PEGAS NONWOVENS SA

FIRST QUARTER RESULTS

2017

11 May 2017

First quarter of 2017 Unaudited Consolidated Financial Results

PEGAS NONWOVENS SA announces its unaudited consolidated financial results for the first quarter of 2017 to 31 March 2017 prepared according to International Financial Reporting Standards (IFRS).

"The first quarter results are in line with our expectations and with the goals that we have set ourselves for this year. The achieved EBITDA of EUR 11.3 million was supported by strong sales. The effect of external factors, i.e. polymer prices and the revaluation of warrants, was not significant. Compared to preceding quarters, production declined slightly, however, this was mainly due to the regular maintenance breaks being moved to this year. From the production point of view, a more important fact is that, compared to last year, we have been successful in improving production parameters, which is having a positive financial impact. The fact that the business is running as normal and generating good results is enabling us to concentrate on our projects.

The launch of the new production line in the Czech Republic is proceeding according to plan and we should be shipping the first commercial products at the end of the second quarter.

The South African project is also developing positively. We have reserved production technology for this facility and expect the final decision regarding the ordering of the line to be taken in July. In the second quarter, we also want to conclude the land purchase contract and to finalise negotiations with customers. The construction of the new production plant should then be commenced at the end of the year.

I firmly believe that we will do well in the coming quarter and that I will be able to inform you about progress on our projects," said František Řezáč, CEO and Member of the Board of PEGAS NONWOVENS SA.

Overview of Financial Results

	First quarter January - March 2017	yoy
Financials (EUR mil.)		
Revenues	**55.8**	**1.2%**
Operating costs without depreciation and amortization	(44.5)	2.4%
EBITDA	**11.3**	**(3.0%)**
Depreciation and amortization	(4.1)	1.6%
Profit from operations (EBIT)	**7.1**	**(5.5%)**
FX gains/(losses) and other financial income/(expense) (net)	(1.1)	(70.7%)
Interest expense (net)	(1.8)	(14.9%)
Income tax – (expense)/income net	(0.6)	(53.4%)
Net profit	**3.7**	**679.8%**
Net debt	153.9	4.3%
Capital expenditure	5.1	134.5%
Profitability ratios		
EBITDA margin	20.2%	(0.9 p.p.)
Operating profit margin	12.8%	(0.9 p.p.)
Net profit margin	6.6%	5.7 p.p.
Operations		
Production output in tonnes	25,343	(2.7%)
Number of employees - end of period	586	2.6%
Number of employees - average	583	2.5%
Exchange rates		
EUR/CZK - average	27.021	(0.1%)
EUR/CZK - end of period	27.030	(0.1%)
EUR/USD - average	1.065	(3.4%)
EUR/USD - end of period	1.069	(6.1%)

Consolidated Financial Results

Revenues, Costs and EBITDA

In the first quarter of 2017, consolidated revenues (revenues from sales of the Company's products) reached EUR 55.8 million, up by 1.2% yoy. The development in the price of polymers did not have a significant effect on the year-on-year revenue development despite polymer prices rising by more than 10% since the start of the year. Due to the delay in the polymer price pass-through mechanism, this increase will only be projected into next quarter's revenues. Sales volumes in tonnage terms, grew slightly on a year-on-year basis.

In the first quarter of 2017, total consolidated operating costs without depreciation and amortization (net) went up by 2.4% yoy to EUR 44.5 million primarily due to the increase in polymer prices that affected expenses due to a shorter delay of the polymer price pass-through mechanism.

In the first quarter of 2017, EBITDA amounted to EUR 11.3 million, down by 3.0% yoy. This result is in line with the guidance range announced at the beginning of the year, when the Company indicated an increase in EBITDA in the range from EUR 43.0 to 50.0 million. The slight year-on-year decline in EBITDA was primarily caused by lower production volumes resulting from regular maintenance breaks. Likewise, the polymer price pass-through mechanism had a slightly negative impact as a result of the rising price of polymers in the first quarter of this year compared to the stable polymer prices in the first quarter of last year. The impact of the revaluation of the share option plan in the first quarter results of 2017 was also slightly negative.

