



**LSF9 Balta Issuer S.A.**

# **Quarterly Report to Noteholders**

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

**Q1 2017 – Period Ended March 31, 2017**

**LSF9 Balta Issuer S.A.**

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

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## Important Notice

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

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The financial information herein includes certain non-IFRS measures that we use to evaluate our economic and financial performance. These measures include, among others, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Operating Profit. 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

Revenue increases by 5.2% to €155.5 million. The organic growth is equal to 6.4%, driven by a very strong performance in our Rugs division (up 17.2% on a constant currency basis) and Commercial division (up 10.0% on a constant currency basis), while revenue of the Residential division decreased by 2.5% on a constant currency basis compared to a strong Q1 2016. The weakening of the pound sterling offset 1.2% of the group's organic growth, with implemented price increases partially offsetting the decline of revenue from the UK.

Adjusted EBITDA increased by 5.3% to €20.1 million. This increase is mainly driven by top line growth. Residential EBITDA was penalized by the depreciation of the pound sterling and came in flat on a constant currency basis compared to a strong Q1 2016 (which was up 16% compared to Q1 2015).

Net debt at the end of Q1 2017 is equal to €385 million, representing a leverage of 3.9 times pro forma Adjusted EBITDA of the latest twelve months.

	For the three months ended		For the twelve months ended	
	March 31, 2017	March 31, 2016	March 31, 2017	December 31, 2016
<b>Results</b>				
Revenue .....	155,534	147,842	565,377	557,685
Adjusted EBITDA <sup>(1)</sup> .....	20,107	19,091	82,383	81,367
Adjusted EBITDA margin <sup>(2)</sup> .....	12.9%	12.9%	14.6%	14.6%
Depreciation / amortisation .....	(7,074)	(7,106)	(28,634)	(28,666)
Adjusted Operating profit / (loss) .....	13,033	11,985	53,749	52,701
Non-recurring items .....	(4,223)	333	(8,074)	(3,518)
Operating profit / (loss) .....	8,810	12,318	45,675	49,183
Profit / (loss) for the period .....	159	2,460	23,044	25,345
<b>Cash flow</b>				
Cash at the beginning of period .....	45,988	45,462	35,369	45,462
Net cash flow from operating activities .....	10,328	10,827	65,758	66,257
Net cash flow from investing activities .....	(76,722)	(5,971)	(106,320)	(35,569)
Of which: capital expenditure .....	(8,412)	(5,971)	(38,009)	(35,569)
Of which: Acquisition .....	(68,310)	--	(68,310)	--
Net cash flow from financing activities .....	60,138	(14,947)	44,922	(30,163)
Cash at the end of period .....	39,732	35,369	39,732	45,988
<b>Financial position</b>				
Net debt <sup>(3)</sup> .....			385,005	
Net debt / Pro Forma Adjusted EBITDA .....			3,9x	

(1) 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, gains and losses on asset disposals and integration and restructuring expenses.

(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 €1.0 million accrued interest), €75.0 million Senior Term Loan Facility, €30.9 million Term Loan B, €10.4 million Revolving Credit Facility, capital leases (€17.3 million) and €0.1 million bank overdrafts less cash and cash equivalents (€39.7 million). Capitalised financing fees, equal to €16.4 million as of March 31, 2017, have been excluded.

The acquisition of the Bentley Mills Group ("Bentley") did not have an impact on reported revenue and Adjusted EBITDA for Q1 2017. Given the acquisition date of 22 March 2017, Bentley will contribute to the consolidated earnings of the Balta Group as from Q2 2017. Bentley sales and Adjusted EBITDA amounted to €27.7 million and €2.9 million. On a pro forma basis for the acquisition of Bentley, revenue for Q1 2017 is equal to €183.2 million and Adjusted EBITDA is equal to €23.0 million. On a latest twelve months basis, Group pro forma revenue is equal to €679.3 million and pro forma Adjusted EBITDA is equal to €99.0 million.

## I.2. Business Review

	For the three months ended		For the twelve months ended	
	March 31, 2017	March 31, 2016	March 31, 2017	December 31, 2016
<b>Revenue (€ thousands)</b>	<b>155,534</b>	<b>147,842</b>	<b>565,377</b>	<b>557,685</b>
Rugs .....	63,377	54,187	223,735	214,545
Residential .....	63,132	66,153	233,736	236,758
Commercial.....	22,147	20,344	81,853	80,050
Non-Woven.....	6,878	7,157	26,052	26,332
<b>Adjusted EBITDA (€ thousands)</b>	<b>20,107</b>	<b>19,091</b>	<b>82,383</b>	<b>81,367</b>
Rugs .....	11,188	8,032	41,125	37,969
Residential .....	5,097	7,466	26,042	28,411
Commercial.....	2,972	2,792	12,246	12,067
Non-Woven.....	850	801	2,970	2,920
<b>Revenue by geography (€ thousands)</b>	<b>155,534</b>	<b>147,842</b>	<b>565,377</b>	<b>557,685</b>
Europe.....	113,907	115,004	428,482	429,580
North-America .....	27,274	20,276	80,842	73,843
Rest of World.....	14,353	12,561	56,053	54,262
<b>Revenue by geography (%)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Europe.....	73%	78%	76%	77%
North-America .....	18%	14%	14%	13%
Rest of World.....	9%	8%	10%	10%

### *Rugs*

Strong growth across all regions, driven by a 19% increase in volumes resulting from the continued solid growth in North America (28% organic growth, and 31% total growth due to a stronger US dollar) and the successful introduction of new products in Europe. Revenue went up by 17.0% to €63.4 million and Adjusted EBITDA increased by 39.3% to €11.2 million, with Adjusted EBITDA margin significantly expanding by 280bps to reach 17.7%.

### *Residential*

Our Residential division witnessed a 5% decline in volumes sold, resulting in a decline of revenue on a constant currency basis of 2.5%. This decline is driven by challenging market conditions in Germany and France, where market demand for carpet has decreased. The Company has responded to this by upscaling the product mix such that the impact of a decrease in demand is less pronounced on revenue and margin. In the division's main market, the UK, organic growth was positive (+0.3%), driven by the success of new, higher quality products for which Balta charges a premium. The positive impact on average sales prices in the UK has more than offset the impact of slightly lower volumes (1.5% decrease in volumes sold in the UK). On a constant currency basis, Adjusted EBITDA would have been flat.

### *Commercial*

Revenue and volumes increased by 9% and 3% respectively for the three months ended March 31, 2017. Revenue at constant currency in our Commercial division increased by 10%, driven by 13% organic growth in the sale of commercial tiles and 5% organic growth in the sale of broadloom carpet as our business continued to gain market share from competitors. The growth is driven by a combination of both increased volumes and an increased average net sales price resulting from the upscaling of our product mix. The division is realizing such growth due to its continued investments in product development and a more direct sales approach, and is increasingly gaining traction outside the European market, with strong performance in North America, South America and Asia Pacific. With respect to margins, Adjusted EBITDA increased by 6.4% to €3.0 million.

