



**FREE TRANSLATION**

**ONTEX GROUP NV**

**Auditor's report on the capital increase by a  
contribution in kind of a Vendor Loan Note  
pursuant to article 602 of the Companies code**

29 February 2016



## AUDITOR'S REPORT ON THE CAPITAL INCREASE BY A CONTRIBUTION IN KIND OF A VENDOR LOAN NOTE PURSUANT TO ARTICLE 602 OF THE COMPANIES CODE

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### 1. Description of the transaction

The board of directors of Ontex Group NV, a company organised under the laws of Belgium, having its registered office at Korte Keppestraat 21, 9320 Erembodegem (Aalst), and registered with the legal entities register of Gent, division Dendermonde under the number 0550.880.915 ("the Company"), proposes a capital increase by way of a contribution in kind of a Vendor Loan Note (as defined below) to be decided by the board of directors within the framework of the authorized capital. The share capital of the Company prior to the contribution in kind amounts to EUR 721,489,864.68 and is represented by 72,138,887 shares without par value, having a fractional value of 1/72,138,887<sup>th</sup> of the share capital. The share capital has been fully allotted and paid up.

In accordance with article 602 of the Companies' Code, the board of directors is responsible for preparing a special report explaining how the Company is to benefit from the contribution in kind and, if applicable, the reasons for disagreeing with the conclusions of the statutory auditor. More particularly, the board of directors is responsible for the valuation of the contribution and for determining the consideration to be attributed in exchange (the "Special Board Report").

The draft Special Board Report explains that the proposed contribution in kind of the Vendor Loan Note takes place in the framework of a boarder transaction whereby the Company, through Ontex BVBA, a wholly-owned subsidiary of the Company and certain subsidiaries of Ontex BVBA, will directly or indirectly acquire all outstanding shares of Grupo P.I. Mabe, S.A. de C.V., a Mexican company which manufactures disposable hygienic products ("Grupo Mabe"), together with other related interests (the "Transaction"), pursuant to the terms and conditions described in the Master Purchase Agreement entered into between the parties on 3 November 2015, as amended and restated on 28 February 2016 (the "Agreement"), together with other transaction documents.

The net consideration payable at the financial closing of the Transaction is settled as follows:

- The issuance of a vendor loan note by Ontex BVBA for an amount of EUR 75,677,743.80, or converted to Pesos at an agreed exchange rate of 20.0429, MXN 1,516.80 million (the "Vendor Loan Note");
- A cash payment by Ontex BVBA and certain of its subsidiaries for an amount of MXN 3,522 million, representing the difference between the total net consideration of MXN 5,650 million, less Grupo Mabe's estimated net financial debt at financial closing of MXN 610.89 million, and the principal amount of the Vendor Loan Note, converted to Pesos, i.e. MXN 1,516.80 million (see above).

The contribution in kind consists of the Vendor Loan Note, issued by Ontex BVBA to Pamajugo Irrevocable Trust, established on 13 August 2008, a trust organized and existing under the laws of the State of Delaware, with registered office at 1100 N. Market Street, Wilmington, DE 19890, Delaware, United States of America ("Pamajugo"), as one of the sellers in the Transaction, that is proposed to be contributed in exchange for 2,722,221 new shares in the Company to be issued to Pamajugo, acting through its trustee, The Wilmington Trust Company, at an agreed issue price per share of EUR 27.80, being the weighted average closing price of the shares of the Company in the 20 trading days preceding the initial signing of the Agreement.

The closing procedures defined in the Agreement are planned to be carried out on 29 February 2016. The steps relating to the issuance of the Vendor Loan Note and the contribution in kind of the Vendor Loan Note can be summarised as follows, in chronological order:

- (1) The board of directors of the Company will resolve to increase the share capital of the Company, within the framework of the authorized capital by means of the contribution in kind of the Vendor Loan Note, conditional upon the effective contribution in kind of the Vendor Loan Note. In this same meeting, the board of directors will grant all necessary powers to any two directors, acting jointly, or any executive director to allow them to establish that the conditions precedent have been fulfilled and as such record the effective realization of the capital increase;
- (2) The financial close of the Agreement will be executed, resulting in the issuance by Ontex BVBA of the Vendor Loan Note. Pamajugo will accept the Vendor Loan Note as partial payment for the Transaction and will execute the Vendor Loan Note Contribution Letter (as defined in the Agreement), thereby confirming that they are the sole free and unencumbered holder of the Vendor Loan Note and want to contribute the Vendor Loan Note at the conditions set forth in the Special Board Report;
- (3) The authorized directors will establish that the conditions precedent have been fulfilled and as such record the effective realization of the capital increase.

As this report pertains to the first step in the process, the capital increase is still conditional upon the issuance of the Vendor Loan Note and the execution of the Vendor Loan Note Contribution Letter.

