



LSF9 Balta Issuer S.A.

**Quarterly Report to Noteholders
€290,000,000 7.75% Senior Secured Notes due 2022**

Q2 2016 – Period ended June 30, 2016

LSF9 Balta Issuer S.A.

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Capital: €171,000



INSPIRING FLOORS

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Presentation of Financial Data

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

Prior to the Acquisition, the Issuer had no activities. As a consequence, the Issuer is unable to show any relevant financial information for the period prior to the Acquisition. The figures presented in this noteholder report have been prepared on the following basis:

- For the six months ended June 30, 2016: the consolidated results of the Issuer (“Successor”)
- For the six months ended June 30, 2015: the consolidated results of Balta Finance (“Predecessor”)
- For the twelve months ended June 30, 2016: the aggregation of the consolidated results of Balta Finance for the period from July 1, 2015 to August 10, 2015 and the consolidated results of the Issuer for the period from August 11, 2015 to June 30, 2016. We refer to these figures as “combined” figures. The impact of the purchase price allocation has been excluded from these figures. We refer to the 2015 annual report for a detailed description of the manner in which the purchase price allocation affects the results.
- For the twelve months ended December 31, 2015: the aggregation of the consolidated results of Balta Finance for the period from January 1, 2015 to August 10, 2015 and the consolidated results of the Issuer for the period from August 11, 2015 to December 31, 2015. We refer to these figures as “combined” figures. The impact of the purchase price allocation has been excluded from these figures. We refer to the 2015 annual report for a detailed description of the manner in which the purchase price allocation affects the results.

This presentation enables the Noteholders to view the business as a whole, and provides meaningful and relevant financial information that is useful in evaluating the Issuer’s ongoing operations, in the same manner as management views and operates the business.

Important Notice

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

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

This report may contain “forward looking statements” within the meaning of the U.S. federal securities laws and the securities laws of certain other jurisdictions. In some cases, these forward looking statements can be identified by the use of forward looking terminology, including the words “aims,” “anticipates,” “believes,” “continue,” “could,” “estimates,” “expects,” “forecasts,” “future,” “guidance,” “intends,” “may,” “ongoing,”

“plans,” “potential,” “predicts,” “projects,” “seek,” “should,” “target,” “will,” “would” or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, investments, future events, beliefs or intentions. These forward looking statements are based on plans, estimates and projections as they are currently available to our management. Such forward looking statements are not guarantees of future performance and are subject to, or are based on, a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward looking statements. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward looking statements. Any forward looking statements are only made as at the date hereof and, except to the extent required by applicable law or regulation, we undertake no obligation to publicly update or publicly revise any forward looking statement, whether as a result of new information, future events or otherwise.

All figures presented in this report are based on our consolidated management accounts and are unaudited. The financial information herein includes certain non-IFRS measures that we use to evaluate our economic and financial performance. These measures include, among others, EBITDA, EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin and Operating Profit Before Exceptional Items. The non-IFRS measures may not be comparable to similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS.

Highlights and Key Figures

For the six months ended June 30, 2016, revenue and Adjusted EBITDA have increased by 3% and 11%, respectively, compared to the same period last year. The higher revenue level, mainly driven by the Rugs division, resulted in a higher Adjusted EBITDA, supported by lower raw material prices.

For the twelve months ended June 30, 2016, our revenue and Adjusted EBITDA reached €564 million and €79.7 million, a 1% and 6% increase, respectively, compared to the year ended December 31, 2015. Our ratio of Net Debt to Adjusted EBITDA is equal to 3.5x as of June 30, 2016. In order to facilitate comparison between periods, the results for the twelve months ended June 30, 2016 and December 31, 2015 do not reflect the impact of the purchase price allocation, with the exception of increased depreciation charges following the fair value step-up of buildings. We refer to basis of preparation and to the 2015 annual report for a detailed description of this impact.