### *Non-Woven*

Revenue decreased by 4% whilst volumes only decreased with 1% for the three months ended March 31, 2017, as compared to the same period in 2016. 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 1.2%.

## **I.3. Financial Review**

### *Operating profit*

Adjusted Operating Profit has increased by €1.0 million (+8.7%) from €12.0 million to €13.0 million. Due to the absence of gains in asset disposals in Q1 2017 (as compared to a gain of €1.6 million in Q1 2016) and the increase of integration and restructuring expenses from €1.3 million to €4.2 million, Operating Profit has decreased from €12.3 million for the three months ended March 31, 2016 to €8.8 million for the three months ended March 31, 2017.

The following table sets forth integration and restructuring expenses for the period ended March 31, 2017 and 2016. This comprises various items which are considered by management as non-recurring or unusual by nature.

(€ thousands)	For the three months	
	March 31, 2017	March 31, 2016
<b>Integration and restructuring expenses</b>	<b>4,223</b>	<b>1,277</b>
Corporate restructuring .....	373	628
Business restructuring .....	--	490
Acquisition related expenses .....	979	
Idle IT costs.....	503	
Strategic advisory services .....	2,368	128
Other .....	--	30

During the first quarter of 2017, €2.4 million of strategic advisory expenses have been incurred in connection with the Company's decision to consider various opportunities in the capital markets to finance its growth. Acquisition related expenses amount to €1.0 million and have been incurred in relation to the acquisition of Bentley in March 2017. Incremental (idle) IT costs in relation to a legacy IT system used for a limited number of activities within the Group amounted to €0.5 million. 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, corporate restructuring expenses amount to €0.4 million in relation to legal and tax services.

Depreciation charges are equal to €7.1 million for the three months ended March 31, 2017 and have remained unchanged versus the same period last year.

### ***Financial result and taxation***

Net finance expenses for the three months ended March 31, 2017 are equal to €7.5 million, as compared to €7.4 million in the same period last year. Finance expenses continue to be 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.

Income tax expenses are equal to €1.1 million for the three months ended March 31, 2017, as compared to €2.4 million in the same period last year. The tax charge of €1.1m million in the first quarter of 2017 corresponds to an effective tax rate of approximately 30% when adjusting the profit before tax for non-tax deductible expenses (mainly strategic advisory expenses incurred as explained above). For the period ended March 31, 2016, the tax expenses were relatively higher as a percentage of the profit before income taxes as a result of the inability to recognize a portion of the interest expenses incurred in certain subsidiaries of the Group due to inefficiencies in the company's structure. These inefficiencies were reduced in the course of 2016, resulting in a reduction of the effective tax rate as from 2017.

### ***Cash flow statement***

For the period ended March 31, 2017, cash flow from operations is equal to €10.3 million, a decrease of €0.5 million as compared to €10.8 million in the same period last year. When comparing to the previous period, cash flow has been positively impacted by an increase in Adjusted EBITDA (+€1.0 million) and a reduction in working capital (+ €4.0 million). These benefits have been offset by an increase in non-recurring expenses (+€2.6 million) and an increase in taxes paid (+€2.9 million).

The cash used in investing activities is equal to €76.7 million for the three months ended March 31, 2017, as compared to €6.0 million in the same period last year. This can be broken down as follows:

- €8.5 million of capital expenditure, versus €7.6 million in the same period last year
- (€0.1) million proceeds from disposals, versus (€1.6) million in the same period last year
- €68.3 million paid to acquired Bentley

Net cash generated by financing activities is equal to €60.1 million for the three months ended March 31, 2017, as compared to (€14.9) million in the same period last year. This can be broken down as follows:

- €75.0 million of proceeds raised by entering into a €75 million Senior Term Loan agreement. The latter was used to fund the acquisition of Bentley and to pay all transaction and financing-related expenses. The partial overfunding of €1.8 million was kept as cash on the balance sheet.
- (€14.3) million of interest paid, similar to the interest charges in the same period last year;
- (€0.6) million of capital repayments in relation to finance leasing debt, similar to the repayments in the same period last year

### ***Net Debt***

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 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 net debt and leverage as of March 31, 2017 can be summarized as follows:

(€ thousands)	<u>March 31, 2017</u>
Cash	(39.7)
Senior Secured Notes (€290 million principal, incl accrued interest)	291.0
Senior Term Loan	75.1
Finance leases	17.3
Revolving credit facility Bentley	10.4
Term loan Bentley	30.9
Bank overdrafts (uncleared cheques)	0.1
<b>Net Financial debt</b>	<b><u>385.0</u></b>
<b>Pro forma leverage</b>	<b><u>3.9x</u></b>

## I.4. Events after the reporting date

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. 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.5. 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

	Period ended March 31, 2017		
	<u>Balta</u>	<u>Bentley</u>	<u>Pro forma for Bentley acquisition</u>
	<i>(€ millions, unless otherwise stated)</i>		
Revenue.....	155.5	27.7	183.2
Adjusted EBITDA <sup>(1)</sup> .....	20.1	2.9	23.0
Adjusted EBITDA <sup>(1)</sup> Margin			
(% revenue) .....	12.9%	10.6%	12.6%

- (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

	Period ended March 31, 2017			
	Rugs	Residential Carpet &	Commercial Carpet	Total <sup>(1)</sup>
		Tiles	& Tiles	
		(% pro forma revenue)		
UK and Ireland.....	5%	54%	5%	22%
Rest of Europe.....	43%	39%	33%	40%
North America .....	41%	1%	57%	30%
Rest of World.....	11%	7%	5%	8%

Pro forma Adjusted EBITDA by segment

	Period ended March 31, 2017			
	Rugs	Residential Carpet &	Commercial Carpet	Total <sup>(1)</sup>
		Tiles	& Tiles	
		(€ millions, unless otherwise stated)		
Pro forma Adjusted EBITDA <sup>(2)</sup> .....	11.2	5.1	5.9	23.0
Pro forma Adjusted EBITDA <sup>(2)</sup> Margin (% revenue) .....	18%	8%	12%	12.6%
% of Total Pro forma Adjusted EBITDA <sup>(2)</sup> .....	49%	22%	26% <sup>(3)</sup>	100%

(1) Includes the Non-Woven division, which accounted for €0.8 million, or 4.0% of Balta's pro forma Adjusted EBITDA for the period ended March 31, 2017.

(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 13% in the United States (which reflects Bentley's contribution)

Pro forma income statement

The unaudited pro forma consolidated income statement has been prepared to illustrate the effect of the acquisition of Bentley Mills by the Group as if it had taken place at the beginning of the period. 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.

