PEGAS NONWOVENS a.s.

Preliminary unaudited consolidated financial results

for 2017

22 March 2018

2017 Preliminary unaudited financial results

PEGAS NONWOVENS a.s. announces its preliminary unaudited consolidated financial results for the fiscal year to 31 December 2017 prepared according to International Financial Reporting Standards (IFRS).

"Strong production output, which reached almost 29 thousand tonnes in the fourth quarter, was the main reason why the fourth quarter was the strongest from the operating performance standpoint. The quarterly EBITDA of EUR 13.7 million represents one of our best quarterly results. The full-year EBITDA reached EUR 44.7 million, meaning that we managed to achieve our target set in the range of EUR 43 – 50 million. Adjusted for one-off effects, EBITDA amounted to EUR 47.8 million, which is quite close to last year's figure. Again, I can conclude that from the financial point of view, 2017 was a successful year.

A significant moment last year was also the fundamental change in the shareholder structure. Within the scope of a voluntary takeover bid, the R2G Group gained an almost 90% share in the Company and became the majority shareholder. The consolidation of shareholder base allowed us to execute upon long planned corporate changes. At the extraordinary general meeting held in December, the transfer of the Holding Company's head office from Luxembourg to the Czech Republic was approved, with the objective of simplifying and rationalising our organisational and cost structure. This step was also accompanied by a change in the structure of the bodies of the Company. A supervisory board was appointed and representatives from R2G were nominated as members of the PEGAS Board of Directors. These changes took place at the end of the year, but I must not forget to also mention our delisting from the Warsaw Stock Exchange, which we completed in September 2017. Currently our shares are, therefore, traded on the Prague Stock Exchange exclusively.

In 2017 we also made significant progress in preparing, respectively executing strategic projects. A key event was the launch of a new Compact type production line in Znojmo-Přímětice. I am therefore very pleased that we were able to put the line into commercial operation slightly ahead of schedule and that it had a significant impact on our good production output results in the second half of the year.

Another significant challenge before us is the completion of the project in South Africa. In 2017, we concluded a land purchase contract, ordered a new production line, completed sales negotiations regarding the deliveries from the new production plant, and were awarded a building permit for our plant. At the present time, we are in discussions with our main building contractor.

A strategically very significant project is the installation of a semi-commercial production line that we ordered for our production plant in Znojmo-Přímětice. This line is based on an entirely new technology, which if successful, could offer us an exceptional opportunity for the development and commercialisation of new products, respectively the diversification of our product portfolio. We are planning to put this line into operation in the fourth quarter of 2019.

This year we will, of course, again focus on further optimising production-operational parameters, improving existing products and developing new ones, resp. quality *improvement projects with the objective of meeting the needs of our customers. Their trust will always be a key factor for us and so I am pleased that we have again successfully sold out the entire production capacity.*

The increase in production capacity and expected sales volumes leads us to raise our 2018 EBITDA guidance, which we are setting to a range between CZK 1.22 and 1.38 billion. Furthermore, we plan for total CAPEX not to exceed the level of CZK 1.05 billion.

I am confident that we will be able to fulfil these goals in 2018," said František Řezáč, CEO of Pegas.