In millions of €	For the three months ended		For the six months ended		For the twelve months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	December 31, 2015
	Successor	Predecessor	Successor	Predecessor	Combined	Combined
Results						
Revenue	142,317	141,898	290,158	283,185	563,796	556,822
Adjusted EBITDA ⁽¹⁾	22,804	20,462	41,895	37,697	79,664	75,467
Adjusted EBITDA margin ⁽²⁾	16.0%	14.4%	14.4%	13.3%	14.1%	13.6%
Non-recurring items	(912)	(18,124)	(579)	(18,755)	(15,511)	(33,687)
EBITDA ⁽¹⁾	21,892	2,338	41,316	18,942	64,154	41,780
Depreciation / amortisation	(7,196)	(6,123)	(14,302)	(11,966)	(26,434)	(24,098)
Operating profit / (loss)	14,696	(3,785)	27,014	6,976	37,720	17,682
Profit / (loss) for the period	13,398	(17,166)	15,858	(16,356)	4,746	(27,468)
Cash flow						
Cash at the beginning of period	35,369	58,073	45,462	66,654	51,580	66,654
Net cash flow from operating activities	13,111	9,700	23,937	13,572	49,984	39,618
Net cash flow from investing activities	(11,885)	(9,146)	(17,857)	(16,237)	(311,358)	(309,739)
Of which: capital expenditures	(11,885)	(9,146)	(17,857)	(16,237)	(38,520)	(36,900)
Of which: Acquisition	-	-	-	-	(272,838)	(272,838)
Net cash flow from financing activities	(1,410)	(7,047)	(16,357)	(12,410)	244,981	248,928
Cash at the end of period	35,185	51,580	35,185	51,580	35,185	45,462
Financial position						
Net debt ⁽³⁾					(280,497)	
Net debt / Adjusted EBITDA					3.5x	
Pro-forma cash interest expense ⁽⁴⁾					23,756	
Adjusted EBITDA / pro forma cash interest expense					3.4x	

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

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

(3) Net debt reflects the Notes and capital leases, less cash and cash equivalents. Capitalised financing fees, equal to €14.3 million as of June 30, 2016, have been excluded.

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

Business Review

	For the three months ended		For the six months ended		For the twelve months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	December 31, 2015
	Successor	Predecessor	Successor	Predecessor	Combined	Combined
Volumes (millions of square meters)	30.7	31.4	63.4	63.4	122.2	122.1
Rugs	7.8	6.8	15.0	13.5	28.0	26.5
Residential	12.8	14.2	27.9	29.1	55.2	56.5
Commercial.....	2.3	2.4	4.6	4.4	9.0	8.8
Non-Woven.....	7.8	8.0	16.0	16.3	30.0	30.3
Revenue (€ thousands)	142,316	141,899	290,158	283,185	563,795	556,822
Rugs	58,031	52,187	112,218	103,580	212,714	204,076
Residential	57,480	62,147	123,633	126,820	244,309	247,495
Commercial.....	20,138	21,079	40,482	39,332	80,393	79,243
Non-Woven.....	6,668	6,486	13,825	13,454	26,379	26,008
Adjusted EBITDA (€ thousands)	22,804	20,462	41,895	37,697	79,664	75,467
Rugs	11,324	9,245	19,356	16,791	36,750	34,184
Residential	7,487	7,550	14,953	13,962	28,733	27,742
Commercial.....	3,198	2,993	5,990	5,532	11,652	11,194
Non-Woven.....	794	674	1,595	1,413	2,528	2,346
Revenue by geography (€ thousands)	142,316	141,899	290,158	283,186	563,794	556,822
Europe.....	103,381	106,044	218,385	217,692	440,566	439,873
North-America	23,953	18,218	44,229	36,232	72,225	64,229
Rest of World.....	14,983	17,637	27,544	29,261	51,003	52,720
Revenue by geography (%)	100%	100%	100%	100%	100%	100%
Europe.....	73%	75%	75%	77%	78%	79%
North-America	17%	13%	15%	13%	13%	12%
Rest of World.....	11%	12%	9%	10%	9%	9%

Rugs

Revenue and volumes increased by 8% and 11% during the first six months, respectively, as compared to the same period in 2015. The growth in volumes and revenues is driven by strong performance in North America and Western Europe. North America is a strategic focus of the Rugs division and our continued investments in business development, product development and expanding customer relationships is being reflected in the financial performance. In addition, the outdoor season in North America was very successful in 2016. Revenue and volumes in this region have increased by 23% and 31%, respectively, as compared to the first six months of 2015. The relative growth in revenue in Europe is lower, given the differences in customer and product mix as compared to North America, yet the absolute contribution to the growth of the division remains important. Revenue and volumes in this region have increased by 3% and 5%, respectively, as compared to the first six months of 2015. Adjusted EBITDA of the Rugs division increased with 15% compared to the same period last year, driven by the top-line growth and lower raw material prices.

Residential

Revenue and volumes decreased by 3% and 4%, respectively during the first six months, as compared to the same period in 2015. Revenue and volumes in the UK during the first six months of 2016 are comparable to revenue and volumes during the same period last year. Strong sales performance in the UK during the first quarter was to a large extent offset by slower trading in May and June. Sluggish sales performance in continental Europe continued during the second quarter as market conditions for residential broadloom remain challenging. Revenue and volumes outside of the UK decreased with 5% and 8% respectively. Adjusted EBITDA increased with 7% compared to the same period last year as lower volumes and depreciation of the GBP was more than offset by lower raw material prices.