	For the period ended March 31, 2017					Pro Forma Consolidated Statement of Comprehensive Income
	LSF9 Balta Issuer S.A.	BPS Parent, Inc. U.S.	BPS Parent, Inc. U.S.	U.S. GAAP to	Pro Forma	
	IFRS	GAAP	GAAP	IFRS	Adjustments	
	(audited)	(audited) <sup>(1)</sup>	(unaudited) <sup>(2)</sup>	Adjustments	Adjustments	
	(€ thousands)	(\$ thousands)	(€ thousands)	(€ thousands)	(€ thousands)	
Revenue.....	155,534	29,481	27,686	—	—	183,220
Raw material expenses .....	(75,796)	(11,877)	(11,154)	—	—	(86,950)
Changes in inventories.....	5,378	899	844	—	—	6,222
Employee benefits expenses ...	(35,480)	(8,266)	(7,763)	—	—	(43,243)
Other income .....	2,340	20	19	—	—	2,359
Other expenses.....	(31,869)	7,142)	(6,707)	—	-	(38,576)
<b>Adjusted EBITDA .....</b>	<b>20,107</b>	<b>3,116</b>	<b>2,925</b>	<b>—</b>	<b>-</b>	<b>23,033</b>
Depreciation, amortization.....	(7,074)	(1,384)	(1,300)	37	—	(8,337)
<b>Adjusted Operating Profit ...</b>	<b>13,033</b>	<b>1,732</b>	<b>1,626</b>	<b>37</b>	<b>-</b>	<b>14,696</b>

For the period ended March 31, 2017

	LSF9 Balta Issuer S.A. IFRS <i>(audited)</i> <i>(€ thousands)</i>	BPS Parent, Inc. U.S. GAAP <i>(audited)</i> <sup>(1)</sup> <i>(\$ thousands)</i>	BPS Parent, Inc. U.S. GAAP <i>(unaudited)</i> <sup>(2)</sup> <i>(€ thousands)</i>	U.S. GAAP to IFRS Adjustments <i>(€ thousands)</i>	Pro Forma Adjustments <i>(€ thousands)</i>	Pro Forma Consolidated Statement of Comprehensive Income <i>(€ thousands)</i>
Gains on asset disposals.....	-	-	-	—	—	-
Integration and restructuring expenses .....	(4,223)	(10,376)	(9,744)	—	9,738	(4,229)
<b>Operating profit / (loss) .....</b>	<b>8,810</b>	<b>(8,644)</b>	<b>(8,118)</b>	<b>37</b>	<b>9,738</b>	<b>10,467</b>
Finance income.....	7	-	-	—	—	7
Finance expenses .....	(7,548)	(1,250)	(1,174)	—	(486)	(9,209)
<b>Net financial expenses.....</b>	<b>(7,541)</b>	<b>(1,250)</b>	<b>(1,174)</b>	<b>—</b>	<b>(486)</b>	<b>(9,201)</b>
<b>Profit / (loss) before income taxes .....</b>	<b>1,268</b>	<b>(9,895)</b>	<b>(9,292)</b>	<b>37</b>	<b>9,252</b>	<b>1,266</b>
Income tax income / (expense) .....	(1,110)	(343)	(322)	(14)	78	(1,369)
<b>Profit / (loss) for the period from Continuing Operations.....</b>	<b>158</b>	<b>(10,238)</b>	<b>(9,615)</b>	<b>23</b>	<b>9,330</b>	<b>(103)</b>
Profit / (loss) for the period from discontinued operations.....	—	—	—	—	—	—
<b>Profit / (loss) for the period.....</b>	<b>158</b>	<b>(10,238)</b>	<b>(9,615)</b>	<b>23</b>	<b>9,330</b>	<b>(103)</b>
<i>Attributable to:</i>						
Equity holders of the parent	158	(10,073)	(9,460)	23	9,180	(99)
Non-controlling interest	—	(164)	(154)	0	150	(4)

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

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

**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: Consolidated Condensed Interim Financial  
Statements for the Period Ended March 31, 2017**

## II.1. General Information

LSF9 Balta Issuer S.A. (“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 Holdco S.à.r.l., which is in turn is 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. The Company has its Registered Office in 33, Rue du Puits Romain, L-8070 Bertrange and is registered in the R.C.S. Luxembourg with number B 198084.

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 more than 50 years since its foundation, it has grown into one of 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.

## II.2. Review report

### Review Report on Consolidated Interim Financial Statements

To the Board of Directors of  
**LSF9 Balta Issuer S.A.**

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We have reviewed the accompanying Consolidated Interim Financial Statements of LSF9 Balta Issuer S.A. and its subsidiaries (together “the Group”), which comprise the consolidated statement of financial position as of 31 March 2017, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and presentation of these Consolidated Interim Financial Statements in accordance with International Accounting Standard 34 “Interim financial reporting” as adopted by the European Union. Our responsibility is to express a conclusion on this Consolidated Interim Financial Statements based on our review.

#### *Scope of Review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity” as adopted for Luxembourg by the “Institut des Réviseurs d’Entreprises”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Consolidated Interim Financial Statements is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim financial reporting” as adopted by the European Union.

PricewaterhouseCoopers, Société coopérative  
Represented by

Luxembourg, 30 May 2017

Vincent Ball

## II.3. Condensed consolidated statement of comprehensive income

(€ thousands)	Note	Period ended March 31, 2017	Period ended March 31, 2016
<b>I. CONSOLIDATED INCOME STATEMENT</b>			
Revenue .....	Note 5	155,534	147,842
Raw material expenses .....		(75,796)	(71,666)
Changes in inventories .....		5,378	5,069
Employee benefit expenses .....		(35,480)	(34,285)
Other income.....		2,340	1,195
Other expenses .....		(31,869)	(29,063)
Depreciation / amortisation .....		(7,074)	(7,106)
<b>Adjusted Operating Profit</b> <sup>1</sup> .....		<b>13,033</b>	<b>11,985</b>
Gains on asset disposals .....		-	1,610
Integration and restructuring expenses .....	Note 7	(4,223)	(1,277)
<b>Operating profit/(loss)</b> <sup>1</sup> .....		<b>8,810</b>	<b>12,318</b>
Finance income .....		7	18
Finance expenses.....		(7,548)	(7,436)
<b>Net finance expenses</b> .....		<b>(7,541)</b>	<b>(7,419)</b>
<b>Profit / (loss) before income taxes</b> .....		<b>1,268</b>	<b>4,900</b>
Income tax income / (expense) .....	Note 8	(1,110)	(2,440)
<b>Profit / (loss) for the period</b> .....		<b>158</b>	<b>2,460</b>
<b>II. CONSOLIDATED OTHER COMPREHENSIVE INCOME</b>			
Items in other comprehensive income that may be subsequently reclassified to P&L			
Exchange differences on translating foreign operations .....		(2,918)	(932)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting .....	Note 12	90	-
Items in other comprehensive income that will not be reclassified to P&L			
Changes in deferred tax .....		(37)	-
Changes in employee defined benefit obligations .....		115	(632)
<b>Other comprehensive income for the period, net of tax</b> .....		<b>(2,750)</b>	<b>(1,564)</b>
<b>Total comprehensive income for the period</b> .....		<b>(2,592)</b>	<b>896</b>
<b>Basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the company</b> .....	Note 20	<b>0.01</b>	<b>0.01</b>

(1) Adjusted Operating Profit / Operating profit/(loss) are non-GAAP measures.