Overview of Financial Results

	January – December 2017	yoy	Fourth quarter October - December 2017	yoy
Financials (EUR mil.)				
Revenues	**220.8**	**7.0%**	**53.4**	**10.0%**
Operating costs without depreciation and amortization	(176.2)	10.3%	(39.7)	10.4%
EBITDA	**44.7**	**(4.3%)**	**13.7**	**8.7%**
Depreciation and amortization	(17.4)	7.9%	(4.6)	14.6%
Profit from operations (EBIT)	**27.3**	**(10.8%)**	**9.0**	**5.9%**
FX gains/(losses) and other financial income/(expense) (net)	(7.1)	122.1%	(1.4)	(0.6%)
Interest expense (net)	(7.5)	2.6%	(1.8)	16.4%
Income tax – (expense)/income net	(4.0)	(32.8%)	(2.3)	(49.1%)
Net profit	**8.7**	**(38.3%)**	**3.5**	**233.5%**
Net debt	195.0	21.3%	195.0	21.3%
Capital expenditure	27.6	30.9%	8.2	179.0%
Profitability ratios				
EBITDA margin	20.2%	(2.4 p.p.)	25.6%	-0.3 p.p.
Operating profit margin	12.4%	(2.4 p.p.)	16.9%	-0.6 p.p.
Net profit margin	3.9%	(2.9 p.p.)	6.6%	4.4 p.p.
Operations				
Production output in tonnes	109,157	6.3%	28,836	11.1%
Number of employees - end of period	590	2.1%	590	2.1%
Number of employees - average	584	2.8%	588	3.5%
Exchange rates				
EUR/CZK - average	26.326	(2.6%)	25.650	(5.1%)
EUR/CZK - end of period	25.535	(5.5%)	25.535	(5.5%)
EUR/USD - average	1.130	2.1%	1.177	9.1%
EUR/USD - end of period	1.199	13.8%	1.199	13.8%
EUR/ZAR - average	15.049	(7.5%)	16.096	7.3%
EUR/ZAR - end of period	14.805	2.4%	14.805	2.4%

Consolidated Financial Results

Revenues, Costs and EBITDA

In 2017, consolidated revenues (revenues from sales of the Company's products) reached EUR 220.8 million, up by 7.0% yoy. In the fourth quarter of 2017, consolidated revenues reached EUR 53.4 million, up by 10.0% yoy. The increase in revenues was related to the growth in sales volumes resulting from the launch of new production capacities. Revenues were also positively affected by the development in polymer prices, which grew by an average of more than 10% yoy.

In 2017, total consolidated operating costs without depreciation and amortization increased by 10.3% yoy to EUR 176.2 million. In the fourth quarter of 2017, the total consolidated operating costs without depreciation and amortization reached EUR 39.7 million, an increase of 10.4% yoy. The primary reason for the year-on-year increase was the launch of new production capacities and a higher polymer purchase price compared to the previous year.

In 2017, EBITDA amounted to EUR 44.7 million, down by 4.3% yoy. The achieved result means that the Company achieved its target, which it had set in the range EUR 43.0 – 50.0 million. The year-on-year decline in EBITDA is related in significant part to the revaluation of the share option plan and its acceleration due to the change of control of the Company. EBITDA adjusted for the effect of the revaluation of the share option plan and other one-off items, reached EUR 47.8 million.

In the fourth quarter of 2017, EBITDA reached EUR 13.7 million, up by 8.7% yoy. The year-on-year increase was related primarily to the impact of the revaluation of the share option plan. EBITDA adjusted for this effect, went down by 0.4% to EUR 13.5 million.

In 2017, the EBITDA margin was at a level of 20.2%, which is 2.4 percentage points lower compared with 2016. In this respect, EBITDA was negatively affected by the increase in polymer prices, which is reflected in revenues and, thereby, increases the basis from which the EBITDA margin is calculated. In the fourth quarter of 2017, the EBITDA margin was 25.6%, down by 0.3 percentage points yoy.

Operating Costs

Total raw materials and consumables used last year amounted to EUR 160.9 million, a 9.6% yoy increase. In the fourth quarter of 2017, total raw materials and consumables used reached EUR 37.0 million, up by 12.8% over the same period in 2016. The primary reason for the year-on-year increase was the launch of new production capacities and a higher polymer purchase price compared to the previous year.

In 2016, total staff costs reached EUR 14.8 million, up by 16.8% yoy. Total staff costs adjusted for the revaluation and acceleration of the share option plan amounted to EUR 12.0 million, an increase of 6.3%.

In the fourth quarter of 2017, staff costs reached EUR 3.0 million, down by 24.7% yoy. In the fourth quarter, staff costs adjusted for the revaluation of the share option plan grew by 5.1% yoy to reach EUR 3.2 million.

Other operating expenses (net) reached EUR 0.5 million in 2017, compared with an expense of EUR 0.2 million in 2016.

