LSF9 Balta Issuer S.à r.l.

# 2018 QUARTERLY Report

Senior Secured Notes due 2022

Q2 2018 - Period Ended June 30 2018

LSF9 Balta Issuer S.à r. l.

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# 1. Key Figures

| (€ thousands) | H1 2018 | H1 2017 |
|---|---|---|
| | | |
| **Results** | | |
| **Revenue** | **321,896** | **333,931** |
| **Adjusted EBITDA** | **34,102** | **46,536** |
| **Adjusted EBITDA Margin** | **10.6%** | **13.9%** |
| Integration and restructuring expenses | (2,410) | (9,290) |
| EBITDA | 31,692 | 37,246 |
| Depreciation / amortisation | (16,199) | (15,516) |
| Operating profit / (loss) for the period | 15,492 | 21,730 |
| Net finance expenses | (12,717) | (21,555) |
| Income tax benefit / (expense) | (105) | (2,597) |
| **Profit/(loss) for the period** | **2,670** | **(2,422)** |
| | | |
| **Cash flow** | | |
| Cash at beginning of period | 37,182 | 45,988 |
| Net cash flow from operating activities | 6,791 | 19,116 |
| Net cash flow from investing activities | (14,912) | (90,753) |
| Net cash flow from financing activities | (11,743) | 54,865 |
| Cash at end of period | 17,317 | 29,216 |
| | | |
| **Financial position** | | |
| **Net debt** | **272,259** | **263,485** |
| LTM Adjusted EBITDA | 71,922 | 99,175 |
| **Net debt / Adjusted EBITDA** | **3.8** | **2.7** |

# 2. Management discussion and analysis of the results

## 2.1. Group Financial Highlights

- H1 Consolidated: Revenue of €321.9m -3.6%, Adjusted EBITDA of €34.2m -26.6%, EBITDA margin of 10.6%
- H1 Organic revenue decline of 8.8%, by division:
  - Rugs decline of 16.2% as a result of the previously announced partial loss in 'share of wallet' with two US home improvement customers and strong prior year comparative. This is largely in line with our guidance, although Q2 saw a softer trading environment develop in Europe with lower footfall reported by our customers
  - Strong Commercial growth of 8.6%, driven by both US and Europe
  - Residential decline of 12.8% (Q1 14.3%) due to customer disruption, unfavorable weather and weak trading conditions, mainly in the UK
- EBITDA in H1 includes €2.6m of costs associated with property taxes for the full year (in line with last year)
- EBITDA margin impacted by continued raw material headwinds, negative FX and lower volumes
- Leverage of 3.8x (net debt of €272.3m) compared to 2.9x at December 2017 reflecting the decline of the last 12 month's EBITDA and a normal seasonal working capital increase

## 2.2. Business Update

- We continue to successfully diversify our US rugs business with new customer wins, growth in indoor rugs and e-commerce. In outdoor rugs, for next season's programme we have regained part of the 'share of wallet' lost in 2017, which will start to benefit from Q4 2018
- Bentley delivered underlying growth[(1)] of 13.8% revenue and 36.4% EBITDA, driven by increased market share and by delivering growth on the investment made in sales resource
- Commercial division $2m targeted procurement and operational cost synergies will now be fully delivered in 2018
- The optimisation of the Residential operational footprint has been completed, benefits have commenced and we remain confident to deliver the full run rate benefit of €8.3m EBITDA in financial year 2019. However, these benefits will start from a lower base as the Residential market has remained challenging into Q3.