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

## II.4. Condensed consolidated statement of financial position

(€ thousands)	Note	As of March 31 2017	As of December 31 2016
Property, plant and equipment			
Land and buildings .....	Note 9	167,890	169,203
Plant and machinery .....	Note 9	124,904	115,016
Other fixtures and fittings, tools and equipment .....	Note 9	19,435	15,019
Goodwill .....	Note 6	205,334	124,673
Intangible assets .....		4,996	2,376
Deferred income tax assets .....	Note 8	18,613	18,950
Trade and other receivables .....	Note 11	881	138
<b>Total non-current assets</b> .....		<b>542,053</b>	<b>445,375</b>
Inventories .....	Note 10	158,870	135,320
Derivative financial instruments .....	Note 16	7	46
Trade and other receivables .....	Note 11	67,542	54,930
Current income tax assets .....	Note 8	21	34
Cash and cash equivalents .....		39,732	45,988
<b>Total current assets</b> .....		<b>266,172</b>	<b>236,318</b>
<b>Total assets</b> .....		<b>808,224</b>	<b>681,693</b>
Share capital .....		171	171
Share premium .....		1,260	1,260
Preferred equity certificates .....		138,600	138,600
Other comprehensive income .....	Note 12	(9,813)	(7,063)
Retained earnings and other reserves .....		3,508	3,351
Non-controlling interest .....	Note 6	1,027	--
<b>Total equity</b> .....		<b>134,754</b>	<b>136,319</b>
Senior Secured Notes .....	Note 13	279,873	279,277
Bank and Other Borrowings .....	Note 14	126,394	15,388
Deferred income tax liabilities .....	Note 8	70,663	69,775
Provisions for other liabilities and charges .....		2,045	-
Employee benefit obligations .....	Note 17	5,333	5,079
<b>Total non-current liabilities</b> .....		<b>484,308</b>	<b>369,519</b>
Senior Secured Notes .....	Note 13	(1,385)	4,234
Bank and Other Borrowings .....	Note 14	3,586	2,614
Employee benefit obligations .....	Note 17	34,071	31,246
Provisions for other liabilities and charges .....		64	64
Derivative financial instruments .....	Note 16	33	162
Trade and other payables .....	Note 18	148,565	131,562
Income tax liabilities .....	Note 8	4,227	5,974
<b>Total current liabilities</b> .....		<b>189,161</b>	<b>175,856</b>
<b>Total liabilities</b> .....		<b>673,470</b>	<b>545,374</b>
<b>Total equity and liabilities</b> .....		<b>808,224</b>	<b>681,693</b>

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

## II.5. Condensed consolidated statement of cash flows

	Note	Period ended March 31, 2017	Period ended March 31, 2016
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Net profit / (loss) for the period</b> .....		<b>158</b>	<b>2,460</b>
Adjustments for:			
Income tax expense / (income).....	Note 8	1,110	2,440
Finance income .....		(7)	(18)
Finance expense .....		7,548	7,436
Depreciation, amortisation .....	Note 9	7,074	7,106
(Gains)/losses on asset disposals .....		-	(1,610)
Fair value of derivatives .....		-	(359)
<b>Cash generated before changes in working capital</b> .....		<b>15,884</b>	<b>17,455</b>
Changes in working capital:			
Inventories.....	Note 10	(7,615)	(5,959)
Trade receivables .....	Note 11	2,925	(6,175)
Trade payables .....	Note 18	8,861	10,510
Other working capital.....		(6,407)	(4,602)
<b>Cash generated after changes in working capital</b> .....		<b>13,648</b>	<b>11,229</b>
Net income tax (paid).....		(3,320)	(402)
<b>Net cash generated / (used) by operating activities</b> .....		<b>10,328</b>	<b>10,827</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment .....	Note 9	(8,372)	(7,112)
Acquisition of intangibles .....		(124)	(523)
Proceeds from non-current assets .....		84	1,664
Acquisition of subsidiary .....	Note 6	(68,310)	-
<b>Net cash used by investing activities</b> .....		<b>(76,722)</b>	<b>(5,971)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Interest and other finance charges paid, net.....	Note 14	(14,267)	(14,365)
Proceeds from borrowing with third parties .....	Note 14	75,000	-
Repayments of borrowings with third parties .....	Note 14	(595)	(583)
<b>Net cash generated / (used) by financing activities</b> .....		<b>60,138</b>	<b>(14,947)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND BANK OVERDRAFTS</b>		<b>(6,256)</b>	<b>(10,092)</b>
Cash, cash equivalents and bank overdrafts at the beginning of the period.....		45,988	45,462
Cash, cash equivalents and bank overdrafts at the end of the period .....		39,732	35,369

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

## II.6. Condensed consolidated statement of changes in equity

(€ thousands)	Share capital	Share premium	PECs	Other comprehensive income	Retained earnings	Total	Non-controlling interest	Total equity
<b>Balance at January 1, 2017</b>	<b>171</b>	<b>1,260</b>	<b>138,600</b>	<b>(7,063)</b>	<b>3,351</b>	<b>136,319</b>	<b>-</b>	<b>136,319</b>
<b>Non-controlling interest arising from business combinations</b>	-	-	-	-	-	-	1,027	1,027
Profit / (loss) for the period	-	-	-	-	158	158	-	158
<b>Other comprehensive income</b>								
Exchange differences on translating foreign operations	-	-	-	(2,918)	-	(2,918)	-	(2,918)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting	-	-	-	90	-	90	-	90
Cumulative changes in deferred taxes	-	-	-	(37)	-	(37)	-	(37)
Cumulative changes in employee defined benefit obligations	-	-	-	115	-	115	-	115
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,750)</b>	<b>158</b>	<b>(2,592)</b>	<b>1,027</b>	<b>(1,565)</b>
<b>Balance at March 31, 2017</b>	<b>171</b>	<b>1,260</b>	<b>138,600</b>	<b>(9,813)</b>	<b>3,508</b>	<b>133,727</b>	<b>1,027</b>	<b>134,754</b>
(€ thousands)	Share capital	Share premium	PECs	Other comprehensive income	Retained earnings	Total	Non-controlling interest	Total equity
<b>Balance at January 1, 2016</b>	<b>171</b>	<b>1,260</b>	<b>-</b>	<b>1,664</b>	<b>(21,995)</b>	<b>(18,900)</b>	<b>-</b>	<b>(18,900)</b>
Recognition of PECs as equity instrument	-	-	138,600	-	-	138,600	-	138,600
Profit / (loss) for the period	-	-	-	-	25,345	25,345	-	25,345
<b>Other comprehensive income</b>								
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)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,727)</b>	<b>25,345</b>	<b>16,618</b>	<b>-</b>	<b>16,618</b>
<b>Balance at December 31, 2016</b>	<b>171</b>	<b>1,260</b>	<b>138,600</b>	<b>(7,063)</b>	<b>3,351</b>	<b>136,319</b>	<b>-</b>	<b>136,319</b>

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

## **II.7. Notes to the consolidated condensed interim financial statements**

### **Note 1. Basis of preparation**

These consolidated condensed interim financial statements for the three months ended March 31, 2017 have been prepared in accordance with IAS 34 ‘Interim financial reporting’. The consolidated condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS as adopted by the European Union (“IFRS”). 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 these consolidated condensed interim financial statements.

