5%
Non-Woven	23.7%	32.7%

The relative small headroom for the Rugs division is a direct result of the acquisition of Balta Finance and is not driven by changes in the underlying business performance. As explained above, €94.3 million of goodwill has been allocated to the Rugs division.

Note 5. Employee benefit expenses

(€ thousands)	2016	2015
Total employee benefit expenses	**130,054**	**45,391**
Wages and salaries	92,289	34,257
Social security costs	29,974	8,705
Pension costs	1,603	396
Other employee benefit expenses	6,188	2,033

The Company can benefit from partial exemption of payment of withholding tax due on wages paid to workers in team or nights 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. In 2015, €1.6 million of such incentives were presented as part of the "other income". For 2016, the equivalent amount is equal to €5.4 million and has been deducted from employee benefit expenses. As the reclassification from other income to employee benefit expenses provides more reliable and relevant information for the Group, the change has been adjusted retrospectively for 2015 (in deduction of the employee benefit expenses instead as other income).

The average number of employees in 2016 and 2015 was equal to 3,238 (in full time equivalents) and 3,233 respectively. Part-time employees are included on a proportionate basis.

	2016	2015
Average number of total employees	**3,238**	**3,233**
Average number of employees – blue collar	2,694	2,698
Average number of employees – white collar	544	535

Note 6. Other income and expenses

(€ thousands)	2016	2015
Other income	**8,171**	**4,005**
Foreign exchange gains	3,800	1,543
Rental income from solar rooftop installations	1,410	626
Grants	602	-
Recharge of costs	755	598
Other	1,603	1,238
Other expenses	**101,017**	**33,128**
Services and other goods	67,772	21,238
Selling expenses	28,824	11,261
Foreign exchange losses	2,253	153
Real estate tax	2,156	-
Other	12	477

The note with respect to other income of 2015 has been restated due to change in accounting policy of the payroll tax incentive (see note 5).

Other income comprises rental payments received from renting certain rooftops to a solar development company. Other income also comprises grants for an amount of €0.6 million where for the last four months of 2015 no grants were received.

Some costs can be recharged to external parties for which the income was presented under other income. The residual component of other income mainly relates to the de-recognition of old credit notes in relation to commercial settlements.

The main component of other expenses is services and other goods. This mainly comprises electricity and gas, maintenance and repair and interim blue collars. Selling expenses mainly comprise freight and commissions.

For real estate tax IFRIC 21 was applied, which requires representation of real estate tax at the beginning of the period. This explains the presence of a real estate tax in 2016 and not in 2015. Only the latest four months

are presented in 2015 through the income statement. The real estate tax was already included in the acquisition balance without affecting the income statement.

Note 7. Depreciation / amortization

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

(€ thousands)	2016	2015
Depreciation / amortization	**28,666**	**8,014**
Amortization of intangible assets	785	147
Depreciation property, plant and equipment	29,276	8,332
Release deferred revenue sale & leaseback	(1,395)	(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 on a straight line basis over a 12 year period as partial offset to depreciation charges over the period of the lease. The annual amount recognized in the income statement is €1.4 million, with the balance of deferred income equal to €12.9 million as at December 31, 2016.

Note 8. Integration and restructuring expenses

The total integration and restructuring expenses incurred in 2016 amount to €5.1 million (2015: €10.4 million). This comprises various items which are considered by management as non-recurring or unusual by nature.

(€ thousands)	2016	2015
Integration and restructuring expenses	**5,128**	**10,396**
Corporate restructuring	1,920	196
Business restructuring	670	-
Acquisition related expenses	-	8,908
Idle IT costs	703	-
Strategic advisory services	1,324	1,060
Other	496	231

Corporate restructuring: In 2016, the Company incurred costs in relation to changes in the senior management team. A minor amount of these costs were already incurred in 2015 at the time the executive search was initiated.

Business restructuring: In 2016, the Company paid a fee to terminate and agency agreement in the UK, as part of the strategy to further develop our modulyss brand in Europe through a direct sales approach. In addition, given the minor share of wool in our raw material mix, the decision was taken to close the wool spinning department and, going forward, to buy wool yarns from third party suppliers.

Acquisition related expenses: In 2015, the Company incurred €8.9 million non-recurring expenses in relation to the acquisition of Balta Finance.