(1) Underlying growth refers to Bentley performance year on year in US $

# 3. Operating review per segment

## 3.1. Revenue and Adjusted EBITDA per segment

### 3.1.1. H1 2018

| *(€ million, unless otherwise stated)* | H1 2018 | H1 2017 | % change | o/w organic growth | o/w FX | o/w M&A |
|---|---|---|---|---|---|---|
| Rugs | 100.8 | 126.4 | (20.3)% | (16.2)% | (4.0)% | 0.0% |
| Commercial | 101.9 | 72.5 | 40.6% | 8.6% | (4.1)% | 36.1% |
| Residential | 105.1 | 121.4 | (13.4)% | (12.8)% | (0.6)% | 0.0% |
| Non-Woven | 14.1 | 13.7 | 2.6% | 2.6% | 0.0% | 0.0% |
| **Consolidated Revenue** | **321.9** | **333.9** | **(3.6)%** | **(8.8)%** | **(2.6)%** | **7.8%** |
| Pro Forma Adjustment Bentley | - | 27.7 | | | | |
| **Pro Forma Revenue** | **321.9** | **361.6** | **(11.0)%** | **(7.4)%** | **(3.5)%** | |
| | | | | | | |
| Rugs | 12.5 | 23.2 | (46.4)% | (40.2)% | (6.2)% | 0.0% |
| Commercial | 14.1 | 10.4 | 36.1% | 9.6% | (4.7)% | 31.2% |
| Residential | 6.2 | 11.4 | (45.3)% | (40.8)% | (4.6)% | 0.0% |
| Non-Woven | 1.4 | 1.5 | (8.9)% | (8.9)% | 0.0% | 0.0% |
| **Consolidated Adjusted EBITDA** | **34.2** | **46.5** | **(26.6)%** | **(28.2)%** | **(5.3)%** | **6.9%** |
| Pro Forma Adjustment Bentley | - | 2.9 | | | | |
| **Pro Forma Adjusted EBITDA** | **34.2** | **49.5** | **(30.9)%** | **(24.9)%** | **(6.0)%** | |
| | | | | | | |
| Rugs | 12.4% | 18.4% | | | | |
| Commercial | 13.8% | 14.3% | | | | |
| Residential | 5.9% | 9.4% | | | | |
| Non-Woven | 9.8% | 11.0% | | | | |
| **Consolidated Adjusted EBITDA Margin** | **10.6%** | **13.9%** | | | | |
| Pro Forma Adjustment Bentley | | 10.6% | | | | |
| **Pro Forma Adjusted EBITDA Margin** | **10.6%** | **13.7%** | | | | |

Note: The acquisition of Bentley was made at the end of Q1 2017, therefore from Q2 2018 onwards Bentley is reported under the Commercial division with organic growth and FX shown separately. For Q1 2018 Bentley is shown in the M&A analysis (including the FX impact of dollar to euro translation) and the prior year comparative is shown in the Pro Forma figure.

### 3.1.2. Q2 2018

| *(€ million, unless otherwise stated)* | Q2 2018 | Q2 2017 | % change | o/w organic growth | o/w FX | o/w M&A |
|---|---|---|---|---|---|---|
| Rugs | 47.6 | 63.0 | (24.5)% | (20.7)% | (3.8)% | 0.0% |
| Commercial | 53.6 | 50.3 | 6.6% | 12.3% | (5.8)% | 0.0% |
| Residential | 51.5 | 58.2 | (11.6)% | (11.1)% | (0.5)% | 0.0% |
| Non-Woven | 6.9 | 6.8 | 1.2% | 1.2% | 0.0% | 0.0% |
| **Consolidated Revenue** | **159.6** | **178.4** | **(10.5)%** | **(7.4)%** | **(3.1)%** | **0.0%** |
| Pro Forma Adjustment Bentley | - | - | | | | |
| **Pro Forma Revenue** | **159.6** | **178.4** | **(10.5)%** | **(7.4)%** | **(3.1)%** | |
| | | | | | | |
| Rugs | 6.6 | 12.1 | (45.7)% | (45.0)% | (0.7)% | 0.0% |
| Commercial | 8.2 | 7.4 | 10.8% | 16.7% | (5.9)% | 0.0% |
| Residential | 3.5 | 6.3 | (45.2)% | (42.4)% | (2.8)% | 0.0% |
| Non-Woven | 0.6 | 0.7 | (6.7)% | (6.7)% | 0.0% | 0.0% |
| **Consolidated Adjusted EBITDA** | **18.8** | **26.4** | **(28.8)%** | **(26.2)%** | **(2.6)%** | **0.0%** |
| Pro Forma Adjustment Bentley | - | - | | | | |
| **Pro Forma Adjusted EBITDA** | **18.8** | **26.4** | **(28.8)%** | **(26.2)%** | **(2.6)%** | |
| | | | | | | |
| Rugs | 13.8% | 19.1% | | | | |
| Commercial | 15.3% | 14.7% | | | | |
| Residential | 6.7% | 10.9% | | | | |
| Non-Woven | 9.0% | 9.7% | | | | |
| **Consolidated Adjusted EBITDA Margin** | **11.8%** | **14.8%** | | | | |
| Pro Forma Adjustment Bentley | | | | | | |
| **Pro Forma Adjusted EBITDA Margin** | **11.8%** | **14.8%** | | | | |

## 3.2. Rugs

Organic performance has been largely in line with our guidance of mid-teens revenue decline, reflecting the 'share of wallet' reduction with two US home improvement customers, a softer trading environment in Europe with retailers reporting lower footfall, and the strong 2017 first half comparative when revenue grew by 12.9%.

First half organic revenue declined by 16.2% amplified by a negative FX impact of 4.0% driven by the weaker US dollar resulting in a consolidated revenue decline of 20.3% compared to the previous year.