Depreciation and Amortization

Consolidated depreciation and amortization reached EUR 17.4 million in 2017, up by 7.9% yoy. In the fourth quarter of 2017, total consolidated depreciation and amortization amounted to EUR 4.6 million, up by 14.6% compared to the same period in 2016. The year-on-year increase in depreciation and amortization was related namely to the inclusion of the newly launched production line into the Company's assets.

Profit from Operations

In 2017, profit from operations (EBIT) amounted to EUR 27.3 million, down by 10.8% compared with 2016. In the fourth quarter of 2017, profit from operations (EBIT) increased by 5.9% to EUR 9.0 million.

Financial Income and Costs

In 2017, foreign exchange changes and other financial income/expense (net) represented a loss of EUR 7.1 million, compared with a loss of EUR 3.2 million achieved in 2016. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The negative impact of unrealized foreign exchange differences in 2017 was caused namely by year-on-year depreciation of the dollar against the EUR by almost 14%, which had a negative effect on the revaluation in relation to the intra-company loan to the Company's Egyptian subsidiary. This negative effect was, however, partially compensated for by the appreciation of the CZK against the EUR, which had a positive effect on the revaluation of EUR-denominated bonds issued by the Czech subsidiary.

In the fourth quarter of 2017, 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 7.5 million in 2017, a 2.6% increase compared with 2016. In the fourth quarter of 2017, interest expenses amounted to EUR 1.8 million, a 16.4% increase compared with the same period in 2016. The reason for the increase in interest expenses was the expiration of interest rate swaps in June 2016 and the new bond issue in January 2017.

Income Tax

In 2017, income tax expense amounted to EUR 4.0 million, down by 32.8% compared with 2016. Current tax payable amounted to EUR 3.7 million, changes in deferred tax represented an expense of EUR 0.3 million.

In the fourth quarter of 2017, income tax declined by 49.1% yoy to EUR 2.3 million. Current tax payable amounted to EUR 1.8 million, changes in deferred tax represented an expense of EUR 0.5 million.

Net profit

Net profit reached EUR 8.7 million in 2017, down by 38.3% yoy. The decline in net profit was caused by a combination of the above-mentioned factors such as lower EBITDA, higher depreciation and amortization or higher unrealized foreign exchange differences in the compared periods.

In the fourth quarter of 2017, the company recorded a net profit in the amount of EUR 3.5 million.

Investments

In 2017, total consolidated capital expenditure amounted to EUR 27.6 million, a 30.9% yoy increase. Capital expenditures related to expansion of production capacity represented EUR 20.3 million of this amount. Maintenance CAPEX constituted the remaining EUR 7.3 million. The Company, therefore, did not exceed its estimate of capital expenditures for 2017, which expected a maximum level of EUR 30 million.

In the fourth quarter of 2017, total consolidated capital expenditures amounted to EUR 8.2 million. Capital expenditures related to expansion of production capacity represented EUR 5.2 million of this amount. Maintenance CAPEX constituted the remaining EUR 3.0 million.

Cash and Indebtedness

The amount of net debt as at 31 December 2017, was EUR 195.0 million, up by 21.3% compared with the level as at 31 December 2016. The increase in net debt compared with the level at the end of 2016 is primarily related to investments into the new production line in Znojmo and South Africa.

The increase in net debt in the fourth quarter was caused mainly by the payout of dividends in the amount of EUR 11.4 million. Other significant cash items that contributed to the increase in net debt included the payout of interest on public bonds and advance payments related to the South African production line and the new semi-commercial production line. Importantly, the development of net debt was negatively affected by the continued appreciation of the CZK against the EUR by almost 2% in the fourth quarter. This lead to an increase in CZK-denominated bond liabilities when expressed in the reporting currency of EUR. These CZK-denominated bonds are, however, hedged by cross-currency swaps, the value of which, as at 31 December 2017, represents a receivable of the Company in the amount of approx. EUR 7.3 million and thus effectively reduces the value of net debt to EUR 187.7 million.

Net debt to EBITDA ratio was 4.37x. The ratio of net debt adjusted for the fair value of hedging cross currency swaps to EBITDA adjusted for the revaluation of warrants was 3.96x.