Commercial

Revenue and volumes both increased by 3% during the first six months, as compared to the same period in 2015. The growth is driven by commercial tiles, in which we have realized growth in almost all regions. Growth was particularly strong during the first quarter and then continued at a slightly lower pace in the second quarter. Sales of commercial broadloom were slightly below last year's levels, mainly as a result of sales of our mosque carpet collection being exceptionally high in the same period last year. Adjusted EBITDA increased with 8% compared to the same period last year, driven by top-line growth and lower raw material prices.

Non-Woven

Revenue increased by 3% whilst volumes decreased by 2% during the first six months, respectively, as compared to the same period in 2015. This results from the strategy of an increased focus on technical applications which have a higher net sales price and a higher margin. Adjusted EBITDA increased by 13% compared to the same period last year, due to lower raw material prices and the aforementioned focus on value-added products.

Financial Review

Operating profit

Operating profit increased by €20.0 million to €27.0 million for the six months ended June 30, 2016 from €7.0 million for the six months ended June 30, 2015. This increase is mainly driven by the strong decrease in non-recurring items and by the increase in Adjusted EBITDA.

The net impact of non-recurring items is equal to an expense of €0.6 million. This includes a gain of €1.6 million on the sale of machinery and non-recurring charges of €2.2 million. The latter include (i) €1.8 million of cash expenses incurred in relation to the restructuring of the Management Committee, a fee paid to terminate an agency agreement and advisory fees for tax and legal services and (ii) €0.4 million of non-cash expenses in relation to changes in the IFRS provision for early retirement and the settlement of fixed price electricity purchase commitments recognized as an asset following the purchase price allocation (see Note 16 of the 2015 Annual Report).

Depreciation charges have increased by €2.3 million, mainly as a result of the fair-value step-up on buildings recorded in the context of the purchase price allocation.

Financial result and taxation

Net financial expenses decreased by €4.0 million to €14.0 million for the six months ended June 30, 2016 from €18.0 million for the six months ended June 30, 2015. This decrease results from the new financing structure which has been put in place in August 2015. Since then, finance expenses are driven by interest on the Senior Secured Notes and also include interest charges on the financial leasing debt, commitment fees on the Revolving Credit Facility and interest charges attributable to the factoring and forfaiting agreements.

Income taxes represent a benefit of €2.9 million for the six months ended June 30, 2016 whilst representing an expense of €5.3 million for the six months ended June 30, 2015. This change is driven by the recognition of tax credits for which the recognition criteria were previously not met.

Cash flow statement

For the six months ended June 30, 2016, cash flow from operations increased to €23.9 million compared to €13.6 million for the six months ended June 30, 2015, driven by better trading performance. The increase in cash flow from operations is lower than the increase in operating profit due to the fact that a significant

amount of transaction expenses incurred in the first six months of last year remained largely unpaid until the third quarter.

Net cash used in investing activities is equal to €17.9 million for the six months ended June 30, 2016. This comprises €19.6 million of capital expenditure and proceeds from disposals of €1.7 million.

Net cash used by financing activities is equal to €16.4 million for the six months ended June 30, 2016. This comprises €15.2 million of interest and other finance charges paid (of which €13.9 million is related to the semi-annual payment of interest on the Senior Secured Notes) and €1.2 million repayment of financial leasing debt.

Material Risk Factors and Material Recent Developments

Brexit

In 2015, the Company realized €155 million of revenue in the UK, mainly in its Residential division. On June 23, the United Kingdom voted in favour of leaving the European Union (so-called Brexit). Prior to and as a consequence of the referendum, the GBP declined in value against the EUR, to similar levels seen in 2013 and 2014. This exposure is being dealt with through a combination of (i) price increases, (ii) upsizing of the existing hedging policy, and (iii) the repositioning of products versus their price points. The depreciation of the GBP versus the EUR tends to increase the cost of Balta versus its UK competitors compared to 2015. The UK manufacturers, however, also have substantial costs in EUR/USD and hence will not be unaffected by the depreciation of the GBP.

As of now, no significant reduction in volumes sold or in the orderbook have been experienced as a direct result of Brexit.

Military coup attempt in Turkey

Turkey witnessed a failed coup attempt by military officers on July 15, 2016. Turkish authorities were able to quickly restore control and financial market reaction to the attempted coup has been moderate. Our Turkish manufacturing operations in Usak (370 km from Ankara and 450 km from Istanbul) have not been affected by these events. Management is closely observing the situation and has contingency plans in place should the situation worsen.