Idle IT costs: in 2016, the Company incurred €0.7 million incremental IT costs in relation to a legacy IT system used for a limited number of activities within the Group. The legacy system triggers incremental costs for extended licenses and premium vendor support assistance given that the original support timeline has been surpassed. These incremental costs are temporary only given that the Company has started a project to migrate the legacy system to the new platform already used by the majority of business activities elsewhere in the Group.

Strategic advisory services: in 2015, following the acquisition of Balta Finance, €1.1 million of expenses were incurred in relation to a strategic review performed to determine the strategy of the Company going forward.

Note 9. Finance expenses

(€ thousands)	2016	2015
Total finance expenses	**28,608**	**9,495**
Interest expense on Senior secured notes	24,897	10,132
Interest expense on Bank borrowings (including leasing)	504	376
Other finance costs	2,244	879
Foreign exchange result on intercompany transactions	962	(1,891)

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 21 and Note 22 for a description of these facilities. Other finance costs mainly relate to factoring and forfaiting fees and other bank related charges. The effective interest expense of the Senior Secured Notes comprises a cash interest of €22.5 million (€9.2 million in 2015) and the amortization of capitalized financing fees of €2.4 million (€1.0 million in 2015).

Note 10. Income tax benefit / expense

(€ thousands)	2016	2015
Income tax benefit / (expense)	**4,713**	**4,606**
Current tax	(3,014)	(803)
Deferred tax	7,727	5,409

Income taxes represent a 'benefit' in both 2016 and 2015, driven by the net positive deferred tax income. In 2015, the latter was driven by the net loss of the period whilst in 2016 this is driven by the recognition of a deferred tax asset of €10.8 million in relation to tax credits for which the recognition criteria were previously not met.

(€ thousands)	2016	2015
Income tax benefit / expense	**4,713**	**4,606**
Income tax calculated at Luxembourg tax rate (31.47%)	(6,495)	8,371
Rate differential due to transactions with Belgium, Turkey and US	1,000	487
Tax-exempted revenues	323	1,994
Deferred tax assets recognised	10,789	1,907
Utilization of previously not recognized tax assets	3,153	397
Tax losses for which no deferred tax asset is recognized	(2,878)	(8,074)
Disallowed expenses	(730)	(197)
Other	(449)	(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 and 2016, 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 have not been recognized, as it is not probable that taxable profit will be generated to offset those losses.

Note 11. 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**
Opening net book value	**534**	**1,132**	**1,667**
Additions	829	665	1,494
Transfers (1)	15	(15)	-
Amortisation charge	(257)	(528)	(785)
Closing net book value	**1,121**	**1,255**	**2,376**
At December 31, 2016			
Cost or valuation	5,206	8,080	13,286
Accumulated amortisation, impairment and other adjustments	(4,085)	(6,825)	(10,910)
Closing net book value	**1,121**	**1,255**	**2,376**

(1) The transfer of € 15 thousands consists of €676 thousands costs or valuation and €661 thousands accumulated deprecations

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 total amortization expense of €0.8 million (€0.2 million for the 4 months period ended in 2015) is included in the line "Depreciation, amortization and impairment" in the income statement.

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**
Opening net book value	**175,734**	**108,584**	**15,012**	**299,332**
Additions	1,446	23,787	11,249	36,483
Disposals	-	(1,543)	(234)	(1,777)
Depreciation charge	(5,854)	(12,706)	(10,923)	(29,483)
Exchange differences	(2,124)	(3,107)	(86)	(5,316)
Closing net book value	**169,203**	**115,016**	**15,019**	**299,237**
At December 31, 2016				
Cost or valuation	232,628	528,504	46,983	808,115
Accumulated depreciation, impairment and other adjustments	(63,426)	(413,488)	(31,964)	(508,877)
Closing net book value	**169,203**	**115,016**	**15,019**	**299,237**

A total of €36.5 million (€13.5 million for 4 months period in 2015) has been invested, in particular in plant and machinery.

The total depreciation expense of €29.5 million (€8.3 million for 4 months period ended in 2015) has been charged in the line "Depreciation, amortization and impairment" in the income statement.

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

Exchange differences (2016: €5.3 million and 2015: €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.