Consolidated Adjusted EBITDA of €12.5m declined by 46.4%, reflecting the lower volumes, the time delay between higher raw material prices and the actions required to compensate, and FX. The H1 negative FX impact on EBITDA is 6.2% (Q2 of -0.7% compared to Q1 of -12.2%) as a result of the weaker year on year US dollar, but the FX impact is expected to neutralise over the year.

Rugs programme negotiations with existing and new customers have progressed well. We have continued to diversify our US rugs business through new customer wins, growth in indoor rugs and e-commerce. In outdoor rugs, for next season's programme we have regained part of the 'share of wallet' lost in 2017, which will start to benefit from Q4 2018. However, the soft European trading environment is continuing into the third quarter.

## 3.3. Commercial

Bentley was included from the start of Q2 2017, therefore from Q2 2018 Bentley is reported under the Commercial division with organic growth and FX shown separately. For Q1 2018 the growth impact from Bentley is shown under M&A (including the FX impact of US Dollar to Euro translation) and the prior year comparative is shown in the pro-forma figure.

Consolidated Revenue increased by 40.6% to €101.9m, driven by the first time inclusion of Bentley in Q1 2018 and organic growth of 8.6%. Price increases have been implemented both in Europe and the US during Q1, and we are now starting to see the margin benefits.

In Europe, we are back on track after the operational issues we encountered during the second half of 2017, and delivered low-single digit organic growth over the first half, driven by mid-single digit organic growth in the second quarter.

In the US, in underlying currency, the Bentley business grew revenues by 13.8%. Bentley had a strong first half performance, and continues to grow ahead of the market, benefiting from the increased investments made in sales resource. The operational and procurement cost synergies between our European and US commercial businesses will deliver the projected $2m in 2018.

We have developed a stronger relationship with an LVT supplier, enabling Bentley to provide a one stop shop for our customers' projects. We have more than doubled our LVT sales versus prior year, albeit still from a small base.

H1 Adjusted EBITDA increased by 36.1% to €14.1m with organic growth contributing 9.6%.

## 3.4. Residential

Consolidated Revenue of €105.1m declined by 13.4%, with an organic decline of 12.8% and negative FX impact of 0.6%. The Residential revenue decline is almost all volume driven. The underlying conditions in our key European markets have been challenging, with reduced footfall in our customer outlets resulting in a more competitive price environment to protect volume. At the same time, the strategy to grow sales of higher margin products continues to be successful with the share of total Residential revenue increased to 31%.

Generally, the residential retail and wholesale sectors in our key markets were under pressure, impacted by the cold weather conditions during Q1 and the prolonged hot weather in Q2 and extending into Q3, alongside major events such as the Football World Cup, resulting in subdued retail footfall. More specifically for the UK, the change from the previously stable residential market proved very challenging. This was further amplified by the subdued performance of the largest UK carpet retailer, which in the meantime started its restructuring plan.

Adjusted EBITDA margins of 5.9% remained significantly lower than in H1 2017 (9.4%) due to the raw material price inflation, adverse currency movements and the reduction in volumes, with the mitigating benefits from the footprint optimization having started in H1. As a reminder, the benefits from the optimisation of the Residential operational footprint will deliver the run rate benefits of €8.3m EBITDA in financial year 2019. However, these benefits will start from a lower base as the Residential market has remained challenging into Q3.

# 4. Other financial items review

## 4.1. Non-recurring items

Non-recurring expenses over the first six months of 2018 amounted to €2.4m, as compared to €9.3m in the same period last year. €1.8m in the current period is driven by the previously announced optimisation of the Residential operational footprint. In addition, a minor part is fees incurred for strategic advisory services supporting the execution of the six key priorities for delivering improved performance as detailed in the 2017 annual report.

## 4.2. Net financing expenses

Net finance expenses for the first six months of 2018 are equal to €12.7m, as compared to €21.6m in the same period last year. This decrease is mainly driven by (i) a €6.2m lower interest expense due to lower gross debt after the IPO, (ii) a €1.1m reduction in financing costs due to refinancing part of the 7.75% Senior Secured Notes by a €35m Senior Term Loan facility at 1.4% margin in September 2017, and (iii) the absence of €1.7m fees incurred in H1 2017 in relation to the partial early redemption of the Senior Secured Notes.

## 4.3. Taxation

Income tax expenses are equal to €0.1m for the six months ended June 30, 2018, as compared to an income tax expense of €2.6m in the same period last year. The normalized effective tax rate of the Group amounts to around 26%. The income tax benefit for the period is further driven by €0.3m utilization of tax credits not previously recognized as deferred tax assets and €0.3m impact of tax investment incentives.

## 4.4. Earnings per share

Net earnings per share for the first six months of 2018 were €0.02, compared to -€0.02 earnings per share for the same period last year.