Consolidated Statement of Comprehensive Income for the Three, Six and Twelve Month Period Ended June 30, 2016

(€ thousands)	For the three months ended		For the six months ended		For the twelve months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	December 31, 2015
	Successor	Predecessor	Successor	Predecessor	Combined	Combined
I. CONSOLIDATED INCOME STATEMENT						
Revenue	142,317	141,898	290,158	283,185	563,796	556,822
Raw material expenses	(70,686)	(66,424)	(142,353)	(134,822)	(266,390)	(258,859)
Changes in inventories	7,560	1,788	12,629	4,542	5,562	(2,525)
Gross Profit	79,191	77,263	160,435	152,905	302,968	295,438
Employee benefit expenses ⁽¹⁾	(33,534)	(34,120)	(67,819)	(68,863)	(132,402)	(133,446)
Other income ⁽¹⁾	1,827	3,246	3,022	5,846	8,055	10,879
Other expenses	(24,680)	(25,927)	(53,743)	(52,191)	(98,956)	(97,403)
Adjusted EBITDA ⁽²⁾	22,804	20,462	41,895	37,697	79,664	75,467
Depreciation / amortization	(7,196)	(6,123)	(14,302)	(11,966)	(26,434)	(24,098)
Operating profit before exceptional items ⁽²⁾	15,608	14,339	27,593	25,731	53,230	51,369
Non-recurring income	-	-	1,610	-	1,610	-
Integration and restructuring expenses	(912)	(18,124)	(2,189)	(18,755)	(17,121)	(33,687)
Operating profit / (loss) ¹	14,696	(3,785)	27,014	6,976	37,720	17,682
Finance income	19	(454)	37	54	61	79
Finance expenses.....	(6,623)	(9,904)	(14,059)	(18,091)	(34,508)	(38,541)
Net financial expenses	(6,603)	(10,358)	(14,022)	(18,036)	(34,448)	(38,462)
Profit / (loss) before income taxes	8,093	(14,143)	12,992	(11,060)	3,272	(20,780)
Income tax benefit / (expense)	5,306	(3,023)	2,866	(5,296)	1,474	(6,688)
Profit / (loss) for the period	13,398	(17,166)	15,858	(16,356)	4,746	(27,468)
II. CONSOLIDATED OCI						
Items in OCI that may be reclassified to P&L						
Exchange diff. on translating foreign operations	335	(1,459)	(596)	29	5,080	5,705
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting.....	1,486	-	1,486	-	1,486	-
Items in OCI that will not be reclassified to P&L						
Changes in deferred tax.....	173	-	481	-	481	-
Changes in employee defined benefit obligations ..	(527)	440	(1,467)	(47)	(177)	1,243
OCI for the period, net of tax	1,467	(1,020)	(96)	(18)	6,870	6,948
Total comprehensive income for the period	14,865	(18,186)	15,761	(16,374)	11,615	(20,520)

Note that, as detailed in the section Presentation of Financial Data, the income statement for the twelve month period ended June 30, 2016 and December 31, 2015 do not comprise the impact of the purchase price allocation (with the exception of the impact of increased depreciation charges following the fair value step-up recorded in the context of the purchase price allocation).

- (1) Payroll tax incentives recorded in other income for the six months ended June 30, 2015 and for the twelve months ended December 31, 2015 amounted to €2.9 million and €4.9 million respectively. For the six months ended June 30, 2016, the equivalent amount is equal to €3.2 million and has been deducted from employee benefit expenses.
- (2) Adjusted EBITDA and Operating profit before exceptional items are non-GAAP measures as described in the Important Notice. We define Operating profit before exceptional items as Adjusted EBITDA less depreciation and amortization expenses.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to Operating profit for the three, six and twelve months ended June 30, 2016 and 2015.

(€ thousands)	For the three months ended		For the six months ended		For the twelve months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	December 31, 2015
	Successor	Predecessor	Successor	Predecessor	Combined	Combined
Operating profit	14,696	(3,785)	27,014	6,976	37,720	17,682
<i>Adjusted for:</i>						
Depreciation / amortization	7,196	6,123	14,302	11,966	26,434	24,098
EBITDA	21,892	2,338	41,316	18,942	64,154	41,780
<i>Adjusted for:</i>						
Non-recurring income ⁽¹⁾	-	-	(1,610)	-	(1,610)	-
Integration and restructuring expenses ⁽²⁾	912	18,124	2,189	18,755	17,121	33,687
Adjusted EBITDA	22,804	20,462	41,895	37,697	79,664	75,467

- (1) Non-recurring income realised in the six months ended June 30, 2016 consists of the gain realised on the sale of machinery
- (2) Integration and restructuring expenses for the six months ended June 30, 2016 include (i) €1.8 million of cash expenses incurred in relation to the restructuring of the Management Committee, a fee paid to terminate an agency agreement and advisory fees for tax and legal services and (ii) €0.4 million of non-cash expenses in relation to changes in the IFRS provision for early retirement and the settlement of fixed price electricity purchase commitments recognized as an asset following the purchase price allocation (see Note 16 of the 2015 Annual Report). Integration and restructuring expenses for the twelve months ended June 30, 2016 and December 31, 2015 mainly include transaction costs related to the sale of the Company and the Acquisition.