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)	2016	2015
Deferred tax assets	**18,950**	**8,573**
Deferred tax assets to be reversed after more than 12 months	18,111	8,177
Deferred tax assets to be reversed within 12 months	839	396
Deferred tax liabilities	**(69,775)**	**(67,879)**
Deferred tax liabilities to be reversed after more than 12 months	(64,491)	(62,503)
Deferred tax liabilities to be reversed 12 months	(5,283)	(5,376)
Net deferred tax liabilities	**(50,825)**	**(59,306)**

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

(€ thousands)	2016	2015
Beginning of period	**(59,306)**	
Business combinations		(64,197)
Income statement charge	7,727	5,094
Other comprehensive income	285	(432)
Exchange differences	469	229
December 31st	**(50,825)**	**(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 combinations	10,125	5,017	3,186	1,903	2,079	202	2,741	25,253
(Charged)/credited to the income statement	(272)	(158)	(319)		(35)	480	(1,697)	(2,001)
Exchange differences	(437)							(437)
Other comprehensive income	-				(432)			(432)
December 31, 2015	**9,416**	**4,859**	**2,867**	**1,903**	**1,612**	**683**	**1,044**	**22,384**
January 1, 2016	**9,416**	**4,859**	**2,867**	**1,903**	**1,612**	**683**	**1,044**	**22,384**
(Charged)/credited to the income statement	9,451	(474)	(956)		(22)	325	(987)	7,338
Other comprehensive income					285			285
Exchange differences	12							12
December 31, 2016	**18,879**	**4,385**	**1,911**	**1,903**	**1,875**	**1,007**	**57**	**30,018**

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, 2016, 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, 2016 total tax credits amounted to €453.6 million, resulting in a potential deferred tax asset of €151 million of which the Company only recognized €18.9 million in 2016. 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 in 2015 and 2016 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
Beginning of period						
Business combinations	(75,003)	(12,043)	(1,500)	(407)	(497)	(89,450)
Charged/(credited) to the income statement	(2,093)	9,649	96	(13)	(544)	7,095
Exchange differences	666					666
December 31, 2015	**(76,430)**	**(2,394)**	**(1,404)**	**(420)**	**(1,040)**	**(81,689)**
January 1, 2016	**(76,430)**	**(2,394)**	**(1,404)**	**(420)**	**(1,040)**	**(81,689)**
Charged/(credited) to the income statement	(1,636)	(388)	1,404	(31)	1,041	390
Exchange differences	457	-	-	-	-	457
December 31, 2016	**(77,610)**	**(2,782)**	**-**	**(451)**	**1**	**(80,843)**

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 €150.1 million as of December 31, 2016 (as compared 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, 2016 and 2015:

(€ thousands)	December 31, 2016	December 31, 2015
Total inventories	**135,320**	**129,438**
Raw materials and consumables	60,564	60,736
Work in progress	19,087	18,548
Finished goods	55,670	50,153

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

(€ thousands)	December 31, 2016	December 31, 2015
Beginning of period	**68,701**	**-**
Business combination		84,841
Income statement	6,055	(16,140)
Of which: impact purchase price allocation		(14,879)
Of which: actual movements in inventory	6,055	(1,261)
End of period	**74,757**	**68,701**

The Company decreased the provision for obsolete inventory in 2016 with €0.3 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 sum of the raw material expenses and the changes in inventories recognized as expenses in 2016 amounts to €253.4 million as compared to €119.0 million in 2015.

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

Note 15. Trade and other receivables

(€ thousands)	December 31, 2016	December 31, 2015
Total Trade and other receivables	**55,068**	**46,634**
Trade and other receivables (non-current)	**138**	**91**
Other amounts receivable	138	91
Trade and other receivables (current)	**54,930**	**46,544**
Net trade receivables	41,325	32,892
Trade receivables	42,658	35,426
Less: Bad debt allowance	(1,333)	(2,535)
Prepayments and accrued income	1,945	1,124
Other amounts receivable	11,661	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, 2016 trade receivables that were past due amounted to €8.7 million compared to €8.2 million at December 31, 2015.

The group has one external customer, representing 12% of the Group's revenue.

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, 2016 and 2015 there are no significant receivables past due more than 3 months for which no provision has been set up.

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

(€ thousands)	December 31, 2016	December 31, 2015
Total trade and other receivables	**55,068**	**46,634**
EUR	32,650	28,073
USD	9,723	6,097
GBP	2,352	3,105
TRY	10,344	9,359

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

(€ thousands)	2016	2015
Beginning of period (As at January 1)	**(2,535)**	**-**
Business combinations		(2,142)

Impairment loss recognized	(39)	(513)
Receivables written off during the year as uncollectible	761	115
Unused amounts reversed	479	5
End of period (As at December 31)	**(1,333)**	**(2,535)**

The creation and release of allowances for impaired receivables has been included in other income/expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no 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, 2016 the Group holds collateral (letters of credit and corporate or bank guarantees) for an amount of €0.3 million (as compared to €0.4 million as of December 31, 2015).