Any events and/or transactions significant to an understanding of the changes since December 31, 2016 have been included in these notes to the consolidated condensed interim financial statements.

### **Note 2. Accounting policies**

The accounting policies adopted are consistent with those of the previous financial year.

Amendments to IFRSs effective for the financial year ending December 31, 2017 are not expected to have a material impact on the Group.

### **Note 3. 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 4. Critical accounting estimates and judgements**

The preparation of consolidated condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these consolidated condensed interim financial statements, the significant judgments made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that have been applied to the consolidated financial statements for the year December 31, 2016.

## Note 5. Segment Reporting

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

(€ thousands)	Period ended March 31, 2017	Previous period <sup>(1)</sup>
<b>Revenue by segment</b>	<b>155,534</b>	<b>147,842</b>
Rugs .....	63,377	54,188
Residential .....	63,132	66,153
Commercial.....	22,147	20,344
Non Woven.....	6,877	7,157
<b>Revenue by geography</b>	<b>155,534</b>	<b>147,842</b>
Europe.....	113,907	115,004
North America .....	27,274	20,276
Rest of World .....	14,352	12,561
<b>Adjusted EBITDA by segment</b>	<b>20,107</b>	<b>19,091</b>
Rugs .....	11,188	8,032
Residential .....	5,097	7,466
Commercial.....	2,972	2,792
Non Woven.....	850	801
<b>Capital expenditure by segment</b>	<b>8,496</b>	<b>7,635</b>
Rugs .....	2,313	3,585
Residential .....	3,190	2,963
Commercial.....	2,942	852
Non Woven.....	49	236
<b>Net inventory by segment</b>	<b>158,870</b>	<b>135,320</b>
Rugs .....	66,635	63,642
Residential .....	54,800	52,718
Commercial.....	33,160	15,346
Non Woven.....	4,275	3,614
<b>Trade receivables by segment</b>	<b>51,820</b>	<b>41,326</b>
Rugs .....	13,581	17,263
Residential .....	17,450	16,502
Commercial.....	19,453	6,149
Non Woven.....	1,335	1,411

(1) For Revenue, Adjusted EBITDA and Capital Expenditure, the previous reporting period refers to March 31, 2016. For Net inventory and Trade Receivables, previous reported period refers to December 31, 2016.

Bentley will be reported as part of our Commercial segment. The acquisition of Bentley did not have an impact on reported Revenue and Adjusted EBITDA for Q1 2017. Given the acquisition date of 22 March 2017, Bentley will contribute to the consolidated earnings of the Balta Group as from Q2 2017. The acquisition of Bentley did impact net inventory of the commercial segment (€15.9 million as of March 31, 2017) and trade receivables of the Commercial segment (€13.4 million as of March 31, 2017)

## **Note 6. Business Combinations**

For the purpose of this disclosure, amounts in USD have been converted to EUR at a rate of 1.0691 USD/EUR). Where used herein “Bentley” refers to Bentley Mills, Inc. or where the context requires, the Bentley group of companies.

### ***Details of the business combination***

On December 1, 2016 Lone Star Fund IX agreed to acquire Bentley, a leader in premium commercial tiles and broadloom carpets for commercial interior in the US market, from Dominus Capital, L.P. The acquisition was completed on February 1, 2017. Lone Star Fund IX acquired 98.39% of the class A unit voting rights whilst Bentley Management acquired the remaining 1.61% of the class A unit voting rights..

The consideration paid to share and option holders was equal to €89.2 million (\$95.4 million). In order to finance (i) the consideration paid, (ii) the repayment in full of legacy debt at the level of Bentley and (iii) the payment of transaction fees and expenses, the following sources of financing were raised:

- an equity contribution of €68.8 million (\$74 million) by LSF9 Renaissance Super Holdings LP;
- a management contribution of €1.1 million (\$1.2 million) in equity;
- the issuance of a term loan of €30.9 million (\$33.0 million) at the level of BPS Parent Inc, as described in Note 14;
- a drawdown of €10.4 million (\$11.1 million) on a revolving credit facility of €16.8 million (\$18.0 million) at the level of BPS Parent Inc, as described in Note 14;

The holding structure for this investment included a limited partnership LSF9 Renaissance Bermuda Partners, L.P. (not having legal personality under Bermuda law), essentially to manage the investment relation with the management of Bentley, who retained an equity stake in Bentley.

On March 22, 2017, LSF9 Balta Issuer S.A acquired from LSF9 Renaissance Super Holdings, L.P. its partnership interests in LSF9 Renaissance Bermuda Partners, L.P., which in turn owned the membership interests in LSF9 Renaissance Holdings LLC and LSF9 Renaissance Acquisitions LLC.. LSF9 Renaissance Holdings LLC is the new ultimate holding company of Bentley. This acquisition was financed by the issuance of a Senior Term Loan for an amount of €75.0 million at the level of LSF9 Balta Issuer S.A. (see Note 14 for a description hereof). Subsequently, on March 23, 2017, Balta NV replaced LSF9 Balta Issuer S.A. as a limited partner in LSF9 Renaissance Bermuda Partners, L.P. and as a result acquired the interest in LSF9 Renaissance Holdings LLC. As a result of these transactions, Balta NV currently controls Bentley.

Balta will continue to support the Bentley brand, and will make use of Bentley's sale force and market power to accelerate the growth of its European Modulyss carpet tiles in the USA. Additionally, Bentley's line of premium carpet tiles will be sold worldwide through Balta's distribution network.

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

The acquisition made by LSF9 Balta Issuer S.A. is a transaction under a common control, and the accounting policy election was made to account for such a transaction in accordance with IFRS 3. Therefore, previous goodwill was reversed in order to calculate the net assets, and goodwill was recognized as difference between consideration paid and such net assets.

The purchase price allocation required under IFRS 3 Business Combinations has not yet been performed and is not reflected in the condensed interim financial statements. The purchase price allocation has not yet been performed because the acquisition of Bentley 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 issuance of this consolidated condensed interim financial statements. As such, the fair value of the identifiable assets, liabilities and contingent liabilities acquired and the goodwill are provisional. The purchase price allocation exercise will be performed at a later stage and may result in adjustments to provisional values as a result of completing the initial accounting from the acquisition date. We mainly expect differences in valuation of intangible assets, property, plant and equipment and inventory.

The purchase price paid in cash was equal to €68.3 million, as compared to a net asset value of Bentley of (€12.4) million at Acquisition Date, of which (€11.3) million attributable to LSF9 Balta Issuer S.A. and €1.0 million attributable to the non-controlling interest held by Bentley management. Consequently, the provisional goodwill – before purchase price allocation - was equal to €80.7 million.