Consolidated Statement of Financial Position as at June 30, 2016

(€ thousands)	As at	As at
	June 30, 2016	December 31, 2015
	Successor	Predecessor
Property, plant and equipment		
Land and buildings.....	172,576	175,734
Plant and machinery.....	112,425	108,584
Other fixtures and fittings, tools and equipment.....	17,848	15,012
Goodwill.....	124,673	124,673
Other intangible assets.....	2,015	1,667
Deferred income tax assets.....	15,726	8,573
Trade and other receivables.....	79	91
Total non-current assets.....	445,342	434,334
Inventories.....	145,677	129,438
Derivative financial instruments.....	1,464	786
Trade and other receivables.....	48,326	46,544
Current income tax assets.....	124	28
Cash and cash equivalents.....	35,185	45,462
Total current assets.....	230,775	222,257
Total assets.....	676,117	656,590
Share capital.....	171	171
Share premium.....	1,260	1,260
Other comprehensive income.....	1,567	1,664
Retained earnings and other reserves.....	(6,136)	(21,995)
Total equity.....	(3,138)	(18,900)
Preferred Equity Certificates.....	138,600	138,600
Senior Secured Notes.....	278,083	276,826
Bank and Other Borrowings.....	16,594	17,787
Deferred income tax liabilities.....	70,377	67,879
Employee benefit obligations.....	5,833	4,191
Total non-current liabilities.....	509,487	505,283
Senior Secured Notes.....	4,237	6,864
Bank and Other Borrowings.....	2,470	2,490
Employee benefit obligations.....	28,150	31,554
Provisions for other liabilities and charges.....	64	64
Trade and other payables.....	128,721	124,404
Income tax liabilities.....	6,125	4,831
Total current liabilities.....	169,768	170,207
Total liabilities.....	679,255	675,490
Total equity and liabilities.....	676,117	656,590

Consolidated Statement of Cash Flows for the Six Month Period Ended June 30, 2016

(€ thousands)	For the six months ended	
	June 30, 2016	June 30, 2015
	Successor	Predecessor
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit / (loss) for the period.....	15,858	(16,355)
Adjustments for:		
Income tax expense / (income).....	(2,866)	5,296
Finance income	(37)	(54)
Finance expense	14,059	18,091
Depreciation, amortisation	14,302	11,966
(Gain)/loss on disposal of non-current assets	(1,610)	(240)
Movement in provisions and deferred revenue.....	-	(2,041)
Fair value of derivatives.....	808	38
Cash generated before changes in working capital.....	40,514	16,700
Changes in working capital:		
Inventories.....	(16,239)	(13,574)
Trade receivables	(3,039)	(1,258)
Trade payables	10,760	30,008
Other working capital.....	(7,948)	(17,309)
Cash generated after changes in working capital	24,047	14,566
Net income tax (paid).....	(109)	(994)
Net cash generated / (used) by operating activities	23,937	13,572
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(18,857)	(16,544)
Acquisition of intangibles	(728)	(608)
Proceeds from non-current assets	1,728	915
Net cash used by investing activities	(17,857)	(16,237)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest and other finance charges paid, net.....	(15,189)	(4,159)
Proceeds from borrowings with third parties.....	-	3,068
Repayments of borrowings with third parties	(1,168)	(11,318)
Net cash generated / (used) by financing activities	(16,357)	(12,410)
NET INCREASE / (DECREASE) IN CASH AND BANK OVERDRAFTS	(10,276)	(15,074)
Cash, cash equivalents and bank overdrafts at the beginning of the period	45,462	66,654
Cash, cash equivalents and bank overdrafts at the end of the period	35,185	51,580

Consolidated Statement of Changes in Equity for the Period Ended June 30, 2016

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

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

The changes in equity for the Successor for the six months ended June 30, 2016 are as follows.

	Share capital	Share premium	Other comprehensive income	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2016.....	171	1,260	1,664	(21,995)	(18,900)	-	(18,900)
Profit / (loss) for the period.....	-	-	-	15,858	15,858	-	15,858
Other comprehensive income							
Exchange differences on translating foreign operations.....	-	-	(596)	-	(596)	-	(596)
Changes in fair value of hedging instruments qualifying for cash flow hedge accounting.....	-	-	1,486	-	1,486	-	1,486
Changes in deferred tax.....	-	-	481	-	481	-	481
Changes in employee defined benefit obligations.....	-	-	(1,467)	-	(1,467)	-	(1,467)
Total comprehensive income for the period.....	-	-	(96)	15,858	15,761	-	15,761
Balance at June 30, 2016.....	171	1,260	1,567	(6,136)	(3,138)	-	(3,138)

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

Notes to the Consolidated Financial Statements

1. Basis of preparation

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

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

On June 14, 2015, Bidco 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 (the “Predecessor”), the former parent entity of the Balta Group, and certain intercompany loans between Balta Finance (as borrower) and the Seller (as lender) (the “Acquisition”). The closing of the Acquisition was reached on August 11, 2015 (“Completion Date”).