Note 16. Cash and cash equivalents

(€ thousands)	December 31, 2016	December 31, 2015
Total cash and cash equivalents	**45,988**	**45,462**
Cash at bank and on hands	38,553	36,586
Short-term bank deposits	2,035	2,933
Cash from local financing	5,400	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. 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, the gains and losses arising from translating the financial statements of foreign entities and the changes in the fair value of hedging instruments.

The movements in other comprehensive income are summarized in the table below:

(€ thousands)	2016	2015
Items in OCI that may be subsequently reclassified to P&L	**(7,409)**	**720**
Cumulative translation reserves as of December 31	**(7,293)**	**720**
Cumulative translation reserves at beginning of the period	720	-
Exchange differences on translating foreign operations	(8,013)	720

Cumulative changes in fair value of hedging instruments as of December 31	**(116)**	**-**
Cumulative changes in fair value of hedging instruments at beginning of the period	-	-
Changes in fair value of hedging instruments during the period	(116)	-
Items in OCI that will not be reclassified to P&L	**346**	**943**
Changes in deferred taxes at December 31	**(147)**	**(432)**
Changes in deferred taxes at beginning of the period	(432)	-
Changes in deferred taxes during the period...	285	(432)
Changes in employee defined benefit obligations at December 31	**493**	**1,375**
Changes in employee defined benefit obligations at beginning of the period	1,375	-
Changes in employee defined benefit obligations during the period	(882)	1,375
Total other comprehensive income at December 31	**(7,063)**	**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.

Cash flow hedge accounting

Cash flow hedge accounting has been initiated on June 1, 2016. Therefore, changes in fair value of the forward contracts before this date have been recorded directly in P&L. The movement schedule below summarizes the amounts recorded into the cash flow hedge reserve and the portion that was recognized in the income statement in relation to contracts that were settled in December 2016:

€ thousands	**December 31, 2016**
Opening balance	-
Amounts recorded in the cash flow hedge reserve	2,190
Amounts recognized in the income statement	(2,307)
Cash flow hedge reserve, ending balance	**(116)**

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 26 for further details.

The liability has been measured using a discount rate of 1.31% for 2016 and 2.05% for 2015.

Deferred Taxes

The changes in pension liabilities also affect deferred taxes. When the change in pension liabilities are recorded through other comprehensive income, the related deferred tax charge also is recorded in other comprehensive income.

Note 19. Retained earnings

(€ thousands)	2016	2015
Beginning of period	(21,995)	-
Profit / (Loss) for the period	25,345	(21,995)
December 31	**3,351**	**(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 20. Preferred Equity Certificates

In connection with the acquisition of Balta Finance, 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 at the end 2015 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 has been classified as a financial liability under IFRS per December 2015. 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 was measured at fair value through profit or loss. As of December 31, 2015, management believes that the cash consideration received was a reliable measure of fair value. This measure is a Level 3 estimate, as described in Note 24.

Immediately following December 31, 2015, the Subscriber and the Issuer discussed and agreed on changes to be made to the PEC agreement. The terms and conditions were formalized later in a separate agreement which came into effect on January 1, 2016. In this agreement, the parties have confirmed to amend the PEC agreement as follows:

- The Issuer has the option in its discretion to request the extension of the maturity date, each time for a period of one year;
- Upon the occurrence of a mandatory redemption trigger event, which is an event at the full discretion of the Issuer, the Issuer shall mandatorily redeem the then outstanding PECs for an amount equal to the sum of their relevant par value and any accrued and unpaid yield.

The amended and restated terms and conditions will become effective on and as from the earlier of (i) the date the Senior Secured Notes are repaid in full and (ii) the date any security interest over the PECs are irrevocable and unconditionally released (the "Effective Date"). Until the occurrence of the Effective Date, the PECs will remain subject to the original terms and conditions as outlined above.

Based on the separate agreement, the Company will have an unconditional right to avoid delivering cash to settle the PECs. Consequently, the contract no longer meets the definition of a financial liability under IFRS, but instead qualifies as an equity instrument. The financial liability has been extinguished on January 1, 2016 and the book value at this date has been recognized as an increase in the Company's equity.