EBITDA margin reached 20.2% in the first quarter of 2017, declining by 0.9 percentage points compared with the same period last year.

Operating Costs

Total raw materials and consumables used in the first quarter of 2017 amounted to EUR 41.4 million, which represented an increase of 3.5% yoy.

In the first quarter of 2017, total staff costs reached an amount of EUR 3.1 million, i.e. up by 4.2% yoy, to which the revaluation of the share option plan contributed an expense of EUR 0.2 million in the first quarter of 2017, i.e. an increase of EUR 0.1 million with respect to the comparable period last year. Total staff costs expressed in local currencies and without the revaluation of the share option plan grew by approximately 2.7% yoy. The year-on-year increase in staff costs in local currencies resulted namely from an indexation of wages at the end of 2016. The depreciation of EGP against EUR had a positive effect on staff costs.

In the first quarter of 2017, other operating income/expenses (net) reached EUR 0.0 million, i.e. down by EUR 0.5 million compared with the same period in 2016.

Depreciation and Amortization

Consolidated depreciation and amortization reached the amount of EUR 4.1 million in the first quarter of 2017, up by 1.6% yoy.

Profit from Operations

In the first quarter of this year, profit from operations (EBIT) amounted to EUR 7.1 million, down by 5.5% compared with the first quarter of 2016.

Financial Income and Costs

In the first quarter of 2017, FX changes and other financial income/(expense) (net) amounted to an expense of EUR 1.1 million compared with an expense of EUR 3.7 million achieved in the same period last year. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The slight depreciation of the dollar in the first quarter of 2017 led to unrealized exchange rate losses related to the revaluation of balance sheet items denominated in EUR, and in particular with respect to the intra-company loan to the subsidiary in Egypt.

Interest expenses (net) related to debt servicing reached EUR 1.8 million in the first quarter of 2017, which is down by 14.9% relative to the same period last year. The reason for the decline in interest expenses was the expiration of interest rate swaps related to refinanced bank loans. The increase in interest expenses relative to the fourth quarter of 2016 was the result of a new bond issue in January 2017.

Income Tax

In the first quarter of 2017, income tax expense amounted to EUR 0.6 million, down by 53.4% compared with 2016. Current tax payable amounted to EUR 0.8 million, changes in deferred tax represented an income of EUR 0.2 million.

Net profit

In the first quarter of 2017, net profit amounted to EUR 3.7 million representing a year-on-year increase of 679.8%, primarily a consequence of unrealized foreign exchange gains/losses, which were supported by lower interest and tax expenses.

Investments

In the first quarter of 2017, total capital expenditure amounted to EUR 5.1 million, i.e. a 134.5% increase compared with last year. Of this amount, EUR 3.7 million was spent on investments into production capacity expansion, with the remainder being maintenance CAPEX.

Cash and Indebtedness

The amount of net debt as at 31 March 2017, was EUR 153.9 million, down by 4.3% compared with the level as at 31 December 2016. Compared with the previous quarter, the net debt to EBITDA ratio fell to 3.32. The decline in net debt related primarily to the Company's ability to generate a high degree of free cash flows and the absence of extraordinary expense items, such as, for example, a dividend payout. The new bond issue had no effect on the net debt amount since the proceeds from this issue are held as cash and will be used in 2018 to refinance public bonds issued by the Company.

Business Overview for the first quarter of 2017

In the first quarter of 2017, the total production output (net of scrap) reached 25,343 tonnes, down by 2.7% compared with the same period in 2016. The decline in production between the compared periods was the result of regular maintenance breaks in the first quarter of 2017. No such regular maintenance breaks occurred in the same period last year.

In the first quarter of 2017, the share of revenues from sales of nonwoven textiles for the hygiene industry constituted an 84.9% share of total revenues, compared with an 87.8% share in the comparable period last year. The high share of products in this category confirms the important position the Company has in this market.