Business Overview of 2017

In 2017, production output (net of scrap) reached 109,157 tonnes in total, up by 6.3%, i.e. 6,466 tonnes, compared with 2016. In the fourth quarter, the Company's production volume amounted to a record 28,836 tonnes, which is 11.1% more than in the same period in 2016. The increase in production was related to the launch of new production capacities.

In 2017, the share of revenues from sales of nonwoven textiles for the hygiene industry constituted an 87.0% share of total revenues, compared with an 86.0% 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 2017, revenues from sales of non-hygiene products (for construction, agricultural and medical applications) amounted to EUR 28.6 million, which represented a 13.0% 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 2017, revenues from sales to Western Europe amounted to EUR 80.1 million and represented a 36.3% share of total revenues. In 2016, they amounted to EUR 80.5 million, corresponding to 39.0% of total revenues.

In this period, revenues from sales to Central and Eastern Europe and Russia amounted to EUR 91.9 million and represented a 41.6% share of total revenues. In 2016, these sales revenues reached EUR 88.2 million, representing a 42.7% share.

Revenues from sales to other territories amounted to EUR 48.9 million and represented a 22.1% share of total revenues, compared with revenues of EUR 37.6 million and an 18.2% share in the previous year.

Guidance for 2018

The contracts negotiated with customers indicate the full utilisation of our production capacity in 2018.

In 2018, we expect a further increase in production volumes since the production line launched in the second quarter of 2017 will be in operation for the full length of 2018.

Based on the above factors and information known to date, the Company sets its EBITDA guidance to between CZK 1.22 and 1.38 billion.

The Company is planning for total CAPEX in 2018 not to exceed the CZK 1.05 billion level.

Taking into account the level of Net Debt and with the objective of strengthening the financial stability of the Company and the accummulation of resources for long-term growth, the Board of Directors shall propose to the annual general meeting that dividends not be paid out for 2017.

PEGAS NONWOVENS a.s.

Interim Unaudited Consolidated Financial Statements for 2017
prepared in accordance with the International Financial Reporting Standards

Condensed Consolidated Statement of Comprehensive Income for the years 2017 and 2016

in thousand EUR	Twelve-month period to 31 December 2016 (audited)	Twelve-month period to 31 December 2017 (unaudited)	% change
Revenue	206,353	220,834	7.0%
Raw materials and consumables used	(146,853)	(160,887)	9.6%
Staff costs	(12,646)	(14,764)	16.8%
Other operating income/(expense) net	(187)	(531)	183.9%
EBITDA	**46,668**	**44,653**	**(4.3%)**
EBITDA margin	***22.6%***	***20.2%***	***(2.4 p.p.)***
Depreciation and amortization expense	(16,107)	(17,378)	7.9%
Profit from operations	**30,561**	**27,274**	**(10.8%)**
FX gains and other financial income	1,468	24,780	1588.3%
FX losses and other financial expenses	(4,656)	(31,862)	584.4%
Interest income	94	24	(74.8%)
Interest expense	(7,367)	(7,486)	1.6%
Profit before tax	**20,100**	**12,730**	**(36.7%)**
Income tax (expense)/income	(6,021)	(4,045)	(32.8%)
Net profit after tax	**14,079**	**8,685**	**(38.3%)**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	(810)	1,008	n/a
Changes in translation reserves	588	5,755	878.8%
Total comprehensive income for the period	**13,857**	**15,448**	**11.5%**
Net earnings per share			
Basic net earnings per share (EUR)	1.61	0.99	(38.3%)
Diluted net earnings per share (EUR)	1.60	0.99	(38.0%)