Note 21. Senior Secured Notes

(€ thousands)	December 31, 2016	December 31, 2015
Total Senior Secured Notes	**283,510**	**283,690**
Non-Current portion	**279,277**	**276,826**
Of which: gross debt	290,000	290,000
Of which: capitalised financing fees	(10,723)	(13,174)
Current portion	**4,234**	**6,864**
Of which: gross debt	6,618	9,177
Of which: capitalised financing fees	(2,384)	(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 of Balta Finance. The Indenture is dated August 3, 2015 and the principal amount was released from the escrow account at Completion Date. The maturity date is of the Senior Secured Notes is September 15, 2022.

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.

At the end of December 2015, accrued interest related to the period August 3, 2015 until December 31, 2015, i.e. five months, given that the first interest payment had not yet occurred. As from 2016, accrued interest at the end of December is lower given that interest accrues over a shorter period of time, namely from September 15 until December 31.

Costs related to the issuance of Senior Secured Notes have been included in the carrying amount and are 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 €13.1 million remain capitalized as of December 31, 2016 (as compared to €15.5 million on 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, a portion of the proceeds from the issuance of capital, preferred equity certificates and Senior Secured Notes were used to repay €160.5 million of existing debt, 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 repayment in full of the debt outstanding under the Halkbank facility.

The table below provides an overview of the bank and other borrowings that continue to exist on December 31, 2015 and 2016:

(€ thousands)	December 31, 2016	December 31, 2015
Total Bank and other borrowings	**18,002**	**20,277**
Non-Current portion	**15,388**	**17,787**
Finance lease liabilities	15,388	17,787
Current portion	**2,614**	**2,490**
Bank borrowings	120	40
Finance lease liabilities	2,494	2,450

Bank borrowings

On August 3, 2015, Balta Issuer and Balta Investments entered into a Revolving Credit Facility Agreement providing for a €40.0 million Revolving Credit Facility; which was increased to €45.0 million in 2016. 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 €40.0 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, 2016, 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 do 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.

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. Leases

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)	December 31, 2016	December 31, 2015
Net book value - Land and Buildings	**14,193**	**15,726**
Cost-Capitalised finance leases	18,412	18,412
Accumulated depreciation	(4,219)	(2,685)
Net book value – Plant and machinery	**5,558**	**5,888**
Cost-Capitalised finance leases	6,608	6,608
Accumulated depreciation	(1,050)	(720)
Net book value – Total leased Property, Plant & Equipment	**19,751**	**21,614**
Cost-Capitalised finance leases	25,020	25,020
Accumulated depreciation	(5,270)	(3,405)

The finance lease liabilities have decreased from €20.1 million as of December 31, 2015 to €17.8 million as of December 31, 2016. 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)	December 31, 2016	December 31, 2015
Gross finance lease liabilities – minimum lease payments	**20,293**	**23,142**
No later than 1 year	2,824	2,850
Later than 1 year and no later than 5 years	6,479	7,990
Later than 5 years	10,990	12,302

(€ thousands)	December 31, 2016	December 31, 2015
Total present value of finance lease liabilities	**17,787**	**20,136**
No later than 1 year	2,399	2,349

Later than 1 year and no later than 5 years	5,263	6,612
Later than 5 years	10,125	11,175

Operating leases

The Group leases various equipment, machinery and vehicles under operating lease agreements. The lease terms are between 3 and 12 years.

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

(€ thousands)	December 31, 2016	December 31, 2015
Total present value of operating lease commitments	**10,460**	**7,145**
No later than 1 year	3,358	2,360
Later than 1 year and no later than 5 years	5,595	4,785
Later than 5 years	1,507	-

Note 24. 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)	Fair value hierarchy	December 31, 2016 Carrying amount	December 31, 2016 Fair value	December 31, 2015 Carrying amount	December 31, 2015 Fair value
Assets as per statement of financial positions		**101,102**	**101,102**	**92,883**	**92,883**
Loans and receivables		**101,056**	**101,056**	**92,097**	**92,097**
Trade and other receivables		55,068	55,068	46,635	46,635
Cash and cash equivalents	Level 1	45,988	45,988	45,462	45,462
Assets at fair value through profit or loss		**-**	**-**	**786**	**786**
Foreign exchange derivative financial instruments	Level 2	-	-	273	273
Fixed price electricity purchase commitments	Level 2	-	-	512	512
Assets at fair value through OCI		**46**	**46**	**-**	**-**
Foreign exchange derivative financial instruments	Level 2	**46**	46	-	-
Liabilities as per statement of financial positions		**433,237**	**468,726**	**560,105**	**584,879**
Financial liabilities measured at amortised cost		**433,075**	**468,564**	**421,505**	**446,279**
Senior Secured Notes	Level 1	283,511	319,000	276,826	301,600
Bank and other borrowings	Level 2	120	120	40	40
Finance lease liabilities	Level 2	17,881	17,881	20,237	20,237
Trade and other payables		131,562	131,562	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
Financial liabilities measured at fair value through OCI		**162**	**162**	**-**	**-**
Foreign exchange derivative financial instruments	Level 2	162	162	-	-

