PEGAS NONWOVENS SA

Preliminary unaudited consolidated financial results

for 2016

23 March 2017

2016 Preliminary unaudited financial results

PEGAS NONWOVENS SA announces its preliminary unaudited consolidated financial results for the fiscal year to 31 December 2016 prepared according to International Financial Reporting Standards (IFRS).

"The fourth quarter was the strongest for the whole year from the operating performance point of view. In the fourth quarter, EBITDA amounted to EUR 12.6 million and significantly contributed to the full-year total of EUR 46.7 million and came close to the record result set in 2014. EBITDA adjusted for the effect of the revaluation of the share option plan reached EUR 48 million, which represents the best result in the Company's history. Therefore, in terms of the financial results, I consider 2016 to have been very successful.

Apart from the good financial results, I would like to note some important events that occurred in the past several months. Our priority now is the completion of the investment into the new production line in Znojmo. Its installation is continuing according to plan, and concurrently with the finishing works, we are also preparing for its trial operation. We expect the production line to be in full commercial mode from the start of the second half.

A great success, in my opinion, was the latest issue of 7-year bonds with a fixed interest rate of 1.875% that we issued in the amount of EUR 50 million in January this year. The parameters of this issue serve as evidence of the exceptional trust that external investors place in our company even if we consider the current very low interest rates environment.

The progress of our South African project is promising, and since the beginning of the year, we have moved further ahead. We are currently finalising negotiations for the purchase of land near Cape Town and if no unexpected problems arise, this contract should be signed in the second quarter. Negotiations with customers are also developing positively, the successful completion of which is a condition for ordering the new production line for this location.

This year, there are again challenges ahead of us. I am very confident that we will be able to continue on from last year's successes. Production capacity has been sold out, which will enable us, amongst other things, to focus on further optimising production and improving its efficiency. The Company's financial results will also be positively impacted by the launch of the new production line. On the other hand, the development in polymer prices is very hard to predict. After a long period of stability, which lasted for the whole of 2016, we would not be surprised by rising prices, which would of course, to a certain extent, affect our financial results.

Therefore, based on existing expectations, the company is setting EBITDA guidance for this year in the range of EUR 43.0 to 50.0 million.

We will work intensively on achieving very good results, which are a prerequisite for the payout of solid dividends. In this respect, I believe that our shareholders will appreciate the decision of the Board of Directors, which, in line with the progressive dividend policy, will propose a dividend of EUR 1.30 per share," said František Řezáč, CEO of Pegas Nonwovens SA.

Overview of Financial Results

	January – December 2016	yoy	Fourth quarter October - December 2016	yoy
Financials (EUR mil.)				
Revenues	**206.4**	**(10.0%)**	**48.6**	**(18.4%)**
Operating costs without depreciation and amortization	(159.7)	(13.6%)	(36.0)	(20.0%)
EBITDA	**46.7**	**5.3%**	**12.6**	**(13.7%)**
Depreciation and amortization	(16.1)	0.3%	(4.1)	(1.2%)
Profit from operations (EBIT)	**30.6**	**8.2%**	**8.5**	**(18.6%)**
FX gains/(losses) and other financial income/(expense) (net)	(3.2)	n/a	(1.4)	n/a
Interest expense (net)	(7.3)	(8.8%)	(1.6)	(29.7%)
Income tax – (expense)/income net	(5.3)	30.8%	(3.7)	74.7%
Net profit	**14.8**	**(40.6%)**	**1.8**	**(77.7%)**
Net debt	160.8	(1.8%)	160.8	(1.8%)
Capital expenditure	21.0	124.9%	2.8	(43.2%)
Profitability ratios				
EBITDA margin	22.6%	3.3 p.p.	25.9%	1.4 p.p.
Operating profit margin	14.8%	2.5 p.p.	17.5%	(0.1 p.p.)
Net profit margin	7.2%	(3.7 p.p.)	3.8%	(9.9 p.p.)
Operations				
Production output in tonnes	102,691	1.0%	25,961	(0.6%)
Number of employees - end of period	585	0.9%	585	0.9%
Number of employees - average	568	0.5%	568	(0.3%)
Exchange rates				
EUR/CZK - average	27.034	(0.9%)	27.029	(0.1%)
EUR/CZK - end of period	27.021	0.0%	27.021	0.0%
EUR/USD - average	1.107	(0.2%)	1.079	(1.5%)
EUR/USD - end of period	1.054	(3.2%)	1.054	(3.2%)

Consolidated Financial Results

Revenues, Costs and EBITDA

In 2016, consolidated revenues (revenues from sales of products) reached EUR 206.4 million, down by 10.0% yoy. In the fourth quarter of 2016, consolidated revenues reached EUR 48.6 million, down by 18.4% yoy. The decline in revenues was related to the development of polymer prices, which when compared to the preceding year, fell by more than 10%.