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

Prior to the Acquisition, the Issuer had no activities. As a consequence, the Issuer is unable to show any relevant financial information for the period prior to the Acquisition.

Therefore, the financial information presented in the consolidated statements of comprehensive income has been prepared as follows:

- For the six months ended June 30, 2016: the consolidated results of the Company, which has full legal and economic ownership of the Balta Group throughout the period
- For the six months ended June 30, 2015: the consolidated results of Balta Finance, i.e. the Predecessor
- For the twelve months ended June 30, 2016: the aggregation of the consolidated results of Balta Finance for the period from July 1, 2015 to August 10, 2015 and the consolidated results of the Issuer for the period from August 11, 2015 to June 30, 2016. We refer to these figures as “combined” figures. The impact of the purchase price allocation has been excluded from these figures. We refer to the 2015 annual report for a detailed description of the manner in which the purchase price allocation affects the results.
- For the twelve months ended December 31, 2015: the aggregation of the consolidated results of Balta Finance for the period from January 1, 2015 to August 10, 2015 and the consolidated results of the Issuer for the period from August 11, 2015 to December 31, 2015. We refer to these figures as “combined” figures. The impact of the purchase price allocation has been excluded from these figures. We refer to the 2015 annual report for a detailed description of the manner in which the purchase price allocation affects the results.

The same approach has been adopted in order to prepare the cash flow statement. This presentation enables the noteholders to view the business as a whole, and provides meaningful and relevant information that is useful in evaluating the Company’s ongoing operations, in the same manner as management views and operates the business.

These results have been prepared in accordance with the recognition and measurement principles of the International Financial Reporting Standards as adopted by the European Union (“IFRS”). The combined results are non-GAAP financial measures and should not be used in isolation or substitution of predecessor and successor results.

The consolidated statement of financial position of December 31, 2015 and June 30, 2016 reflects the impact of the purchase price allocation and has therefore been prepared in accordance with IFRS.

This report should be read in conjunction with the annual financial statements for the year ended December 31, 2015. The amounts in this document are presented in thousands of euro (€ thousands), unless otherwise stated. Rounding adjustments have been made in calculating some of the financial information included in this consolidated condensed interim financial statements.

Any events and/or transactions significant to an understanding of the changes since June 30, 2016 have been included in these consolidated condensed interim financial statements.

2. Accounting policies

The accounting policies adopted are consistent with those described in the annual report for the year ended December 31, 2015.

3. Estimates

The preparation of consolidated condensed interim financial statements requires management to make judgments, 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 ended December 31, 2015.

4. Financial risk management and financial instruments

Financial risk factors

There have been no changes in the risk management function or in any risk management policies since the year-end. However, ahead of the Brexit referendum in the UK, the Company decided to hedge a larger portion of its forecasted residual GBP currency risk using forward contracts. Details hereof are provided under the heading ‘cash flow hedge reserve’, see below.

The consolidated condensed interim financial statements do not include all financial risk management information and disclosures that are required in the annual financial statements, they should be read in conjunction with the Group’s consolidated annual financial statements as at December 31, 2015.

Liquidity risk

Our primary sources of liquidity consist of cash flows from operations, non-recourse factoring agreements, the Senior Secured Notes and the Revolving Credit facility. The latter has been increased from €40 million in August 2015 to €45 million as from February 2016.

Our debt service obligations consist primarily of interest payments on the Notes, principal and interest payments on amounts drawn under the Revolving Credit Facility and the capital lease obligations.

As of June 30, 2016 we have a net debt of €280.5 million.

Fair value estimation

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 the PECs has been determined using Level 3 estimates. The fair value of all other financial instruments, with the exception of cash- and cash equivalents, has been determined using Level 2 estimates. The fair value of the forward foreign exchange contracts have been determined using forward exchange rates that are quoted in an active market. A similar valuation approach has been applied to determine the fair value of the fixed price electricity purchase commitments at the Completion Date. The effects of discounting are generally insignificant for Level 2 derivatives. For trade and other receivables, as well as trade and other payables, the carrying amount is considered to be a good estimate of the fair value, given the short term nature of these items.

There were no changes in valuation techniques during the period.