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 110% as of December 31, 2016 (compared to a price of approximately 104% as of December 31, 2015).

The fair value of the PECs per December 31, 2015 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 25. 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, 2016 Net Exposure	**(42,328)**	**(795)**	**5,028**	**7,589**	**(30,506)**
Trade and other receivables	32,650	2,352	9,723	10,344	55,068
Cash and cash equivalents	38,436	3,237	2,227	2,088	45,988
Trade and other payables	(113,414)	(6,384)	(6,922)	(4,843)	(131,562)
December 31, 2015 Net Exposure	**(39,942)**	**(2,201)**	**1,993**	**7,844**	**(32,305)**
Trade and other receivables	28,073	3,105	6,097	9,359	46,635
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)	2016	2015
GBP denominated	**(1,710)**	**(1,713)**
Changes in fair value of derivative financial instruments	(1,622)	(1,468)
Changes in carrying amount of monetary assets and liabilities	(88)	(245)
USD denominated	**712**	**221**
Changes in fair value of derivative financial instruments	153	-
Changes in carrying amount of monetary assets and liabilities	559	221
TRY denominated	**843**	**872**
Changes in fair value of derivative financial instruments	-	-
Changes in carrying amount of monetary assets and liabilities	843	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)	2016	2015
GBP denominated	**1,399**	**1,402**
Changes in fair value of derivative financial instruments	1,327	1,201
Changes in carrying amount of monetary assets and liabilities	72	200
USD denominated	**(582)**	**(181)**
Changes in fair value of derivative financial instruments	(125)	-
Changes in carrying amount of monetary assets and liabilities	(457)	(181)
TRY denominated	**(690)**	**(713)**
Changes in fair value of derivative financial instruments	-	-
Changes in carrying amount of monetary assets and liabilities	(690)	(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.

In 2016, raw materials expenses represented 46.5% of the Company's revenue. The Company is generally able to pass on increases in the costs of its raw materials to its customers, and its customers, in turn, typically also request price decreases when the raw material costs decrease. As there is typically a time delay in the Company's ability to pass through raw materials price increase, changes in the cost of raw materials typically have a short-term impact on the Company's gross margin. However, the impact on its long term performance has been limited.

If the commodity prices of polypropylene and polyamide had been 10% higher (lower), profit after tax would have been €4 million lower (higher) in the absence of any mitigating actions taken by management. This impact has been determined by multiplying the volumes of both granulates and yarns purchased on an annual basis with a 10% variance on the average purchase price of polypropylene and polyamide for the year. The sensitivity calculation takes into account the time lag between purchasing polypropylene and polyamide and recognizing the raw material expenses against sales. Given both the time lag between the recognition of inventory in the income statement and the cost of more recent inventory purchases (FIFO method), in combination with the fair value step-up of the inventory in August 2015 following the acquisition of Balta Finance, an increase in the commodity prices of polypropylene and polyamide in the period August to December 2015 would not have had an impact on the 2015 income statement.

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. In 2016 all the hedging contracts have come to an end. The Company did not enter into any new hedging contracts in 2017.

Interest Rate Risk

Our interest rate risk principally relates to external indebtedness that bear interest at variable rates. Following the acquisition of Balta Finance 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. 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.

Historic default rates did not exceed 0.1% for 2015 and 2016.

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, 2016	December 31, 2015
Total cash at bank and short-term bank deposits	**45,988**	**45,462**
A rating	42,493	41,623
BBB rating	3,495	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 cash flows from operations and our non-recourse factoring agreements. The principal financing arrangements that are in place at December 31, 2016 and per 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, 2016.