## 4.5. Cashflow and net debt

Net debt at the end of June 2018 is equal to €272.3m, versus €253.5m at the end of December 2017. The increase in net debt is driven by (i) exceptional one-off costs in relation to the restructuring of the operating footprint in our Residential division, and (ii) an increase in working capital driven by the seasonality of our business operations. We intentionally build up inventories during the months of June and July in preparation for the increase in demand and the annual shutdown of the majority of our manufacturing facilities in August. As a result, our trade working capital is higher during the summer months compared to the rest of the year.

## 5. Risk Factors

There are no material changes related to the risks and uncertainties for the Group as explained in the section "Summary of main risks" of the 2017 annual report.

# 6. Consolidated Interim Financial Statements

## 6.1. Consolidated Statement of Comprehensive Income

| (€ thousands) | Q2 2018 | Q2 2017 | H1 2018 | H1 2017 |
|---|---|---|---|---|
| **I. CONSOLIDATED INCOME STATEMENT** | | | | |
| Revenue | 159,622 | 178,397 | 321,896 | 333,931 |
| Raw material expenses | (79,427) | (86,279) | (154,290) | (162,075) |
| Changes in inventories | 4,319 | 7,272 | 5,202 | 12,650 |
| Employee benefit expenses | (39,816) | (42,243) | (80,346) | (77,723) |
| Other income | 927 | 1,710 | 1,824 | 4,050 |
| Other expenses | (26,779) | (32,428) | (60,184) | (64,297) |
| Depreciation/ amortization | (8,106) | (8,442) | (16,199) | (15,516) |
| **Adjusted Operating Profit [1]** | **10,740** | **17,987** | **17,902** | **31,020** |
| Gains on asset disposals | - | - | - | - |
| Integration and restructuring expenses | (1,606) | (5,067) | (2,410) | (9,290) |
| **Operating profit / (loss) [1]** | **9,134** | **12,920** | **15,492** | **21,730** |
| Finance income | 43 | 10 | 50 | 17 |
| Finance expenses | (6,289) | (14,024) | (12,767) | (21,572) |
| **Net finance expenses** | **(6,247)** | **(14,014)** | **(12,717)** | **(21,555)** |
| **Profit / (loss) before income taxes** | **2,887** | **(1,093)** | **2,775** | **175** |
| Income tax benefit / (expense) | (1,525) | (1,487) | (105) | (2,597) |
| **Profit / (loss) for the period from continuing operations** | **1,362** | **(2,580)** | **2,670** | **(2,422)** |
| Profit/ (loss) for the period from discontinued operations | | | | |
| **Profit/(loss) for the period** | **1,362** | **(2,580)** | **2,670** | **(2,422)** |
| Attributable to: | | | | |
| Equity holders | 1,362 | (2,614) | 2,670 | (2,456) |
| Non-controlling interest | - | 34 | - | 34 |
| **II. CONSOLIDATED OTHER COMPREHENSIVE INCOME** | | | | |
| *Items in other comprehensive income that may be subsequently reclassified to P&L* | | | | |
| Exchange differences on translating foreign operations | 2,486 | (2,135) | (11,140) | (5,053) |
| Changes in fair value of hedging instruments qualifying for cash flow hedge accounting | 202 | 1,080 | 160 | 1,170 |
| Changes in deferred taxes | (49) | - | (49) | - |
| *Items in other comprehensive income that will not be reclassified to P&L* | | | | |
| Changes in deferred taxes | (16) | (135) | 41 | (172) |
| Changes in employee defined benefit obligations | 19 | 410 | (163) | 525 |
| **Other comprehensive income for the period, net of tax** | **2,643** | **(780)** | **(11,150)** | **(3,530)** |
| **Total comprehensive income for the period** | **4,004** | **(3,360)** | **(8,481)** | **(5,952)** |
| **Basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the company** | **0.01** | **(0.02)** | **0.02** | **(0.02)** |

(1) Adjusted Operating Profit / Operating profit/(loss) are non-GAAP measures.
Adjusted EBITDA is calculated as Adjusted Operating Profit (Loss) adjusted for depreciation and amortization charges.