In the first quarter of 2017, revenues from sales of non-hygiene products (for construction, agricultural and medical applications) amounted to EUR 8.4 million, which represented a 15.1% share of total revenues.

In terms of geographical distribution, the Company confirmed its steady sales focus on the broader European area and its establishing presence on to the markets of the Middle East. In the first quarter of 2017, revenues from sales to Western Europe amounted to EUR 18.4 million and represented a 33.0% share of total revenues. In the same quarter of 2016, they amounted to EUR 20.1 million, corresponding to 38.1% of total revenues.

In this period, revenues from sales to Central and Eastern Europe and Russia amounted to EUR 23.5 million and represented a 42.2% share of total revenues. In the first quarter of last year, these sales revenues reached EUR 22.5 million, representing a 40.9% share.

Revenues from sales to other territories amounted to EUR 13.8 million and represented a 24.8% share of total revenues, compared with revenues of EUR 11.6 million and a 21.0% share in the previous year.

Guidance for 2017

In the first quarter of 2017, the Company achieved financial results that are in line with its expectations and with the announced guidance for the entire year 2017.

Based on the results achieved in the first quarter of 2017 and respecting the developments in the European nonwoven textile market, including the expected development in the polymer market, the Company confirms its previously announced guidance for 2017 and expects this year's EBITDA to be in the range from EUR 43.0 to 50.0 million.

The Company is planning for total CAPEX in 2017 not to exceed the EUR 30 million level.

PEGAS NONWOVENS SA

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

for the three months ended 31 March 2017

Condensed Consolidated Statement of Comprehensive Income

in thousand EUR	Three-month period to 31 March 2016 (unaudited)	31 March 2017 (unaudited)	% change
Revenue	55,081	55,756	1.2%
Raw materials and consumables used	(40,012)	(41,431)	3.5%
Staff costs	(2,973)	(3,099)	4.2%
Other operating income/(expense) net	(492)	25	n/a
EBITDA	**11,603**	**11,252**	**(3.0%)**
EBITDA margin	***21.1%***	***20.2%***	***(0.9 p.p.)***
Depreciation and amortization expense	(4,059)	(4,124)	1.6%
Profit from operations	**7,543**	**7,128**	**(5.5%)**
FX gains and other financial income	113	108	(4.0%)
FX losses and other financial expenses	(3,819)	(1,193)	(68.8%)
Interest income	26	15	(42.1%)
Interest expense	(2,135)	(1,810)	(15.2%)
Profit before tax	**1,728**	**4,248**	**145.8%**
Income tax (expense)/income	(1,259)	(587)	(53.4%)
Net profit after tax	**470**	**3,661**	**679.8%**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	(2,038)	786	n/a
Changes in translation reserves	(3,043)	(1,504)	(50.6%)
Total comprehensive income for the period	**(4,611)**	**2,944**	**n/a**
Net earnings per share			
Basic net earnings per share (EUR)	0.05	0.42	680.1%
Diluted net earnings per share (EUR)	0.05	0.42	682.0%