<b>In € thousands</b>	<b>Carrying value of net assets at Acquisition Date before allocation goodwill</b>
<b>Assets acquired</b>	<b>47,546</b>
Property, plant & equipment.....	14,267
Intangible assets.....	2,726
Trade and other receivables .....	744
<b>Total non-current assets.....</b>	<b>17,737</b>
Inventories .....	15,935
Trade and other receivables .....	13,874
Cash and cash equivalents .....	-
<b>Total current assets .....</b>	<b>29,809</b>
<b>Liabilities assumed</b>	<b>(58,869)</b>
Bank and other borrowing .....	(38,471)
Deferred income tax liabilities.....	(485)
Provisions for other liabilities and charges .....	(2,045)
Employee Benefit Obligations.....	(347)
<b>Total non-current liabilities .....</b>	<b>(41,348)</b>
Bank and Other Borrowing .....	(1,325)
Employee Benefit Obligation .....	(1,685)
Trade and other payables .....	(12,980)
Current income tax liabilities.....	(1,531)
<b>Total current liabilities.....</b>	<b>(17,521)</b>
<b>Purchase Price Paid in Cash</b>	<b>68,310</b>
Total identifiable assets, liabilities and contingent liabilities .....	(11,323)
Of which: attributable to LSF9 Balta Issuer S.A .....	(12,350)
Of which: attributable to non-controlling interest .....	1,027
Goodwill.....	80,661

### **Goodwill**

The Goodwill of €80.7 million still needs to be allocated. Following this allocation, the remaining goodwill arising from the acquisition will mainly consist of the synergies and the economies of scale expected from combining the operations of Bentley and Balta.

None of the Goodwill recognized is expected to be deductible for income tax purposes.

### **Details of acquired receivables**

The non-current and current trade and other receivables acquired from Bentley amounted to €14.6 million and relate to trade receivables (€13.4 million), other receivables (€0.9 million) and accruals and deferrals (€0.3 million). The trade receivables include a bad debt provision of €0.3 million to cover for receivables assumed difficult to be collected.

### **Details of non-controlling interests**

The amount of non-controlling interest recognized amounts to €1.0 million at the acquisition date and represents the 1.61% stake management owns in the net assets of Bentley.

***Impact of acquisition on amounts reported in the statement of comprehensive income***

The acquisition of Bentley by Balta was completed on March 22, 2017. Because the closing date was near the end of the first quarter, management believes that the amount of revenue and profit or loss of the acquiree since the acquisition date to be included in the consolidated statement of comprehensive income for the reporting period is not material. As a result, the comprehensive income of Bentley will be taken into account as of April 1, 2017 and has not been included in the statement of comprehensive income of March 31, 2017.

Had Bentley been consolidated from January 1, 2017, Bentley would have contributed €27.7 million of revenue. The Profit of the period from continuing operations would have been equal to €0.2 million on a pro forma basis, i.e. taking into account the effects of the new capitalization structure of the Group and after elimination of transaction expenses incurred by Bentley.

***Adjustments recognized for business combinations that occurred in the current reporting periods.***

Initial accounting for a business combination is incomplete, and the amounts recognized in the financial statements for the business combination have been determined only provisionally as required by IFRS 3. 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 Bentley. At the date of approval of these consolidated condensed interim financial statements, management has not been able to complete a fair value analysis of the identifiable assets and liabilities acquired.

The fair value of the identifiable assets and liabilities acquired will be measured at a later stage and will result in an adjustment of the goodwill presented. We mainly expect differences in valuation of intangible assets, Property plant and equipment and inventory.

Regarding Contingent Liabilities, based on BPS Parent, Inc. disclosures and the preliminary analysis performed by Bentley Mills Management, the Balta Group has not identified any material legal claims, tax dispute or environmental risk that would lead us to believe material contingent liabilities would need to be recognized in the statement of financial position. However, as our analysis continues, recognition of such contingent liabilities may be identified and recognized in accordance with the requirements of IFRS3 Business Combinations.

**Note 7. Integration and restructuring expenses**

The following table sets forth integration and restructuring expenses for the period ended March 31, 2017 and 2016. This comprises various items which are considered by management as non-recurring or unusual by nature.

(€ thousands)	For the three months	
	March 31, 2017	March 31, 2016
<b>Integration and restructuring expenses</b>	<b>4,223</b>	<b>1,277</b>
Corporate restructuring .....	373	628
Business restructuring .....	--	490
Acquisition related expenses .....	979	--
Idle IT costs.....	503	--
Strategic advisory services .....	2,368	128
Other .....	--	30

During the first quarter of 2017, €2.4 million of strategic advisory expenses have been incurred in connection with the Company’s decision to consider various opportunities in the capital markets to finance its growth. Acquisition related expenses amount to €1.0 million and have been incurred in relation to the acquisition of Bentley in March 2017. Incremental (idle) IT costs in relation to a legacy IT system used for a limited number of activities within the Group amounted to €0.5 million. 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, corporate restructuring expenses amount to €0.4 million in relation to legal and tax services.

Integration and restructuring expenses for the three months ended March 31, 2016 was equal to €1.3 million. This amount relates to the restructuring of the Management Committee and the termination of an agency agreement.

#### **Note 8. Income tax benefit / expense**

Income tax expense is recognised based on management's estimate of the weighted average estimated effective income tax rate for the full financial year applied to the interim period pre-tax income of each jurisdiction. The estimated average annual tax rate for the year remains unchanged compared to last year. The fluctuation of the income tax expense is mainly attributable to deferred income taxes.

Income tax expenses are equal to €1.1 million for the three months ended March 31, 2017, as compared to €2.4 million in the same period last year. The tax charge of €1.1m million in the first quarter of 2017 corresponds to an effective tax rate of approximately 30% when adjusting the profit before tax for non-tax deductible expenses (mainly strategic advisory expenses incurred as explained above).

For the period ended March 31, 2016, the tax expenses were relatively higher as a percentage of the profit before income taxes as a result of the inability to recognize a portion of the interest expenses incurred in certain subsidiaries of the Group due to inefficiencies in the Company's structure. These inefficiencies were removed in the course of 2016, resulting in a reduction of the effective tax rate as from 2017.

#### **Note 9. Property, plant and equipment**

During the three months ended March 31, 2017, property, plant and equipment and intangibles (excluding goodwill) increased by €15.6 million. The increase mainly relates to the acquisition of Bentley which owns €16.9 million of property, plant and equipment and intangibles (€0.7 million land and buildings, €8.9 million plant and machinery, €4.6 million other fixtures and fittings, tools and equipment, €2.7 million intangible assets).

Our net capital expenditures for the period comprised of: €4.2 million of efficiency and growth capex, €2.4 million of maintenance capital expenditures, €1.9 million of samples, (€0.1) million of disposals.

A total net depreciation expense of €7.1 million has been charged in the line "Depreciation, amortisation" in the statement of comprehensive income, which mainly relates to property, plant and equipment.

The Group leases various industrial buildings, plant and machinery under non-cancellable finance lease agreements. The lease terms are between 5 and 15 years, and ownership of the assets lie within the Group. The leasehold improvements are amortized using the straight-line method over the lessor of the term of the respective lease or the life of the asset.