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

## 6.2. Consolidated Statement of Financial Position

| (€ thousands) | 30 June 2018 | 31 Dec 2017 |
|---|---|---|
| Property, plant and equipment | | |
| Land and buildings | 157,707 | 162,103 |
| Plant and machinery | 129,640 | 130,977 |
| Other fixtures and fittings, tools and equipment | 18,051 | 18,080 |
| Goodwill | 193,392 | 198,814 |
| Intangible assets | 12,046 | 12,218 |
| Deferred income tax assets | 3,952 | 4,160 |
| Trade and other receivables | 956 | 1,165 |
| **Total non-current assets** | **515,742** | **527,518** |
| | | |
| Inventories | 158,425 | 147,868 |
| Derivative financial instruments | 206 | - |
| Trade and other receivables | 62,805 | 62,760 |
| Current income tax assets | 1,220 | 3,914 |
| Cash and cash equivalents | 17,317 | 37,182 |
| **Total current assets** | **239,974** | **251,723** |
| | | |
| **Total assets** | **755,717** | **779,240** |
| | | |
| Share capital | 137,848 | 137,848 |
| Share premium | 155,486 | 155,486 |
| Other comprehensive income | (31,065) | (19,913) |
| Retained earnings | 1,796 | 433 |
| Other reserves | (14,283) | (14,283) |
| **Total equity** | **249,782** | **259,571** |
| | | |
| Senior Secured Notes | 229,098 | 228,130 |
| Senior Term Loan Facility | 34,838 | 34,782 |
| Bank and Other Borrowings | 12,750 | 13,310 |
| Deferred income tax liabilities | 49,871 | 54,471 |
| Provisions for other liabilities and charges | 2,402 | 2,335 |
| Employee benefit obligations | 4,207 | 4,127 |
| **Total non-current liabilities** | **333,166** | **337,156** |
| | | |
| Senior Secured Notes | 3,425 | 3,425 |
| Senior Term Loan Facility | (117) | (108) |
| Bank and Other Borrowings | 1,623 | 2,361 |
| Provisions for other liabilities and charges | 4,178 | 7,316 |
| Derivative financial instruments | 14 | 2 |
| Other payroll and social related payables | 32,771 | 33,359 |
| Trade and other payables | 127,543 | 132,414 |
| Income tax liabilities | 3,330 | 3,745 |
| **Total current liabilities** | **172,767** | **182,514** |
| | | |
| **Total liabilities** | **505,933** | **519,668** |
| | | |
| **Total equity and liabilities** | **755,717** | **779,240** |

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

## 6.3. Consolidated Statement of Cash Flows

| (€ thousands) | H1 2018 | H1 2017 |
|---|---|---|
| **I. CASH FLOW FROM OPERATING ACTIVITIES** | | |
| | | |
| **Net profit / (loss) for the period** | **2,670** | **(2,422)** |
| | | |
| Adjustments for: | | |
| | | |
| Reclass of capital increase expenses to cash flow from financing activities (gross) | - | 6,697 |
| Income tax expense/(income) | 105 | 2,597 |
| Finance income | (50) | (17) |
| Financial expense | 12,767 | 21,572 |
| Depreciation, amortisation | 16,199 | 15,516 |
| (Gain)/loss on disposal of non-current assets | (2) | - |
| Movement in provisions and deferred revenue | (3,139) | - |
| Fair value of derivatives | (34) | - |
| **Cash generated before changes in working capital** | **28,516** | **43,944** |
| | | |
| Changes in working capital: | | |
| Inventories | (12,478) | (22,089) |
| Trade receivables | (4,113) | 586 |
| Trade payables | 120 | 8,336 |
| Other working capital | (1,977) | (7,097) |
| **Cash generated after changes in working capital** | **10,068** | **23,681** |
| | | |
| Net income tax (paid) | (3,277) | (4,565) |
| **Net cash generated / (used) by operating activities** | **6,791** | **19,116** |
| | | |
| **II. CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Acquisition of property, plant and equipment | (14,728) | (21,272) |
| Acquisition of intangibles | (599) | (484) |
| Proceeds from non-current assets | 415 | 655 |
| Acquisition of subsidiary | | (69,654) |
| **Net cash used by investing activities** | **(14,912)** | **(90,753)** |
| | | |
| **IIII. CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Interest and other finance charges paid, net | (10,506) | (17,477) |
| Proceeds from capital increase | - | 137,677 |
| Capital increase expenses (net) | - | (5,938) |
| Proceeds from borrowings with third parties | - | 76,227 |
| Proceeds from capital contribution | - | 1,343 |
| Repayments of Senior Secured Notes | - | (21,228) |
| Repayments of borrowings with third parties | (1,236) | (115,740) |
| **Net cash generated / (used) by financing activities** | **(11,743)** | **54,865** |
| | | |
| **NET INCREASE/ (DECREASE ) IN CASH AND BANK OVERDRAFTS** | **(19,864)** | **(16,772)** |
| | | |
| Cash, cash equivalents and bank overdrafts at the beginning of the period | 37,182 | 45,988 |
| Cash, cash equivalents and bank overdrafts at the end of the period | 17,317 | 29,216 |