(€ 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, 2016	**(144,357)**	**(12,647)**	**(24,905)**	**(71,474)**	**(323,465)**
Senior Secured Notes	(11,238)	(11,238)	(22,475)	(67,425)	(312,475)
Finance lease liabilities	(1,414)	(1,409)	(2,430)	(4,049)	(10,990)
Trade and other payables	(131,562)	-	-	-	-
Gross settled derivative financial instruments – outflows	(15,925)	-	-	-	-
Gross settled derivative financial instruments –inflows	15,782	-	-	-	-

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.

(€ 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)**	**(532,252)**
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	-	-	-	-

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, 2016 Moody's	December 31, 2016 S&P	December 31, 2015 Moody's	December 31, 2015 S&P
Long-term issue rating Senior Secured Notes	B2	B	B2	B
Corporate rating	B2	B	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.. 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 22 for further details.

Note 26. 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 0.62% in 2016 and 0.92% in 2015.

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 1.18. The liability was measured using a discount rate of 1.31% and 2.05% in 2016 and 2015, respectively. 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, 2016	December 31, 2015

Total employee benefit obligations	**36,325**	**35,745**
Holiday pay	14,136	13,842
Social security taxes	7,365	8,033
Salaries and wages payable	5,137	5,000
Pension plans	3,008	2,026
Early retirement provision	2,699	2,807
Group insurance	557	550
Withholding taxes	886	
Other	2,538	3,486
Of which current portion	**31,246**	**31,554**
Of which non-current portion	**5,079**	**4,191**
Pension plans	2,815	1,932
Early retirement pension	2,071	2,164
Pension	193	94

Pension plans: overview

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 twice pensionable salary. Several pension plans are in place for white collars and are financed through fixed employer contributions. In addition, as part of the bonus policy for members of management, a portion of the bonus is awarded via employer contributions to a pension plan scheme.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

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 1.18 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, 2016	December 31, 2015
Discount rate	1.31%	2.05%
Retirement age	65 years	65 years
Mortality	MR/FR-5	MR/FR-5

Pension plans: reported figures

For the year ended December 31, 2016, the defined benefit obligation taking into account the tax effect amounts to €8.9 million (December 31, 2015: €8.9 million), offset by plan assets of €6.5 million (December 31, 2015: €6.4 million) as per December 31, 2016.

Note 27. Provisions for other liabilities and charges

As of December 31, 2016, the Group has recorded a provision of €64 thousand for the dismantling of racks in a warehouse.

Note 28. Trade and other payables

Trade payables as of December 31, 2016 includes the amounts for outstanding invoices (€81 million as compared to €69 million as of December 31, 2015) and invoices to be received in relation to goods and services received during the current period (€16 million, as compared to €17 million as of December 31, 2015).

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 (€13 million as compared to €14 million as of December 31, 2015);
- Deferred revenue relating to advance payments on rental agreements (€4 million remained stable in 2016);
- Accrued charges for customer discounts (€16 million as of December 31, 2016 and €19 million as of December 31, 2015).

(€ thousands)	December 31, 2016	December 31, 2015
Trade and other payables	**131,562**	**124,404**
Trade payables	96,620	86,134
Accrued charges and deferred income	33,369	38,220
Other payables	1,573	49

The increase in the outstanding trade and other payables from €124.4 million as of December 31, 2015 to €131.6 million as of December 31, 2016 is driven by the increased amounts outstanding for trade payables, reflecting the increased inventory at the end of the year. This increase is partly offset by a decrease in accrued charges (€4.9 million or 12.8%), mainly due to decreased outstanding customer rebate accruals.

Note 29. Share based payments

As of December 31, 2016, the Company has not used any equity settled share plans to grant options, shares nor cash settled plans to its directors and employees.

Note 30. 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"). At December 31, 2016, €0.6 million has been received in this framework. For the four months ended December 31, 2015 the amount was equal to €0.2 million.
- 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. At December 31, 2016, €0.02 million has been received in this framework. Compared to the four months ended December 31, 2015, where no allowances had been received by the Company in this framework.

Note 31. Dividends per share

The Group did not declare any dividends to shareholders for the period ended December 31, 2016 and December 31, 2015.