#### **Note 10. Inventories**

Inventories increased by €23.6 million as compared to December 31, 2016, of which €15.9 million is driven by the acquisition of Bentley and €7.7 million is due to an increase of inventory owned by Balta. The €15.9 million inventory contributed by Bentley consists of €2.5 million finished products, €5.9 million work in progress and €7.5 million raw materials and consumables.

### Note 11. Trade and other receivables

Current trade and other receivables increased by €12.6 million to €67.5 million as of March 31, 2017, compared to €54.9 million as of December 31, 2016. This increase is driven by the acquisition of Bentley. Trade receivables owned by Bentley amount to €13.9 million at the acquisition date. Excluding the impact of the acquisition, current trade and other receivables decreased by €1.2 million.

### Note 12. Other comprehensive income

#### 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 during the reporting period.

€ thousands	March 31, 2017	December 31, 2016
Opening balance .....	(116)	-
Amounts recorded in the cash flow hedge reserve .....	(53)	2,190
Amounts recognized in the income statement.....	143	(2,307)
<b>Cash flow hedge reserve, ending balance.....</b>	<b>(26)</b>	<b>(116)</b>

### Note 13. Senior Secured Notes

(€ thousands)	March 31, 2017	December 31, 2016
<b>Total Senior Secured Notes</b>	<b>278,488</b>	<b>283,510</b>
<b>Non-Current portion.....</b>	<b>279,873</b>	<b>279,277</b>
Of which: gross debt .....	290,000	290,000
Of which: capitalised financing fees .....	(10,127)	(10,723)
<b>Current portion.....</b>	<b>(1,385)</b>	<b>4,234</b>
Of which: gross debt .....	999	6,618
Of which: capitalised financing fees .....	(2,384)	(2,384)

LSF9 Balta 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.

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 €12.5 million remain capitalized as of March 31, 2017 (as compared to €13.1 million on December 31, 2016).

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

## Note 14. Bank and other borrowings

The table below sets forth the breakdown of the bank and other borrowings as at March 31, 2017 and December 31, 2016 .

(€ thousands)	March 31, 2017	December 31, 2016
<b>Total Bank and other borrowings</b>	<b>129,980</b>	<b>18,002</b>
<b>Non-Current portion</b>	<b>126,394</b>	<b>15,388</b>
Senior Term Loan	73,144	--
Of which: gross debt	75,000	--
Of which: capitalised financing fees	(1,856)	--
Bentley Term Loan	28,087	--
Of which: gross debt	29,324	--
Of which: capitalised financing fees	(1,237)	--
Revolving credit facility Bentley	10,383	--
Finance leases	14,780	15,388
<b>Current portion</b>	<b>3,586</b>	<b>2,614</b>
Senior Term Loan	(360)	--
Of which: accrued interest	104	--
Of which: capitalised financing fees	(464)	--
Bentley Term loan	1,220	--
Of which: gross debt	1,543	--
Of which: capitalised financing fees	(323)	--
Bank overdrafts (uncleared cheques)	105	--
Commitment fees	118	120
Finance lease liabilities	2,503	2,494

### Senior Term Loan

On March 16, 2017, LSF9 Balta Issuer S.A. and certain of its subsidiaries entered into a senior term loan agreement (the “Senior Term Loan Agreement”), which provides for a €75.0 million senior term loan facility (the “Senior Term Loan”) and, subject to the restrictions on debt incurrence set out therein, uncommitted financing which ranks pari passu with or junior to such initial facility. The proceeds of the initial drawings of the Senior Term Loan were used to repay certain subordinated vendor loans incurred by the Issuer to finance the acquisition of Bentley and to pay related fees and expenses. The Senior Term Loan Agreement will mature on March 22, 2022.

The Senior Term Loan bears interest at a rate per annum equal to EURIBOR plus a margin of 5.00% per annum, subject to a margin ratchet based on the Consolidated Senior Secured Net Leverage Ratio (as defined in the Senior Term Loan Agreement).

The Senior Term Loan Agreement is guaranteed by the Issuer and the Guarantors that guarantee the Senior Secured Notes and is secured on the same Collateral that secures the Senior Secured Notes. The Senior Term Loan Agreement contains the same guarantor coverage test as the Revolving Credit Facility Agreement.

The Senior Term Loan Agreement contains incurrence covenants that are substantially the same as those applicable to the Senior Secured Notes. The Senior Term Loan Agreement also contains customary affirmative and negative covenants.

Costs related to the Senior Term Loan Agreement are capitalized and amortized into profit or loss over the term of the debt in accordance with the effective interest method. Total costs capitalized amounted to €2.3 million.

The current portion of the debt associated with the Senior Term Loan Agreement relates to accrued interest payable at the next interest payment date and the portion of the debt issuance costs that will be amortized into profit or loss over the next 12 months.

We confirm that as of March 31, 2017, 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.

### **Bentley Financing Arrangements**

BPS Parent, Inc. and other subsidiaries entered into a \$51.0 million syndicated credit facility (the “Fifth Third Credit Agreement”) with Fifth Third Bank and other financial institutions (the “Lenders”) on February 1, 2017. The credit facilities under the Fifth Third Credit Agreement consist of: (i) a five year revolving credit facility of \$18.0 million which will be due and payable on January 31, 2022, and availability is governed by a borrowing base, and (ii) a five year term loan facility of \$33.0 million (“Bentley Term Loan”), also scheduled to mature on January 31, 2022, requiring quarterly payments. Obligations under the Fifth Third Credit Agreement are secured by a security interest on substantially all assets of BPS Parent, Inc. and its subsidiaries in favor of the Lenders. The Fifth Third Credit Agreement contains affirmative and negative covenants with respect to BPS Parent, Inc. and its subsidiaries and other payment restrictions. Certain of the covenants limit indebtedness and investments of BPS Parent, Inc. and its subsidiaries and require the maintenance of certain financial ratios defined in the Fifth Third Credit Agreement.

As of March 31, 2017, the amount drawn under the revolving credit facility is equal to million €10.4 million (\$11.1 million). The net book value of the Bentley Term Loans as of March 31, 2017 is equal to €29.3 million (including capitalized financing fees and accrued interest).

The interests on the Bentley Term Loan are payable quarterly, this means on the first of May, August, November and February. Costs related to the Bentley Term Loan are capitalized and amortized into profit or loss over the term of the debt in accordance with the effective interest method. Total costs capitalized amounted to €1.6 million.

The current portion of the debt associated with the Bentley Term Loan relates to accrued interest payable at the next interest payment date and the portion of the debt issuance costs that will be amortized into profit or loss over the next 12 months.

### **Finance lease liabilities**

The finance lease liabilities have decreased from €17.9 million as of December 31, 2016 to €17.3 million as of March 31, 2017. No material new financial lease contracts have been signed during the period.

### **Bank overdrafts**

Bank overdrafts mainly relate to uncleared cheques and reflects the amount of uncleared cheques for which no cash is available on the cash and cash equivalent accounts at March 31, 2017.

### **Commitment fees**

The commitment fees payable remained stable at €0.1 million.