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

## 6.4. Consolidated Statement of Changes in Equity

| (€ thousands) | Share capital | Share premium | Preferred Equity Certificates | Other comprehensive income | Retained earnings | Other reserves | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2017** | **171** | **1,260** | **138,600** | **(7,063)** | **3,351** | **-** | **136,319** | **-** | **136,319** |
| Profit / (loss) for the period | - | - | - | - | (2,919) | - | (2,919) | 34 | (2,884) |
| **Other comprehensive income** | | | | | | | | | |
| Exchange differences on translating foreign operations | - | - | - | (13,522) | - | - | (13,522) | - | (13,522) |
| Changes in fair value of hedging instruments qualifying for cash flow hedge accounting | - | - | - | 123 | - | - | 123 | - | 123 |
| Cumulative changes in deferred taxes | - | - | - | (457) | - | - | (457) | - | (457) |
| Cumulative changes in employee defined benefit obligations | - | - | - | 1,005 | - | - | 1,005 | - | 1,005 |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **(12,850)** | **(2,919)** | **-** | **(15,769)** | **34** | **(15,735)** |
| Contribution of PEC's into equity | - | 152,883 | (138,600) | - | - | (14,283) | - | - | - |
| Capital contribution Bentley Management buy-out | - | 1,343 | - | - | - | - | 1,343 | (34) | 1,309 |
| Capital contribution in cash | 137,677 | - | - | - | - | - | 137,677 | - | 137,677 |
| **Total transactions with the owners** | **137,677** | **154,226** | **(138,600)** | **-** | **-** | **(14,283)** | **139,020** | **(34)** | **138,986** |
| **Balance at December 31, 2017** | **137,848** | **155,486** | **-** | **(19,913)** | **433** | **(14,283)** | **259,571** | **-** | **259,571** |
| **Balance at December 31, 2017** | **137,848** | **155,486** | **-** | **(19,913)** | **433** | **(14,283)** | **259,571** | **-** | **259,571** |
| Adjustment on initial application of IFRS 9 (net of tax) | - | - | - | - | (1,308) | - | (1,308) | - | (1,308) |
| **Adjusted balance January 1, 2018** | **137,848** | **155,486** | **-** | **(19,913)** | **(875)** | **(14,283)** | **258,263** | **-** | **258,263** |
| Profit / (loss) for the period | - | - | - | - | 2,670 | - | 2,670 | - | 2,670 |
| **Other comprehensive income** | | | | | | | | | |
| Exchange differences on translating foreign operations | - | - | - | (11,140) | - | - | (11,140) | | (11,140) |
| Changes in fair value of hedging instruments qualifying for cash flow hedge accounting | - | - | - | 160 | - | - | 160 | | 160 |
| Cumulative changes in deferred taxes | - | - | - | (7) | - | - | (7) | | (7) |
| Cumulative changes in employee defined benefit obligations | - | - | - | (163) | - | - | (163) | | (163) |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **(11,151)** | **2,670** | **-** | **(8,481)** | **-** | **(8,481)** |
| **Balance at June 30, 2018** | **137,848** | **155,486** | **-** | **(31,065)** | **1,796** | **(14,283)** | **249,782** | **-** | **249,782** |

## 6.5. Selected Explanatory Notes to the Condensed Consolidated Interim Financial Statements

### 6.5.1. Significant Accounting Policies

These consolidated condensed interim financial statements for the six months ended June 30, 2018 have been prepared in accordance with IAS 34 *Interim financial reporting*. They do not include all the notes of the type normally included in an annual report. Accordingly, this report is to be read in conjunction with the annual report for the year ended December 31, 2017 and any public announcements made by LSF9 Balta Issuer during the interim reporting period.

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.

The accounting policies are consistent with those of the previous financial year and corresponding interim period, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group has to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

- IFRS 9 *Financial Instruments*

IFRS 9 has replaced IAS 39 *Financial Instruments: Recognition and Measurement*, and has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward looking expected credit loss (ECL) approach.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Group expects to receive. For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix. Trade receivables have been categorized by common characteristics that are representative of the customer's abilities to pay (based on geographical region and type of customers such as retail, wholesale or construction & building, and delinquency status). The provision matrix is based on historical observed default rates, whereby historical credit loss experience is adjusted by scalar factors to reflect differences in the Group's view of current and expected economic conditions and historical conditions.

This has resulted in an increase of the provision at January 1, 2018 €1.9m (€1.3m net of tax). This adjustment is recognized in the opening balance sheet in January 1, 2018, resulting in a decrease of the Trade and Other receivables of €1.9m, an increase in deferred tax assets of €0.6m and a corresponding decrease in retained earnings of €1.3m.

- IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of revenue related interpretations. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard establishes a five-step model to account for revenue arising from contracts with customers. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The five steps are to identify the contract(s) with the customer, identify the performance

obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation and recognize revenue as each performance obligation is satisfied.

Balta has assessed each of the revenue streams from an IFRS 15 revenue recognition perspective and has concluded that IFRS 15 does not have an impact on the amount and timing of revenue recognition. In adopting IFRS 15 the Group has considered the following:

*Recognition of revenue from distinct performance obligations*

The Group has analyzed its contracts with customers to determine all its performance obligations. Performance obligations arising from the Group's sales contracts are mainly order-driven customer deliveries related to the sale of goods. Services mostly have an ancillary role in the Group's business operations, or they complement deliveries of goods. The Group did not identify any distinct performance obligations that should be accounted for in accordance with IFRS 15.

*Variable considerations*

Some contracts with customers provide volume rebates, financial discounts, price concessions or a right of return for quality claims. Revenue from these sales are recognized based on the price specified in the contract, net of returns and allowances, trade discounts and volume rebates. During a financial year, the presentation of the effect of a variable price component can be based on management's judgement of discount drivers, for example the sales quantity reached with a given customer during the year. IFRS 15 does not change the principles applied by the Group to the determination or allocation of the transaction price.

*Recognizing revenue as each performance obligation is satisfied*

According to IFRS 15, revenue is recognized in the period during which the customer assumes control of the delivered goods. The Group delivers goods under contractual terms based on internationally accepted delivery conditions (Incoterms) and has concluded that the transfer of risks and rewards generally coincides with the transfer of control at a point in time under Incoterms. Consequently, the timing of revenue recognized for the sales of its products does not change under IFRS 15.

*Warranty obligations*

The Group provides assurance-type warranties that the products sold comply with agreed-upon specifications. These warranties do not quality as a separate service (performance obligations) and hence will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with past practice.

(b) Impact of standards issued but not yet applied by the Group

IFRS 16 Leases will replace IAS 17 and will eliminate the distinction between operating and finance leases. This standard is applicable as of January 1, 2019 and will require the Group to record all leases with terms of over one year in the manner currently required for finance leases under IAS 17, and thus to record an asset (the right to use the leased item) and a financial liability reflecting future lease payments. The Group has commenced a project to assess the overall impact of the standard, including considering the systems and processes required for implementation. So far, all lease contracts have been identified and centralized in one database together with all main characteristics. The Group is now in the process of gathering the additional information necessary to ascertain the impact of the new standard on its financial statements. Metrics which will be affected include total assets, total liabilities, classification of costs (for example depreciation charges replacing operating lease rental costs) and key financial ratios such as Adjusted EBITDA and leverage. Existing borrowing covenants are not impacted by changes in accounting standards.

### 6.5.2. 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) | Q2 2018 | Previous reporting period [1] | H1 2018 | Previous reporting period [1] |
|---|---|---|---|---|
| **Revenue by segment** | **159,622** | **178,397** | **321,896** | **333,931** |
| Rugs | 47,559 | 63,002 | 100,764 | 126,379 |
| Commercial | 53,644 | 50,328 | 101,925 | 72,475 |
| Residential | 51,488 | 58,221 | 105,132 | 121,353 |
| Non-Woven | 6,930 | 6,846 | 14,074 | 13,723 |
| **Revenue by geography** | **159,622** | **178,397** | **321,896** | **333,931** |
| Europe | 94,651 | 107,474 | 198,754 | 221,381 |
| North America | 50,034 | 53,467 | 95,680 | 80,742 |
| Rest of World | 14,936 | 17,456 | 27,462 | 31,808 |
| **Adjusted EBITDA by segment** | **18,847** | **26,429** | **34,102** | **46,536** |
| Rugs | 6,561 | 12,058 | 12,431 | 23,246 |
| Commercial | 8,197 | 7,387 | 14,067 | 11,416 |
| Residential | 3,468 | 6,319 | 6,228 | 10,359 |
| Non-Woven | 621 | 665 | 1,376 | 1,515 |
| **Net capital expenditure by segment** | **8,069** | **12,688** | **14,912** | **21,100** |
| Rugs | 2,875 | 5,474 | 4,642 | 7,771 |
| Commercial | 2,989 | 2,931 | 5,187 | 5,846 |
| Residential | 2,004 | 3,884 | 4,688 | 7,033 |
| Non-Woven | 201 | 398 | 395 | 447 |
| **Net inventory by segment** | **158,425** | **147,868** | **158,425** | **147,868** |
| Rugs | 65,584 | 65,898 | 65,584 | 65,898 |
| Commercial | 37,687 | 31,162 | 37,687 | 31,162 |
| Residential | 50,498 | 46,818 | 50,498 | 46,818 |
| Non-Woven | 4,656 | 3,989 | 4,656 | 3,989 |
| **Trade receivables by segment** | **52,425** | **49,649** | **52,425** | **49,649** |
| Rugs | 10,748 | 11,946 | 10,748 | 11,946 |
| Commercial | 22,857 | 16,048 | 22,857 | 16,048 |
| Residential | 17,227 | 20,404 | 17,227 | 20,404 |
| Non-Woven | 1,594 | 1,251 | 1,594 | 1,251 |