On an annual comparison basis, sales volumes in tonnage terms remained more or less unchanged. In the fourth quarter of 2016, the levels of inventories of finished products rose insignificantly.

Total consolidated operating costs without depreciation and amortization went down by 13.6% yoy to EUR 159.7 million in 2016. In the fourth quarter of 2016, the total consolidated operating costs without depreciation and amortization reached EUR 36.0 million, down 20.0% yoy. The primary reason for the year-on-year decline was the lower polymer purchase price compared to the previous year.

In 2016, EBITDA amounted to EUR 46.7 million, up by 5.3% yoy. This result means that the Company achieved its target, which it had set in the range of EUR 43.0 – 49.0 million. The year-on-year growth in EBITDA is related in large part to the revaluation of the share option plan, which, in 2016, had a less negative impact than in the previous year. EBITDA adjusted for this effect, grew by 1.4% to a record EUR 48.0 million. The increase in EBITDA was also supported by record production volumes, which grew by 1.0% yoy. On the other hand, in a year-on-year comparison, the polymer price pass-through mechanism had a negative effect on operating results.

In the fourth quarter of 2016, EBITDA reached EUR 12.6 million, down by 13.7% yoy. The decline was to a significant degree related to the high comparative basis, where the fourth quarter results in 2015 reached, thanks to a significantly positive effect of the price pass-through mechanism, record levels.

In 2016, the EBITDA margin was at a level of 22.6%, which is 3.3 percentage points higher compared with 2015. In the fourth quarter of 2016, the EBITDA margin was 25.9%, up by 1.4 percentage points yoy.

Operating Costs

Total raw materials and consumables used last year amounted to EUR 146.9 million, a 13.7% yoy decrease. In the fourth quarter of 2016, total raw materials and consumables used reached EUR 32.8 million, down by 23.6% yoy. The primary reason for the year-on-year decline was the lower polymer purchase price compared to the previous year.

In 2016, total staff costs reached EUR 12.6 million, down by 7.1% yoy. Total staff costs adjusted for the revaluation of the share option plan amounted to EUR 11.3 million, an increase of 6.7%. In 2016, total staff costs denominated in local currencies, i.e. in Czech crowns and Egyptian pounds without the revaluation of the share option plan increased by 5.3%.

In the fourth quarter of 2016, staff costs reached EUR 4.0 million, up by 62.6% yoy. This significant increase was caused namely by the revaluation of the share option plan, the effect of which in the fourth quarter of 2016 was negative in contrast to its positive effect in the comparable period in 2015. In the fourth quarter, staff costs adjusted for the revaluation of the share option plan grew by 2.2% yoy to reach EUR 3.0 million.

Other operating expenses (net) reached EUR 0.2 million in 2016, compared with an expense of EUR 1.1 million in 2015.

Depreciation and Amortization

Consolidated depreciation and amortization reached EUR 16.1 million in 2016, up by 0.3% yoy. In the fourth quarter of 2016, total consolidated depreciation and amortization amounted to EUR 4.1 million, down by 1.2% compared to the same period in 2015.

Profit from Operations

In 2016, profit from operations (EBIT) amounted to EUR 30.6 million, up by 8.2% compared with 2015. In the fourth quarter of 2016, profit from operations (EBIT) declined by 18.6% yoy to EUR 8.5 million.

Financial Income and Costs

In 2016, foreign exchange changes and other financial income/expense (net) represented a loss of EUR 3.2 million, compared with a gain of EUR 8.7 million achieved in 2015. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The year-on-year change was affected namely by a further appreciation of the dollar against the Euro at the end of 2016, which had a positive effect on unrealized exchange rate differences related namely to the revaluation with respect to the intra-company loan to the subsidiary in Egypt. This positive effect was, however, compensated for by the devaluation of the Egyptian pound, which resulted in unrealized foreign exchange losses with respect to the assets of the Egyptian subsidiary denominated in the local currency. In the fourth quarter of 2016, foreign exchange gains and other financial income/expense (net) amounted to an expense of EUR 1.4 million.

Interest expenses (net) related to debt servicing amounted to EUR 7.3 million in 2016, an 8.8% decrease compared with 2015. In the fourth quarter of 2016, interest expenses amounted to EUR 1.6 million, a 29.7% decrease compared with the same period in 2015. The reason for the decline in interest expenses was the expiration of interest rate swaps related to refinanced bank loans.

Income Tax

In 2016, the income tax expense amounted to EUR 5.3 million, up by 30.8% over 2015. Current tax payable amounted to EUR 3.4 million, changes in deferred tax represented an expense of EUR 1.8 million.