Note 32. Earnings per share

	December 31, 2016	December 31, 2015
Basic earnings per share		
Net result from continuing operations	25,345	(21,995)
Percentage of net result from continuing operations attributable to holders of ordinary shares LSF9 Balta Issuer SA	1%	1%
Net result from continuing operations attributable to holders of ordinary shares LSF9 Balta Issuer SA	253	(220)
Net result from discontinued operations attributable to holders of ordinary shares LSF9 Balta Issuer SA	-	-
Weighted average number of ordinary shares outstanding (in thousands)	171	171
Net result per share attributable to holders of ordinary shares LSF9 Balta Issuer SA (in €)	1.5	(1.3)

As disclosed in Note 20, the acquisition of Balta Finance has been partially funded by the issuance of PECs. 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 1% margin on annual basis on its financing activities. It follows that the vast majority of the net result are attributable to the holders of the PECs and not to the holders of the ordinary shares.

Note 33. Commitments

Energy

Our fixed price purchase commitments for electricity and gas, for deliveries in 2017, are equal to €11.5 million as of December 31, 2016 compared to an amount of €15.7 million as of December 31, 2015.

Raw material

Our fixed price purchase commitments for raw materials, for deliveries in 2017, are equal to €66 million as of December 31, 2016 compared to an amount of €94 million for deliveries in 2016 as of December 31,2015.

Capital expenditures

As of December 31, 2016 €2.4 million capital commitments are outstanding compared to no material capital commitments as of December 31, 2015.

Note 34. 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, 2016		December 31, 2015	
	% of interest	% of control	% of interest	% of control
Belgium				
Balta NV	100%	100%	100%	100%
Balta Industries NV	100%	100%	100%	100%
Balta Trading Comm.V	100%	100%	100%	100%
Modulyss NV	100%	100%	100%	100%
Balta Oudenaarde NV	95%	100%	95%	100%
Balta M BVBA	100%	100%	100%	100%
Balfid BVBA	100%	100%	100%	100%
Luxembourg				
Balfin Services S.à r.l.	100%	100%	100%	100%
Balta Finance S.à r.l. (merged with LSF9 Balta Investments S.à r.l. on			100%	100%

November 8, 2016)				
LSF9 Balta Luxembourg S.à r.l. (created in December 1, 2016)	100%	100%	-	-
LSF9 Balta Investment S.à r.l.	100%	100%	100%	100%
Turkey				
Balta Orient Tekstil Sanayi Ve Ticaret A.S	100%	100%	100%	100%
Balta Floorcovering Yer Döş emeleri San.ve Tic A.Ş.	100%	100%	100%	100%
USA				
Balta USA Inc.	100%	100%	100%	100%

Note 35. 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 Note 6). 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, 2016	December 31, 2015
Total key management compensation	**4,098**	**1,104**
Short-term employee benefits	2,785	1,104
Termination benefits	1,313	-

Key members of management are entitled to a management participation plan for the services rendered for the Group. The return of their investment will be paid by LSF9 Midco upon realization of some market conditions

Borrowings from related parties

The borrowings from shareholders in 2015 relate to the Preferred Equity Certificates as described elsewhere in this report. These PECS have been reclassified to equity in 2016. We refer to note 20.

(€ 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, 2016	December 31, 2015
Other receivables from related parties	-	31
Other payables to related parties	54	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 28).

Note 36. Fees paid to the Group's auditors

(€ thousands)	2016	2015
Audit services	**354**	**775**
Audit of the Group pursuant to legislation	300	493
Other audit-related services	54	282
Non-audit services	**798**	**398**
Tax services	798	369
Other services		29
Total fees paid to the Group's auditor	**1,152**	**1,173**

Note 37. Subsequent events

On March 17, 2017, the Company has entered into an agreement to acquire Bentley Mills, Inc. ("Bentley"). Bentley is a leading provider of premium specified carpet tile and broadloom carpets for commercial interiors. Bentley is a leading player in the US premium commercial tiles and broadloom market serving diverse end markets with a balanced geographic mix across the US. Bentley has witnessed strong revenue growth over the last three years, complemented by EBITDA margin improvements driven by cost improvements and efficiencies, operational leverage and strategic repositioning. The acquisition was completed on March 22, 2017, via the closing of a €75 million senior term loan facility. Thanks to this acquisition, pro forma revenue and Adjusted EBITDA in 2016 would have been €668.3 million and €97.4 million, respectively. On a pro forma basis for the incurrence of the senior term loan and the acquisition of Bentley, the Company's net debt as of 31 December 2016 would be approximately €385 million.

Finally the Balta Group is strengthening its market position organically and is considering various opportunities in the M&A markets and the capital markets to finance its growth, which may include public or private equity or debt capital markets. However, other than with respect to the Bentley Mills acquisition, no definitive decision has been taken as to whether to proceed with any transaction.