Condensed Consolidated Statement of Financial Position

in thousand EUR	31 March 2016 (unaudited)	31 December 2016 (audited)	31 March 2017 (unaudited)
Assets			
Non-current assets			
Property, plant and equipment	176,437	187,288	186,682
Intangible assets	2,352	4,066	4,046
Goodwill	85,769	85,864	85,835
Total non-current assets	**264,558**	**277,218**	**276,563**
Current Assets			
Inventories	29,245	39,913	34,773
Trade and other receivables	48,902	43,764	50,623
Income tax receivables	0	0	0
Cash and cash equivalents	37,154	24,220	80,837
Total current assets	**115,301**	**107,897**	**166,233**
Total assets	**379,858**	**385,115**	**442,797**
Equity and liabilities			
Share capital and reserves			
Share capital	11,444	11,444	11,444
Legal and other reserves	9,451	1,999	1,999
Treasury shares	(13,672)	(13,672)	(13,793)
Translation reserves	2,649	6,279	4,775
Cash flow hedge reserves	(620)	608	1,394
Retained earnings	141,976	152,077	155,739
Total share capital and reserves	**151,227**	**158,735**	**161,559**
Non-current liabilities			
Bank loans	0	0	0
Deferred tax liabilities	17,660	20,067	19,566
Other non-current liabilities	184,708	185,034	234,760
Total non-current liabilities	**202,369**	**205,101**	**254,326**
Current liabilities			
Trade and other payables	24,030	20,553	26,239
Tax liabilities	2,232	726	674
Bank current liabilities	0	0	0
Provisions	0	0	0
Total current liabilities	**26,263**	**21,279**	**26,913**
Total liabilities	**228,631**	**226,380**	**281,238**
Total equity and liabilities	**379,858**	**385,115**	**442,797**

Condensed Consolidated Statement of Cash Flows

in thousand EUR	2016 (unaudited)	2017 (unaudited)
Profit before tax	**1,729**	**4,248**
Adjustment for:		
Depreciation and Amortization	4,059	4,124
Foreign exchange gains/losses	3,933	1,047
Interest expense	2,135	1,810
Other changes in equity	(2,038)	786
Other financial income/(expense)	(57)	155
Cash flows from operating activities		
Decrease/(increase) in inventories	9,457	4,718
Decrease/(increase) in receivables	3,693	(2,997)
Increase/(decrease) in payables	(2,554)	297
Income tax (paid) / received	(520)	(1,905)
Net cash flows from operating activities	**19,836**	**12,282**
Cash flows from investment activities		
Purchases of property, plant and equipment	(2,181)	(5,115)
Net cash flows from investment activities	**(2,181)**	**(5,115)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	(7,106)	0
Increase/(decrease) in other non-current liabilities	(98)	49,726
Acquisition of own shares and other changes in capital	(875)	(120)
Distribution of dividends	0	(0)
Interest paid	(560)	0
Other financial income/(expense)	57	(155)
Net cash flows from financing activities	**(8,582)**	**49,451**
Cash and cash equivalents at the beginning of the period	28,082	24,220
Net increase (decrease) in cash and cash equivalents	9,073	56,617
Cash and cash equivalents at the end of the period	**37,154**	**80,837**

Condensed Consolidated Statement of Changes in Equity

	Share capital	Legal reserves	Own shares	Translation reserves	Cash flow hedging	Retained earnings	Total share capital and reserves
as at 1 January 2016	**11,444**	**9,451**	**(12,797)**	**5,691**	**1,418**	**141,505**	**156,712**
Distribution	--	--	--	--	--	--	**--**
Other comprehensive income for the period	--	--		(3,043)	(2,038)	--	**(5,081)**
Net profit for the period	--	--	--	**--**	**--**	470	**470**
Acquisition of own shares	--	--	(875)	--	--	--	**(875)**
Legal reserves created from retained earnings	--	--	--	--	--	--	**--**
as at 31 March 2016	**11,444**	**9,451**	**(13,672)**	**2,648**	**(620)**	**141,976**	**151,227**
as at 1 January 2017	**11,444**	**1,999**	**(13,672)**	**6,279**	**608**	**152,077**	**158,735**
Distribution	--	--	--	--	--	--	**--**
Other comprehensive income for the period	--	--	--	(1,504)	786	--	**(718)**
Net profit for the period	--	--	--	**--**	**--**	3,661	**3,661**
Acquisition of own shares	--	--	(121)	--	--	--	**(121)**
Legal reserves created from retained earnings	--	--	--	--	--	--	**--**
as at 31 March 2017	**11,444**	**1,999**	**(13,793)**	**4,775**	**1,394**	**155,739**	**161,559**

Selected explanatory notes to the interim consolidated financial statements

These financial statements were prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union. Condensed interim financial statements do not include all the information and disclosures required in the annual financial statements. This interim report was not audited by the Company´s external auditors.