5. Property, plant and equipment

During the six months ended June 30, 2016, property, plant and equipment and intangibles (excluding goodwill) increased by €3.9 million.

Our net capital expenditures for the period comprised: €1.7 million of efficiency and growth capex, €12.6 million of maintenance capital expenditures, €5.3 million of samples and (€1.7) million of disposals. Of our net capital expenditures for the period, €8.2 million were incurred in our Rugs segment, €7.3 million were incurred in our Residential segment, €2.6 million were incurred in our Commercial segment, €0.4 million were incurred in our Non-Woven segment and €1.1 million on Corporate level.

A total net depreciation expense of €14.3 million has been charged in the line “Depreciation, amortisation” in the statement of comprehensive income, which fully 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.

6. Goodwill

As previously discussed, the acquisition by Balta Investments of Balta Finance was consummated on August 11, 2015. The Acquisition was recorded using the acquisition method of accounting, in accordance with IFRS 3 *Business Combinations*. As a result, the total purchase price has been allocated to the identifiable assets and liabilities acquired, based on the estimated fair values at the date of acquisition.

The purchase price paid in cash was equal to €272.8 million, as compared to a net asset value of Balta Finance of €71.2 million at Completion Date. Consequently, the preliminary goodwill – before purchase price allocation - was equal to €201.6 million. As a result the purchase price allocation €77.0 million of goodwill

was allocated to identifiable assets and liabilities. Hence, €124.7 million of goodwill remains which has been allocated to the Rugs and Commercial division. Goodwill is tested for impairment on an annual basis. We refer to the annual report for the year ended December 31, 2015 for further information on the purchase price allocation.

7. Current and deferred income taxes

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 amounted to a benefit of €2.9 million for the six months ended June 30, 2016, compared to an expense of €5.3 million for the six months ended June 30, 2015. This increase is driven by the recognition of tax credits which were not recognised before as IFRS-recognition criteria were not met in the past.

8. Inventories

Inventories increased by €16.2 million as compared to December 31, 2015 of which €9.3 million related to an increase in finished goods, €3.3 million related to an increase in work in progress and €3.6 million related to an increase in raw materials and consumables. This increase in inventories is mainly driven by seasonal effects. Inventory positions are intentionally increase towards the months of June and July in preparation for the annual shutdown of the majority of our manufacturing facilities during a three week period in summer and an increase in demand during the autumn season.

9. Financial Instruments

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 at the balance sheet date, with the resulting value discounted back to present value. A similar valuation approach has been applied to determine the fair value of the fixed price electricity purchase commitments at the Completion Date. The effects of discounting are generally insignificant for Level 2 derivatives. For trade and other receivables, as well as trade and other payables, the carrying amount is considered to be a good estimate of the fair value, given the short term nature of these items.

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 summarised in the following table:

	Loans and receivables	Assets at fair value through profit and loss	Total carrying amount	Fair value
Assets as per statement of financial position				
Trade and other receivables.....	48,405	-	48,405	48,405
Derivative financial instruments.....	1,464	-	1,464	1,464
Cash and cash equivalents.....	35,185	-	35,185	35,185
Total	85,054	-	85,054	85,054
	Other financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total carrying amount	Fair value
Liabilities as per statement of financial position				
Preferred equity certificates.....	-	138,600	138,600	138,600
Senior Secured Notes.....	282,320	-	282,320	305,428
Bank borrowings.....	-	-	-	-
Finance lease liabilities.....	19,064	-	19,064	19,064
Trade and other payables.....	128,721	-	128,721	128,721
Total	430,105	138,600	568,705	591,813

10. Trade and other receivables

Current trade and other receivables increased by €1.8 million to €48.3 million as of June 30, 2016, compared to €46.5 million as of December 31, 2015. This increase mainly results from increased trade receivables (€3.1 million) and follows the higher levels of revenue.

11. Cash flow hedge reserve

It is the Group's policy to hedge 100% of the residual currency risk arising from sales denominated in GBP for which there is no contractual agreement enabling the automatic adjustment of sales prices as a result of fluctuations in the GBP/EUR exchange rate.

The Company uses forward exchange rate contracts. As of June 30, 2016, the company's outstanding forward contracts hedge a forecasted GBP inflow of £19.7 million, at an average rate of 1.27 EUR/GBP. The company has hedged 100% of forecasted residual GBP cashflows for July and August 2016, and 75% of forecasted GBP cash inflows for September 2016 – December 2016.