This contribution will increase the capital by an amount of EUR 27,226,021.12 (being the product of the number of newly issued shares by the fractional value of the Company's ordinary shares) from EUR 721,489,864.7 to EUR 748,715,885.80. The balance of the amount of the contribution (i.e., EUR 48,451,722.68) will be allocated as issue premium.

In consideration for the contribution in kind, 2,722,221 new ordinary shares in the Company will be issued. These new ordinary shares will (i) be of the same kind as the existing ordinary shares in the Company, (ii) benefit, upon their issuance, from the same rights as the existing ordinary shares in the Company, (iii) entitle their holder to any dividend, if declared, relating to the financial year ending 31 December 2015 and future years, and (iv) be without nominal value.

From discussions with the directors and our reading of the draft Special Board Report, we note that the board of directors justifies the contribution in kind as follows:

*"The contribution in kind, and the resulting capital increase, are necessary to complete the Transaction, which will enable the Company to acquire, through its subsidiaries, a leading Mexican business that is a strong strategic fit. Grupo Mabe's investment in innovation and manufacturing positions the business well to support its future growth. In particular, the Transaction is consistent with the Company's strategy of enhancing organic growth with value added bolt-on acquisitions, and reflects a focus on extending its platform outside Western Europe and deeper into growth markets, whilst increasing the contribution to the group from strong Ontex brands.*

*In light of these considerations, the Board of Directors is of the opinion that the contribution in kind, and the resulting capital increase are therefore undoubtedly in the Company's interest."*

## **2. Assignment**

The board of directors of Ontex Group NV assigned the company's auditor, PwC Bedrijfsrevisoren bcvba, represented by Peter Opsomer BV BVBA, in turn represented by its permanent representative Mr. Peter Opsomer statutory auditor, to report on the capital increase by contribution in kind, in accordance with article 602 of the Companies Code.

Art. 602 of the Companies Code lays down in such cases that:

*“Where a capital increase includes a contribution in kind, the statutory auditor, or, for companies where there is no auditor, a company auditor designated by the board of directors, shall issue a report beforehand.*

*The report shall in particular contain a description of each contribution in kind and the deployed methods of valuation. The report must state whether the valuations in which these methods result at least accord with the number and par value, or, failing a par value, the fractional value, and, where applicable, the premium of or on the shares to be issued in consideration for the contribution. The report shall state what actual consideration is given in exchange for the contribution.*

*In a special report to which the report referred to in the first paragraph is appended, the board of directors shall explain why both the contribution and the proposed capital increase are in the interests of the company and, as the case may be, why the conclusions in the appended report are deviated from.*

*The special report by the board of directors and the appended report are lodged at the registry of the commercial court in accordance with section 75. Where an increase in capital is resolved upon by the shareholders in general meeting in accordance with section 581, the reports referred to in the third paragraph are included in the agenda. Copies thereof may be obtained in accordance with section 535.*

*The absence of the reports referred to in this section will result in the general meeting’s resolution being void.”*

We have based our work on the applicable audit standards relating to contributions in kind and assimilated contributions in kind as issued by of the Institute of Certified Auditors (“Instituut der Bedrijfsrevisoren/Institut des Réviseurs d’Entreprises”) this audit standard requires that we:

- Verify that there is no overstatement of the value of the contribution in kind or of the asset contributed;
- Identify the actual economic and financial rationale behind the transaction, regardless of its formal appearance, and assess the risk associated with the transaction;
- Verify the choice of the valuation methods used to value each item contributed and verify the motivation of such choice, also including the assessment of the appropriateness of the choices made by the parties involved;
- Verify whether the values resulting from the application of these methods agree with at least the number and the nominal value or, in the absence of a nominal value, the accounting par value plus the share premium, if any, of the shares to be issued in exchange;
- Verify whether the contributors benefit from any particular advantages that contribute to the consideration attributed in exchange for the contribution in kind; and
- Include in our conclusion to our report, our opinion regarding the whole of the components that all together constitute transfer.

### **3. Work performed**

#### **3.1 Methods deployed for valuation**

We would emphasise in this regard that it is the Board of Directors that is responsible for valuing the contribution and for the remuneration that is granted in exchange for the contribution in kind.

The valuation method retained by the board of directors of the Company for the Vendor Loan Note is the nominal value of EUR 75,677,743.80. The Vendor Loan Note has, as per the Agreement, following key features:

- The Vendor Loan Note is issued for the sole purpose of contributing it to the Company;

- The Vendor Loan Note is payable immediately after the contribution in kind thereof;
- Pamajugo may not assign the Vendor Loan Note or any of its rights or obligation, nor vest any encumbrances, liens or pledges on it;
- The Vendor Loan Note bears an interest at a rate equal to TIEE plus a margin of 2.375% per annum.