(1) For Revenue, Adjusted EBITDA and Capital Expenditure, the previous reporting period refers to the period ended June 30, 2017. The previous reported period of Net Inventory and Trade Receivables refers to the period ended December 31, 2017.

### 6.5.3. Integration and Restructuring Expenses

The following table sets forth integration and restructuring expenses for the period ended June 30, 2018 and 2017. This comprises various items which are considered by management as non-recurring or unusual by nature.

| (€ thousands) | Q2 2018 | Q2 2017 | H1 2018 | H1 2017 |
|---|---|---|---|---|
| **Integration and restructuring expenses** | **1,606** | **5,067** | **2,410** | **9,290** |
| Corporate restructuring | - | (43) | - | 330 |
| Business restructuring | 1,047 | - | 1,846 | - |
| Acquisition related expenses | - | 396 | - | 1,376 |
| Idle IT costs | - | 272 | - | 776 |
| Strategic advisory services | 358 | 4,589 | 358 | 6,958 |
| Other | 203 | (148) | 208 | (148) |

Integration and restructuring expenses over the first six months of 2018 amounted to €2.4m, as compared to €9.3m in the same period last year. €1.8m in the current period is driven by the previously announced optimisation of the Residential operational footprint. In addition, a minor part is fees incurred for strategic advisory services supporting the execution of the six key priorities for delivering improved performance as detailed in the 2017 annual report.

During the six months ended June 30, 2017, €7.0m of integration and restructuring expenses were incurred in connection with the IPO of the Balta Group, thanks to which the Company has been able to increase its capital and reduce its leverage. Acquisition related expenses amounted to €1.4m 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 €0.8m.

### 6.5.4. Goodwill

The goodwill decreased by €5.4m from €198.8m as of December 31, 2017 to €193.4m as of June 30, 2018. The decrease in goodwill reflects the changes in foreign exchange rate from the US dollar to euro from the date of acquisition of Bentley. The related foreign exchange fluctuations are presented in other comprehensive income.

The Group considers that the assumptions used in 2017 to test the goodwill for impairment remain valid in all respects and that the six key priorities for delivering improved performance as described in the most recent annual report support the “value in use” calculations.

## 6.5.5. Net Debt Reconciliation

The following table reconciles the net cash flow to movements in net debt:

| | Other assets | Liabilities from financing actities | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | Cash and cash equivalents | Senior Secured Notes due after 1 year | Senior Secured Notes due within 1 year | Senior Term Loan facility due after 1 year | Senior Term Loan facility due within 1 year | Finance lease liabilities due after 1 year | Finance lease liabilities due within 1 year | |
| **(€ thousands)** | | | | | | | | |
| **Net debt as at January 1, 2018** | **37,182** | **(234,900)** | **(5,360)** | **(35,000)** | **(23)** | **(13,310)** | **(2,225)** | **(253,636)** |
| Cashflows | (19,864) | - | - | - | - | - | - | (19,864) |
| Proceeds of borrowings with third parties | - | - | - | - | - | - | - | - |
| Repayments of borrowings with third parties | - | - | - | - | - | - | 1,236 | 1,236 |
| Foreign exchange adjustments | - | - | - | - | - | - | - | - |
| Other non-cash movements | - | - | - | - | - | 560 | (555) | 6 |
| **Net debt as at June 30, 2018** | **17,317** | **(234,900)** | **(5,360)** | **(35,000)** | **(22)** | **(12,750)** | **(1,544)** | **(272,259)** |

## 6.5.6. Related Party Transactions

The related party transactions with shareholders and parties related to the shareholders have not substantially changed in nature and impact compared to the year ended December 31, 2017 and hence no updated information is included in this interim report.

The remuneration of key management is determined on an annual basis, for which reason no further details are included in this interim report.

## 6.5.7. Commitments

There is no significant evolution to report in terms of commitments. Please refer to Note 37 'Commitments' in the IFRS Financial Statements of the 2017 annual report.

## 6.5.8. Events After the Statement of Financial Position Date

No subsequent events occurred which could have a significant impact on the interim condensed financial statements of the Group per June 30, 2018.