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. Changes in fair value as from the designation date of the cash flow hedge are recorded in the cash flow hedge reserve, part of other comprehensive income. Amounts recorded in the cash flow hedge reserve will be recognized in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement. This coincides with the settlement date of the forward contracts. The movement schedule below summarizes the amounts recorded into the cash flow hedge reserve and the portion that was recognized in the income statement in relation to contracts that were settled in June 2016:

€ thousands	June 30, 2016
Opening balance	-
Amounts recorded in the cash flow hedge reserve	1,617
Amounts recognized in the income statement	-131
Cash flow hedge reserve, ending balance	1,486

12. Preferred Equity Certificates

In connection with the Acquisition, the Issuer has issued preferred equity certificates. The terms and conditions of the preferred equity certificates are governed by and construed in accordance with the laws of Luxembourg. The preferred equity certificates bear interest composed of a fixed component as well as a variable component. The interest is only payable to the extent, among other things, the Issuer receives profits from its underlying investments. The preferred equity certificates will mature in 2045, and payments on the preferred equity certificates will be subordinated to all other existing and future indebtedness whether secured or unsecured. As of June 30, 2016, the Issuer has €138.6 million in aggregate principal amount of preferred equity certificates outstanding.

13. Senior Secured Notes

€ thousands	June 30, 2016	December 31, 2015
Senior Secured Notes	278,083	276,826
Of which: gross debt	290,000	290,000
Of which: capitalised financing fees	(11,917)	(13,174)
Non-current portion	278,083	276,826
Senior Secured Notes	4,237	6,864
Of which: gross debt	6,618	9,177
Of which: capitalised financing fees	(2,380)	(2,314)
Current portion	4,237	6,864
Total Senior Secured Notes	282,320	283,690

The Issuer issued €290 million aggregate principal amount of 7.75% Senior Secured Notes due 2022 as part of the financing of the Acquisition of Balta Finance S.à r.l. by LSF9 Balta Investments S.à r.l. (“Bidco”). The Indenture is dated August 3, 2015 and the principal amount was released from the escrow account at the date of consummation of the Acquisition, August 11, 2015.

Interest on the 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 Notes are capitalised and amortised into profit or loss over the term of the debt in accordance with the effective interest method. Total costs capitalised amounted to €16.4 million, of which €14.3 million remain capitalised as of June 30, 2016.

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

14. Bank and Other Borrowings

The table below sets forth the breakdown of the bank and other borrowings as at June 30, 2016 and December 31, 2015.

€ thousands	June 30, 2016	December 31, 2015
Finance lease liabilities	16,594	17,787
Non-current borrowings	16,594	17,787
Bank borrowings	-	40
Finance lease liabilities	2,470	2,450
Current borrowings	2,470	2,490
Total borrowings	19,064	20,277

The finance lease liabilities have decreased from €20.2 million as of December 31, 2015 to €19.1 million as of June 30, 2016. No material new financial lease contracts have been signed during the period.

Factoring

No modification of the factoring contracts occurred during the period.

15. Employee benefit obligations

Employee benefit obligations decreased from €35.7 million as of December 31, 2015 to €34.0 million at June 30, 2016.

This decrease is mainly driven by a decrease in the vacation pay provision (impact of €3.8 million) as vacation pay is mainly paid during the second quarter. This decrease in the vacation pay provision was partly offset by an increase in the IAS 19 provision for pension liabilities, due to a decline in the applicable discount rate from 2.05% to 1.05% (impact of €1.5 million).

16. Trade and other payables

The increase in the outstanding trade and other payables from €124.4 million as of December 31, 2015 to €128.7 million as of June 30, 2016 is driven by the increased volume of purchases.

17. 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.

18. Commitments

There have been no material changes in the commitments compared to December 31, 2015.

19. Seasonality of operations

The Group has very limited seasonality impact on operations. Revenue for the six month period ended June 30, 2015 represented 50.9 % of full-year 2015 figures. The actuals for the six month period ended June 30, 2016 show a similar trend, representing 51.5% of LTM figures.

20. Integration and restructuring expenses

During the six months ended June 30, 2016, €2.2 million of integration and restructuring expenses were incurred. This includes (i) €1.8 million of cash expenses incurred in relation to the restructuring of the Management Committee, a fee paid to terminate an agency agreement and advisory fees for tax and legal services and (ii) €0.4 million of non-cash expenses in relation to changes in the IFRS provision for early retirement and the settlement of fixed price electricity purchase commitments recognized as an asset following the purchase price allocation (see Note 16 of the 2015 Annual Report).

During the twelve months ended December 31, 2015, the Company incurred integration and restructuring expenses for a total amount of €33.7 million. The vast majority of these expenses, relate to non-recurring advisory fees in relation to the sale on June 14, 2015 of the Company to an entity indirectly controlled by Lone Star Fund IX and the aborted IPO process. These fees include financial advice, corporate legal advice, due diligence reporting, assurance services and tax advice. In addition, fees were incurred in relation to tax and legal advice sought to determine a potential simplification of the Group's current legal structure in order to align it with the actual business structure.