The contributor of the Vendor Loan Note, Pamajugo, will, following the Agreement, execute upon Closing the Vendor Loan Note Contribution Letter, which confirms that Pamajugo has full legal transferable title to the Vendor Loan Note and that the Vendor Loan Note is free and clear from all encumbrance, liens pledges or other securities. The execution of the Vendor Loan Note Contribution Letter is a condition precedent to the capital increase.

We have investigated that the applied valuation method is appropriate with respect to the characteristics of the transaction and whether it is economically justified, i.e. taking into account the market conditions and as a function of its use for the contribution enjoying Company, and whether the value of the contributed assets is not overstated.

Based on the procedures we carried out and taking into the key features of the Vendor Loan Note and the Transaction, we can conclude the valuation is economically justified and the value of the contributed asset is not overstated.

### **3.2 The remuneration accorded in consideration**

In accordance with the draft Special Board Report, the remuneration in consideration for the contribution of the Vendor Loan Note will consist of 2,722,221 new ordinary shares in the Company, issued at an agreed issue price per share of EUR 27.8. This issue price equals the weighted average closing price of the shares of the Company in the 20 trading days preceding the signing of the original Agreement, i.e. 3 November 2015.

The new ordinary shares will (i) be of the same kind as the existing ordinary shares in the Company, (ii) benefit, upon their issuance, from the same rights as the existing ordinary shares in the Company, (iii) entitle their holder to any dividend, if declared, relating to the financial year ending 31 December 2015 and future years, and (iv) be without nominal value.

As part of our activities, we have checked that the entire consideration is not greater than the value of the contribution to which the aforementioned valuation method gives rise.

The newly issued shares of the Company will be issued at the fractional value of the existing Company's shares, being EUR 10 (rounded) per share (capital prior to the contribution of EUR 721,489,864.68 divided by 72,138,887 shares), resulting in a capital increase of EUR 27,226,021.12. The difference between the value of the contribution in kind of EUR 75,677,743.80 and the amount of the capital increase of EUR 27,226,021.12, being EUR 48,451,722.68, will be recorded on the issue premium account of the Company. We can conclude that the total value of the contribution in kind, based on the valuation method as set forth above, accords at least to the number and value of the shares (fractional value plus issue premium per share) to be issued as remuneration so that the contribution in kind is not over-valued.

Based on the draft Special Board Report, we have not identified any other advantages accorded in addition to the above mentioned consideration to the contributor in consideration of the contribution in kind. We have no knowledge of any agreement between the contributors and any directors in which such supplementary consideration is defined.

## **4. Conclusion**

The contribution in kind for the purpose of increasing the share capital of the Company comprises of the Vendor Loan Note, which is, in the context of this contribution, valued at a nominal value of EUR 75,677,743.80. In consideration for the contribution, the contributing party will receive 2,722,221 new



ordinary shares in the Company, thus raising the total number of shares from 72,138,887 to 74,861,108, increasing the share capital from EUR 721,489,864.68 to EUR 748,715,885.80, and the balance between the capital increase and the value of the contributed asset, being EUR 48,451,722.68, being accounted for as issue premium.

This capital increase is conditional upon the completion of the closing steps foreseen in the Agreement, including but not limited to: the issuance of the Vendor Loan Note by Ontex BVBA, the acceptance of the Vendor Loan Note by Pamajugo and the execution of the Vendor Loan Note Contribution Letter by Pamajugo.

We are of the opinion that:

- the board of directors is responsible for the valuation of the contribution and for determining the consideration to be attributed in exchange;
- the audit procedures have been carried out in accordance with the audit standards relating to contributions in kind and assimilated contributions in kind as issued by of the Institute of Certified Auditors (“Instituut der Bedrijfsrevisoren/Institut des Réviseurs d’Entreprises”)
- the description of the contribution in kind complies with the normal requirements of accuracy and clarity;
- the method deployed for valuing the contribution is justified from a business-economics perspective and the resultant valuation from deploying the valuation method accords at least with the number and the value of the shares (fractional value plus issue premium per share) to be issued in consideration so that the contribution in kind is not over-valued.

We would finally recall that our assignment does not include issuing a pronouncement regarding the justifiability and fairness of the transaction.

This report has been issued in connection with the requirement of article 602 of the Companies Code and is not meant to be used for any other purpose.

Gent, 29 February 2016

PwC Bedrijfsrevisoren bcvba  
Represented by

Peter Opsomer \*  
Bedrijfsrevisor / statutory auditor

\*Peter Opsomer BVBA  
Board Member, represented by its fixed representative,  
Peter Opsomer

Appendix: Draft special report of the board of directors pertaining to the planned capital increase by way of contribution in kind