## Note 15. Additional disclosures on financial instruments

The carrying amounts and fair values of the trade and other receivables, cash and cash equivalents, the borrowings, the finance lease liabilities, the derivatives and the trade and other payables are summarized in the following table:

(€ thousands)	Fair value hierarchy	March 31, 2017	March 31, 2017	December 31, 2016	December 31, 2016
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets as per statement of financial positions</b>					
<b>Loans and receivables</b> .....		<b>108,154</b>	<b>108,154</b>	<b>101,056</b>	<b>101,056</b>
Trade and other receivables .....		68,422	68,422	55,068	55,068
Cash and cash equivalents .....	Level 1	39,732	39,732	45,988	45,988
<b>Assets at fair value through OCI</b> .....		<b>7</b>	<b>7</b>	<b>46</b>	<b>46</b>
Foreign exchange derivative financial instruments .....	Level 2	7	7	46	46
<b>Liabilities as per statement of financial positions</b>					
<b>Financial liabilities measured at amortised cost</b> .....		<b>557,033</b>	<b>595,747</b>	<b>433,075</b>	<b>468,564</b>
Senior Secured Notes .....	Level 1	278,488	317,202	283,511	319,000
Bank and other borrowings .....	Level 2	129,980	129,980	18,001	18,001
Trade and other payables.....		148,565	148,565	131,562	131,562
<b>Financial liabilities measured at fair value through OCI</b> .....		<b>33</b>	<b>33</b>	<b>162</b>	<b>162</b>
Foreign exchange derivative financial instruments .....	Level 2	33	33	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. 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. 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.

There were no changes in valuation techniques during the period.

## Note 16. 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.

There have been no changes in the risk management function or in any risk management policies since the year-end.

Our primary sources of liquidity consist of cash flows from operations, non-recourse factoring agreements, the Senior Secured Notes, a Senior Term Loan, a Bentley Term Loan and the Revolving Credit facilities. Our debt service obligations consist primarily capital and interest payments on the Bentley Term Loan and of interest payments on the Notes, the Senior Term Loan, and interest payments on amounts drawn under the Revolving Credit Facilities and the capital lease obligations.

We refer to note 15 for a detailed description of the changes which occurred between December 31, 2016 and March 31, 2017. As of March 31, 2017 the Company has a net debt of €385 million.

#### Note 17. Employee benefit obligations

Employee benefit obligations increased from €36.3 million as of December 31, 2016 to €39.4 million at March 31, 2017.

The increase mainly relates to employee benefit obligations in relation to the acquisition of Bentley (€2.0 million) which can be split in a non-current portion of €0.3 million and a current portion of €1.7 million. The remaining amount of €1 million can be allocated to the increase in the provision for holiday pay for the Balta Group.

#### Note 18. Trade and other payables

The outstanding trade and other payables increased from €131.6 million as of December 31, 2016 to €148.6 million as of March 31, 2017. This increase is driven by the acquisition of Bentley. Trade payables due by Bentley amount to €13.0 million at 31 March 2017.

#### Note 19. Dividends per share

The Group did not declare any dividends to shareholders for the period ended December 31, 2016 and March 31, 2017.

#### Note 20. Earnings per share

	March 31, 2017	December 31, 2016
<b>Basic earnings per share</b>		
Net result from continuing operations .....	158	2,460
Percentage of net result from continuing operations attributable to holders of ordinary shares LSF9 Balta Issuer SA .....	1%	1%
<b>Net result from continuing operations attributable to holders of ordinary shares LSF9 Balta Issuer SA .....</b>	<b>2</b>	<b>25</b>
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 €) .....	0.01	0.14

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 21. Contingencies

Since the publication of the last annual report, no material changes were noted in the contingencies for the Group. It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for.

## Note 22. Commitments

There have been no material changes in the commitments compared to December 31, 2016.

## Note 23. Seasonality of operations

The group has very limited seasonality impact on operations.

## Note 24. 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.

	March 31, 2017		December 31, 2016	
	<u>% of interest</u>	<u>% of control</u>	<u>% of interest</u>	<u>% of control</u>
<b>Belgium</b>				
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%
<b>Luxembourg</b>				
Balfin Services S.à r.l. ....	100%	100%	100%	100%
LSF9 Balta Luxembourg S.à r.l. (incorporated December 1, 2016) .....	100%	100%	100%	100%
LSF9 Balta Investment S.à r.l. ....	100%	100%	100%	100%
<b>Turkey</b>				
Balta Orient Tekstil Sanayi Ve Ticaret A.S. ....	100%	100%	100%	100%
Balta Floorcovering Yer Dös,emeleri San.ve Tic A.S, . ....	100%	100%	100%	100%
<b>Bermuda</b>				
LSF9 Renaissance GP (Bermuda) .....	100%	100%		
LSF9 Renaissance Bermuda Partners LP . ....	98.39%	100%	-	-
<b>USA</b>				
Balta USA Inc. ....	100%	100%	100%	100%
LSF9 Renaissance Holdings LLC .....	100%	100%	-	-
LSF9 Renaissance Acquisitions LLC .....	100%	100%	-	-
BPS Parent, Inc. ....	100%	100%	-	-
Bentley Prince Street Holdings, Inc. ....	100%	100%	-	-
Bentley Mills, Inc. ....	100%	100%	-	-
Prince Street, Inc. ....	100%	100%	-	-

## Note 25. Related party transactions

### Shares

Until February 22, 2017, 100 % of shares of LSF9 Balta Issuer S.A. were owned by LSF9 Balta Midco S.à r.l.. As a result of a sales and purchase agreement dated February 22, 2017, 100% of the shares of LSF9 Balta Issuer S.A. were sold to LSF9 Balta Holdco. Lone Star Fund IX, through intermediate holding companies, continues to control 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. 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)	March 31, 2017	March 31, 2016
<b>Total key management compensation</b>	<b>722</b>	<b>1,439</b>
Short-term employee benefits.....	722	811
Termination benefits .....	-	628

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 and by LSF9 Renaissance Bermuda Partners, G.P. for the Bentley Mills Management.

### ***Acquisition of Bentley***

We refer to Note 6 for a detailed description of the acquisition of Bentley.

### ***Balances arising from daily operations:***

(€ thousands)	March 31, 2017	December 31, 2016
Other payables to related parties .....	54	54

The balances mainly arise from current accounts positions at year end and quarterly end 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 and in trade and other payables.

### **Note 26. Subsequent events**

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. On May 17, 2017, Balta Group NV (“Balta”), a company to be inserted as a holding company above the Company, announced its intention to launch an initial public offering and listing of its ordinary shares on Euronext Brussels (the “Offering”), which is expected to comprise the sale of newly issued and existing ordinary shares to institutional and retail investors in Belgium and to certain institutional investors internationally. The Offering is expected to raise approximately €137.6 million net primary proceeds (excluding the estimated Offering-related fees and commissions) and will also include a secondary sell down of existing shares by Balta’s current shareholder Lone Star Fund IX. Balta intends to use the net primary proceeds of the Offering to reduce the Group’s leverage by repaying existing debt. After completion of the Offering, the Group is targeting a pro forma net debt / pro forma Adjusted EBITDA ratio of approximately 2.5x.