Summary of Significant Accounting Policies

The same basis of preparation, accounting policies, presentation and methods of computation have been followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2016.

Disclosures on seasonal and economic influences

The business of PEGAS NONWOVENS SA is not typically subject to seasonal and economic influences other than the general economic cycle, although the hygiene market is to a large extent non-cyclical.

Important events and transactions

There were no important events or transactions in the first quarter of 2017 which would have a significant effect on the understanding of the changes in the statement of financial position and performance of the Company

Estimates

The preparation of interim financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors. The objective of making estimates is to present a true and fair view of the financial position of the Company, namely for determining the values of assets and liabilities for which this value is not readily available from other sources. The actual results may differ from these estimates.

There were no material changes in the nature or size of the estimates since the issue of the previous financial reports.

Repurchases and repayments of debt and equity securities

During the course of the first quarter of 2017, the Company did not draw any bank loans. The Company did not conclude any new bank facilities in the first quarter of 2017.

In the first three months of 2017, the Company did not make any repurchases or repayments of debt securities.

In the first three months of 2017, the Company bought back 4,071 of its own shares within the scope of the tender offer related to the delisting of the Company's shares from trading on the Warsaw Stock Exchange. The acquisition value of such acquired shares amounted to EUR 103 thousand. As at 31 March 2017, the Company held 465,541 of its own shares, which represents 5.04% of its share capital.

Bond issue

On 20 January 2017, the subsidiary company PEGAS NONWOVENS s.r.o. issued a private issue of senior unsecured bonds pursuant to Czech law in the nominal amount of EUR 50 million. The issue bears a fixed interest rate of 1.875% p.a. and matures on 20 January 2024. The proceeds from this bond issue will be used primarily for the refinancing of the public bond issue in November 2018.

Dividend

During the interim period, no dividend was paid to the shareholders.

Segment information

The IFRS 8 standard requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. In accordance with IFRS 8, the Group identified one operating segment, the production of nonwoven textiles.

Material events subsequent to the end of the interim period

The management of the Group is not aware of any other events that occurred subsequent to the end of the interim period, which would have a significant effect on the consolidated financial statements as at 31 March 2017.

Disclosures on changes in the composition and consolidation of the entity

There were no changes in this field during the reporting period ended relative to the status on 31 December 2016.

Information about the fair value of financial instruments

During the period of the first three months of this year no changes occurred in the valuation methodology for financial instruments.

Interest rate swaps

As at 31 March 2017, the Company held no open interest rate swaps.

Cross currency swaps

As at 31 March 2017, the Company held three open cross currency swaps.

The first swap was entered into in November of 2014 at a total nominal value of CZK 2,489,575 thousand (receiving leg) against EUR 90,201 thousand (paying leg) with the objective of hedging the currency risk on the CZK issue of public bonds Pegas 2.85/2018.

The second swap was entered into in July of 2015 at a total nominal value of CZK 678,000 thousand (receiving leg) against EUR 25,000 thousand (paying leg) with the objective of hedging the interest and currency risk on the CZK issue of private bonds maturing on 14 July 2025 with a variable interest rate of 6M PRIBOR + 2.00% p.a.

The third swap was entered into in July of 2015 at a total nominal value of CZK 1,080,000 thousand (receiving leg) against EUR 39,852 thousand (paying leg) with the objective of hedging the currency risk on the CZK issue of private bonds maturing on 14 July 2022 with a fixed interest rate of 2.646% p.a.

The company performs hedge accounting for the cross currency swaps. The change in the fair value of these swaps, that is considered as effective in terms of hedging, is recorded in equity. The change in the fair value of these swaps, that is considered as non-effective in terms of hedging, is recorded in the profit and loss statement.

The fair value of these swaps, as at 31 March 2017, is presented in the following table. A positive value represents a receivable of the Company, a negative value a payable of the Company.