In the fourth quarter of 2016, income tax increased by 74.7% yoy to EUR 3.7 million. Current tax payable amounted to EUR 1.2 million, changes in deferred tax represented an expense of EUR 2.5 million.

Net profit

Net profit reached EUR 14.8 million in 2016, down by 40.6% yoy. The lower net profit was related namely to unrealised foreign exchange changes booked in the compared periods.

In the fourth quarter of 2016, the company recorded a net profit in the amount of EUR 1.8 million, down by 77.7% yoy.

Investments

In 2016, total consolidated capital expenditure amounted to EUR 21.0 million, a 124.9% yoy increase. Capital expenditures related to expansion of production capacity represented EUR 16.5 million of this amount. Maintenance CAPEX constituted the remaining EUR 4.5 million, up by 22.0% compared with the previous year. The Company, therefore, did not exceed its estimate of capital expenditures for 2016, which expected a maximum level of EUR 25 million.

In the fourth quarter of 2016, total consolidated capital expenditures amounted to EUR 2.8 million. Capital expenditures related to expansion of production capacity represented EUR 0.5 million of this amount. Maintenance CAPEX constituted the remaining EUR 2.3 million, up by 60.9% compared with the previous year.

Cash and Indebtedness

The amount of net debt as at 31 December 2016, was EUR 160.8 million, down by 1.8% compared with the level as at 31 December 2015. Net debt to EBITDA ratio equated to 3.45.

Business Overview of 2016

Last year, the total production output (net of scrap) reached 102,691 tonnes, up by 1.0% compared with 2015. In the fourth quarter, the Company's production volume amounted to 25,961 tonnes, which is 0.6% less than in the same period in 2015.

In 2016, the share of revenues from sales of nonwoven textiles for the hygiene industry constituted an 86.0% share of total revenues, compared with an 85.8% share in the comparable period in the preceding year. The high share of products in this category confirms the important position that the Company has in this market.

In 2016, revenues from sales of non-hygiene products (for construction, agricultural and medical applications) amounted to EUR 28.9 million, which represented a 14.0% share of total revenues.

In terms of geographical distribution, the Company confirmed its steady sales focus on the broader European area and its entry on to the markets of the Middle East. In 2016, revenues from sales to Western Europe amounted to EUR 80.5 million and represented a 39.0% share of total revenues. In 2015, they amounted to EUR 81.4 million, corresponding to 35.5% of total revenues.

In this period, revenues from sales to Central and Eastern Europe and Russia amounted to EUR 88.2 million and represented a 42.7% share of total revenues. In 2015, these sales revenues reached EUR 94.3 million, representing a 41.1% share.

Revenues from sales to other territories amounted to EUR 37.6 million and represented an 18.2% share of total revenues, compared with revenues of EUR 53.5 million and a 23.3% share in the previous year.

Guidance for 2017

The agreements with customers indicate the full utilisation of our production capacity in 2017.

In 2017, we expect an increase in production volumes as a result of a new production line that is expected to be in full commercial mode from the start of the second half 2017. The expected annual production of this new production line is approximately 10,000 tonnes.

Based on the above facts and information known to date, the Company sets its EBITDA guidance in the range of EUR 43.0 - 50.0 million.

The Company is planning for total CAPEX in 2017 not to exceed the EUR 30.0 million level.

PEGAS NONWOVENS SA

Interim Unaudited Consolidated Financial Statements for 2016
prepared in accordance with the International Financial Reporting Standards

Condensed Consolidated Statement of Comprehensive Income for the years 2016 and 2015

in thousand EUR	Twelve-month period to 31 December 2015 (audited)	Twelve-month period to 31 December 2016 (unaudited)	% change
Revenue	229,200	206,353	(10.0%)
Raw materials and consumables used	(170,138)	(146,853)	(13.7%)
Staff costs	(13,613)	(12,646)	(7.1%)
Other operating income/(expense) net	(1,139)	(187)	(83.6%)
EBITDA	**44,311**	**46,668**	**5.3%**
EBITDA margin	***19.3%***	***22.6%***	***3.3 p.p.***
Depreciation and amortization expense	(16,059)	(16,107)	0.3%
Profit from operations	**28,252**	**30,561**	**8.2%**
FX gains and other financial income	13,537	1,468	(89.2%)
FX losses and other financial expenses	(4,817)	(4,656)	(3.4%)
Interest income	44	94	113.8%
Interest expense	(8,019)	(7,366)	(8.1%)
Profit before tax	**28,997**	**20,101**	**(30.7%)**
Income tax (expense)/income	(4,018)	(5,254)	30.8%
Net profit after tax	**24,978**	**14,847**	**(40.6%)**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	3,404	(811)	n/a
Changes in translation reserves	778	230	(70.4%)
Total comprehensive income for the period	**29,160**	**14,266**	**(51.1%)**
Net earnings per share			
Basic net earnings per share (EUR)	2.74	1.69	(38.1%)
Diluted net earnings per share (EUR)	2.71	1.68	(37.8%)