Condensed Consolidated Statement of Comprehensive Income for the three months ended 31 December 2017 and 31 December 2016

in thousand EUR	Three-month period to 31 December 2016 (unaudited)	31 December 2017 (unaudited)	% change
Revenues	48,582	53,420	10.0%
Raw materials and consumables used	(32,807)	(36,996)	12.8%
Staff costs	(4,040)	(3,041)	(24.7%)
Other operating income/(expense) - (net)	843	294	(65.1%)
EBITDA	**12,578**	**13,677**	**8.7%**
EBITDA margin	***25.9%***	***25.6%***	***(0.3 p.p.)***
Depreciation and amortization expense	(4,056)	(4,649)	14.6%
Profit from operations	**8,522**	**9,028**	**5.9%**
FX gains and other financial income	528	16,143	2960.3%
FX losses and other financial expenses	(1,950)	(17,557)	800.6%
Interest income	22	(2)	n/a
Interest expense	(1,591)	(1,824)	14.7%
Profit for the period before tax	**5,531**	**5,788**	**4.6%**
Income tax (expense)/income	(4,480)	(2,280)	(49.1%)
Net profit after tax	**1,052**	**3,507**	**233.5%**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	2,647	2,103	(20.6%)
Changes in translation reserves	3,311	3,751	13.3%
Total comprehensive income for the period	**7,010**	**9,361**	**33.5%**
Net earnings per share			
Basic net earnings per share (EUR)	0.12	0.40	233.7%
Diluted net earnings per share (EUR)	0.12	0.40	234.3%

Condensed Consolidated Statement of Financial Position as at 31 December 2017 and 31 December 2016

in thousand EUR	31 December 2016 (audited)	31 December 2017 (unaudited)
Assets		
Non-current assets		
Property, plant and equipment	187,288	192,985
Intangible assets	4,066	6,230
Goodwill	85,864	90,861
Total non-current assets	**277,218**	**290,076**
Current Assets		
Inventories	39,914	41,517
Trade and other receivables	43,764	60,021
Income tax receivables	0	0
Cash and cash equivalents	24,220	59,290
Total current assets	**107,897**	**160,828**
Total assets	**385,115**	**450,904**
Equity and liabilities		
Share capital and reserves		
Share capital	11,444	10,867
Legal and other reserves	1,999	3,294
Treasury shares	(13,672)	0
Translation reserves	6,279	12,034
Cash flow hedge reserves	608	1,616
Retained earnings	152,077	135,098
Total share capital and reserves	**158,735**	**162,909**
Non-current liabilities		
Bank loans	0	0
Deferred tax liabilities	20,067	20,248
Other non-current liabilities	185,034	153,519
Total non-current liabilities	**205,101**	**173,767**
Current liabilities		
Trade and other payables	20,553	13,013
Tax liabilities	726	435
Bank current liabilities and bonds	0	100,780
Provisions	0	0
Total current liabilities	**21,279**	**114,228**
Total liabilities	**226,380**	**287,995**
Total equity and liabilities	**385,115**	**450,904**

Condensed Consolidated Statement of Cash Flows for 2017 and 2016

in thousand EUR	2016 (audited)	2017 (unaudited)
Profit before tax	**20,100**	**12,730**
Adjustment for:		
Depreciation and Amortization	16,107	17,378
Foreign exchange gains/losses	4,122	(4,246)
Interest expense	7,367	7,486
Other changes in equity	(810)	1,008
Other financial income/(expense)	(252)	171
Cash flows from operating activities		
Decrease/(increase) in inventories	183	(2,490)
Decrease/(increase) in receivables	7,477	(6,084)
Increase/(decrease) in payables	(9,370)	(10,031)
Income tax (paid) / received	(1,906)	(4,867)
Net cash flows from operating activities	**43,018**	**11,054**
Cash flows from investment activities		
Purchases of property, plant and equipment	(21,078)	(27,595)
Net cash flows from investment activities	**(21,078)**	**(27,595)**
Cash flows from financing activities		
Increase/(decrease) in current bank loans and bonds	(7,108)	100,461
Increase/(decrease) in other non-current liabilities	228	(31,515)
Acquisition of own shares and other changes in capital	(875)	118
Distribution of dividends	(10,960)	(11,393)
Interest paid	(7,339)	(5,889)
Other financial income/(expense)	252	(171)
Net cash flows from financing activities	**(25,802)**	**51,611**
Cash and cash equivalents at the beginning of the period	28,082	24,219
Net increase (decrease) in cash and cash equivalents	(3,862)	35,070
Cash and cash equivalents at the end of the period	**24,220**	**59,290**