Counterparty	as at 31 March 2016	as at 31 March 2017	% hedging of the underlying liability
Česká spořitelna – EUR 90.201 mil.	2,040	3,180	108%
ČSOB – EUR 25 mil.	(1,037)	(42)	100%
Česká spořitelna – EUR 39.852 mil.	(401)	108	100%
Total	**602**	**3,246**	**105%**

in thous. EUR

Fair value of these swaps as at 31 March 2017 represents a receivable of the Company. To this date, these swaps cover approximately 105% of the total nominal value of the public bond issue in the amount of CZK 2.5 billion (less the sum of the repurchased bonds in the amount of CZK 198 million) and two private bond issues in the amount of CZK 1,080 million, resp. CZK 678 million.

Sensitivity of the fair value of cross currency swaps

The appreciation of CZK against EUR by 1% would, as at 31 March 2017, increase the fair value of the cross currency swaps by approximately EUR 1.5 million. The depreciation of CZK against EUR by 1% would, as at 31 March 2017, decrease the fair value of the cross currency swaps by approximately EUR 1.5 million.

Currency forward contracts

As at 31 March 2017, the Company held no open currency forward contracts.

Foreign currency options

As at 31 March 2017, the Company held an open position in a foreign currency option structure that was concluded by the Company in March 2016. The objective of this foreign currency option structure is to hedge currency risk connected to revenues in EUR and their conversion to CZK in approximately the amount as the Company expends each month on the payment of wages and salaries.

The fair value of the foreign currency option structure, as at 31 March 2017, is presented in the following table. A positive value represents a receivable of the Company, a negative value a payable of the Company.

Counterparty	as at 31 March 2016	as at 31 March 2017
ČSOB – foreign currency option structure	(387)	(28)
Total	**(387)**	**(28)**

in thous. EUR

Sensitivity of the fair value of the foreign currency option structure
The appreciation of CZK against EUR by 5% would, as at 31 March 2017, increase the fair value of the foreign currency option structure by approximately EUR 1.6 million. The depreciation of CZK against EUR by 5% would, as at 31 March 2017, decrease the fair value of the foreign currency option structure by approximately EUR 1.5 million.

Earnings per share

Basic earnings per Share are calculated as the net profit for the period attributable to equity holders of the Company divided by the weighted average number of shares existing each day in the given period, which take into account (by reduction) the shares bought back.

Diluted earnings per share are calculated based on a weighted average number of shares in circulation (determined similarly as in the case of basic earnings per share) adjusted for the effect of the expected issue of all potential diluting securities, i.e. warrants in the case of the Company.

No changes to the number of shares occurred during the first three months of 2017 or in the first three months of 2016.

The weighted average number of ordinary registered shares used for the calculation of the basic earnings per share, as at 31 March 2017, reflects the bought back shares.

The weighted average of the number of ordinary registered shares used for the calculation of diluted earnings per share, as at 31 March 2017, is based on the number of shares used for the calculation of basic earnings per share, whilst taking into account (by increasing) the potential diluting securities, i.e. warrants.

Basic earnings per share

		Three months ended	
		31 March 2016	31 March 2017
Net profit attributable to equity holders	'000 EUR	470	3,661
Weighted average number of ordinary shares	amount	8,770,090	8,766,573
Basic earnings per share	**EUR**	**0.05**	**0.42**

Diluted earnings per share

		Three months ended	
		31 March 2016	31 March 2017
Net profit attributable to equity holders	'000 EUR	470	3,661
Weighted average number of ordinary shares	amount	8,819,670	8,794,390
Diluted earnings per share	**EUR**	**0.05**	**0.42**

Related party transactions

Except for the information above there were no other new transactions between the Group and the executive managers or the non-executive directors concluded in the first three months of 2017.

Approval of the interim financial statements

The interim financial statements were approved by the Company's Board of Directors on 10 May 2017.

Marek Modecki
Chairman of the Board of Directors
PEGAS NONWOVENS SA

František Řezáč
Member of the Board of Directors
PEGAS NONWOVENS SA