Condensed Consolidated Statement of Comprehensive Income for the three months ended 31 December 2016 and 31 December 2015

in thousand EUR	Three-month period to 31 December 2015 (unaudited)	Three-month period to 31 December 2016 (unaudited)	% change
Revenues	59,559	48,582	(18.4%)
Raw materials and consumables used	(42,962)	(32,807)	(23.6%)
Staff costs	(2,485)	(4,040)	62.6%
Other operating income/(expense) - (net)	465	843	81.2%
EBITDA	**14,577**	**12,578**	**(13.7%)**
EBITDA margin	***24.5%***	***25.9%***	***1.4 p.p.***
Depreciation and amortization expense	(4,104)	(4,056)	(1.2%)
Profit from operations	**10,473**	**8,522**	**(18.6%)**
FX gains and other financial income	2,441	528	(78.4%)
FX losses and other financial expenses	(416)	(1,950)	368.5%
Interest income	24	22	(5.6%)
Interest expense	(2,253)	(1,590)	(29.4%)
Profit for the period before tax	**10,269**	**5,532**	**(46.1%)**
Income tax (expense)/income	(2,125)	(3,712)	74.7%
Net profit after tax	**8,145**	**1,820**	**(77.7%)**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	172	2,646	1,438.4%
Changes in translation reserves	(1,592)	2,954	n/a
Total comprehensive income for the period	**6,724**	**7,419**	**10.3%**
Net earnings per share			
Basic net earnings per share (EUR)	0.92	0.21	(77.3%)
Diluted net earnings per share (EUR)	0.91	0.21	(77.3%)

Condensed Consolidated Statement of Financial Position as at 31 December 2016 and 31 December 2015

in thousand EUR	31 December 2015 (audited)	31 December 2016 (unaudited)
Assets		
Non-current assets		
Property, plant and equipment	181,250	187,288
Intangible assets	2,369	4,066
Goodwill	85,857	85,864
Total non-current assets	**269,476**	**277,218**
Current Assets		
Inventories	39,538	39,914
Trade and other receivables	54,692	43,588
Income tax receivables	0	0
Cash and cash equivalents	28,082	24,220
Total current assets	**122,312**	**107,721**
Total assets	**391,788**	**384,939**
Equity and liabilities		
Share capital and reserves		
Share capital	11,444	11,444
Legal reserves	9,451	10,028
Treasury shares	(12,797)	(13,672)
Translation reserves	5,691	5,921
Cash flow hedge reserves	1,418	607
Retained earnings	141,505	144,815
Total share capital and reserves	**156,712**	**159,144**
Non-current liabilities		
Bank loans	0	0
Deferred tax liabilities	17,440	20,067
Other non-current liabilities	184,806	185,038
Total non-current liabilities	**202,246**	**205,104**
Current liabilities		
Trade and other payables	23,895	19,965
Tax liabilities	1,824	726
Bank current liabilities	7,111	0
Provisions	0	0
Total current liabilities	**32,830**	**20,691**
Total liabilities	**235,076**	**225,795**
Total equity and liabilities	**391,788**	**384,939**

Condensed Consolidated Statement of Cash Flows for 2016 and 2015

in thousand EUR	2015 (audited)	2016 (unaudited)
Profit before tax	**28,997**	**20,101**
Adjustment for:		
Depreciation and Amortization	16,059	16,107
Foreign exchange gains/losses	(22,683)	3,234
Interest expense	8,019	7,366
Other changes in equity	3,404	(811)
Other financial income/(expense)	1,045	(252)
Cash flows from operating activities		
Decrease/(increase) in inventories	4,701	183
Decrease/(increase) in receivables	(9,677)	7,582
Increase/(decrease) in payables	(10,538)	(8,707)
Income tax (paid) / received	(642)	(1,905)
Net cash flows from operating activities	**18,684**	**42,897**
Cash flows from investment activities		
Purchases of property, plant and equipment	(9,320)	(20,961)
Net cash flows from investment activities	**(9,320)**	**(20,961)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	(56,450)	(7,108)
Increase/(decrease) in other non-current liabilities	95,769	232
Acquisition of own shares and other changes in capital	(12,797)	(875)
Distribution of dividends	(10,349)	(10,960)
Interest paid	(5,374)	(7,339)
Other financial income/(expense)	(1,045)	252
Net cash flows from financing activities	**9,755**	**(25,798)**
Cash and cash equivalents at the beginning of the period	8,962	28,082
Net increase (decrease) in cash and cash equivalents	19,120	(3,862)
Cash and cash equivalents at the end of the period	**28,082**	**24,220**