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EUROPEAN LINGERIE GROUP

PRO FORMA FINANCIAL INFORMATION

For full years 2014 - 2016

Description of pro forma financial information and pro forma assumptions

AS European Lingerie Group (AS ELG) and AS European Lingerie Brands (AS ELB) were established in April 2017. In the same month they became owners of the Group's subsidiaries, LSEZ Lauma Fabrics SIA (Lauma Fabrics), LE Textile GmbH and Textile Dyehouse GmbH by way of contributing shares of Lauma Fabrics into the share capital of AS ELB in the first step and by way of contributing shares of AS ELB into the share capital of AS ELG in the second step (Transaction 1). The acquisition of Lauma Fabrics group was treated by AS ELG as a transaction under common control and was accounted for using the prospective pooling-of-interest method, i.e. earnings of Lauma Fabrics were included in ELG Group earnings from 28 April 2017.

E|L|B GmbH (previously Platin 1503. GmbH), a subsidiary of AS ELB acquired 100% of shares in Felina International AG in June 2017 (Transaction 2). The acquisition of Felina group was a business combination and control over the group was obtained from 12 June 2017, the date from which earnings were consolidated into ELG group earnings.

AS ELG acquired 100% of shares in AO Avangard in December 2017 (Transaction 3). The acquisition was also a business combination and control over the entity was obtained from 29 December 2017, the date from which earnings were consolidated into ELG group earnings.

Based on the above, ELG Group has prepared pro forma financial information presenting a description of how the acquisition transactions (the Transactions) might have affected the earnings of ELG Group, had the Transactions 1 and 2 been undertaken at the commencement of the year 2014 and had the Transaction 3 been undertaken at the commencement of the year 2016.

Said pro forma financial information has been prepared for the purpose of giving the stakeholders of ELG Group a better overview of the financial consequences of the Transactions and ensuring better comparability of the performance between the years. The pro forma financial information has been prepared for illustrative purposes only and because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent ELG Group's actual financial position or results.

In preparing the pro forma financial information, ELG Group performed a hypothetical consolidation of the results of Lauma Fabrics Group and Felina Group for the years 2014-2015 and a hypothetical consolidation of the results of Lauma Fabrics Group, Felina Group and Avangard for the year 2016 elimination intercompany transactions between these companies based on individual company performance during these periods. The impact of accounting for the share acquisitions in the Transactions (including, but not limited to purchase price allocation and goodwill) and related financing of the Transactions (including, but not limited to financial indebtedness and cost of financing) has not been included in the presented pro forma financial information.

The pro forma financial information has been prepared on the basis of the audited IFRS financial statements of Lauma Fabrics Group and Felina Group for the years 2014-2016 and of Avangard for the year 2016 The compiled pro forma financial statements have not been audited or reviewed by the external auditors.

Pro forma Statement of Profit or Loss

000'EUR	2016	2015	2014
Revenue	71,729	69,561	80,602
Other operating income	7,580	3,612	3,625
Changes in inventories of finished goods and work in progress	(1,185)	(2,319)	655
Raw materials and services	(23,668)	(23,559)	(29,848)
Employee benefits expense	(23,094)	(25,336)	(26,773)
Depreciation, amortisation and impairment losses	(3,016)	(3,275)	(3,093)
Other operating expenses	(18,137)	(20,521)	(23,002)
Operating profit / loss	**10,209**	**(1,837)**	**2,166**
Finance income	464	1,280	211
Finance costs	(1,118)	(1,015)	(1,428)
Net finance income/costs	**(654)**	**265**	**(1,217)**
Share of profit of equity accounted investees	2	17	17
Profit before income tax	**9,557**	**(1,555)**	**966**
Income tax expense	949	485	(835)
Profit/(loss) for the year	**10,506**	**(1,070)**	**131**
Profit attributable to:			
Owners of the Company	10,506	(1,113)	360
Non-controlling interests	-	43	(229)
Profit / loss for the year	**10,506**	**(1,070)**	**131**
Reported EBITDA	**13,225**	**1,438**	**5,259**
Adjusted by:			
Shareholder related costs	1,292	1,096	460
Real estate sale adjustment	(3,853)	-	-
Restructuring of brands/subsidiaries	1,009	3,475	3,391
Transaction costs	-	399	-
Redundancy costs	-	319	230
Other	319	238	(134)
Normalised EBITDA	**11,992**	**6,965**	**9,206**
Reported net profit	**10,506**	**(1,070)**	**131**
Normalisation adjustments	(1,233)	5,526	3,947
Tax effect on normalisation adjustments	(2,348)	(2,321)	(585)
Normalised net profit	**6,925**	**2,135**	**3,493**

Pro forma Statement of Financial Position

000'EUR	2016	2015	2014
Non-current assets			
Property, plant and equipment	13,268	21,535	22,720
Intangible assets	316	598	1,082
Investment property	-	43	47
Equity accounted investees	-	209	54
Deferred tax assets	4,087	4,447	3,715
Other receivables	588	2,030	-
Total non-current assets	**18,259**	**28,862**	**27,618**
Current assets			
Inventories	14,030	14,381	19,264
Current income tax asset	75	333	259
Forward exchange contracts used for hedging	-	-	-
Trade receivables	10,946	9,019	11,730
Other receivables	19,859	1,522	2,729
Prepayments	641	571	743
Cash and cash equivalents	2,598	6,485	16,150
Total current assets	**48,149**	**32,311**	**50,875**
TOTAL ASSETS	**66,408**	**61,173**	**78,493**
Total equity	**37,570**	**28,297**	**42,289**
Non-current liabilities			
Loans and borrowings	2,711	3,259	11,104
Net employee defined benefit liability	4,603	4,643	4,985
Deferred income	1,078	1,232	947
Provisions	155	142	156
Deferred tax liabilities	417	2,909	2,846
Total non-current liabilities	**8,964**	**12,185**	**20,038**
Current liabilities			
Loans and borrowings	9,623	10,570	3,548
Trade payables	4,180	4,026	6,392
Current income tax liability	885	10	31
Other payables	4,182	4,822	5,785
Provisions	682	952	219
Deferred income	322	311	191
Total Current liabilities	**19,874**	**20,691**	**16,166**
Total liabilities	**28,838**	**32,876**	**36,204**
TOTAL EQUITY AND LIABILITIES	**66,408**	**61,173**	**78,493**

Pro forma Statement of Cash Flows

000'EUR	2016	2015	2014
Cash flows from operating activities			
Reported EBITDA	13,225	1,439	5,259
Adjustments for:			
Gain on negative goodwill	-	(43)	-
Impairment loss on trade and other receivables	163	596	669
Gain/loss on sale of property, plant and equipment	(4,291)	21	(124)
Income from government grants	(319)	(345)	(189)
Profit from liquidation of subsidiary	-	(338)	-
Gain/loss on sale of investment property	(446)	-	-
Changes in:			
Inventories	552	4,876	(150)
Trade and other receivables	(1,386)	1,370	956
Prepayments	(65)	142	(213)
Trade and other payables	(632)	(720)	(833)
Provisions	(256)	719	(18)
Net defined employee benefit asset/liability	(207)	(212)	(217)
Cash generated from operating activities	**6,338**	**7,505**	**5,140**
Interest paid (-)	(675)	(664)	(787)
Income taxes paid (-)	(111)	(280)	(641)
Net cash from operating activities	**5,552**	**6,561**	**3,712**
Cash flows from investing activities			
Interest received	28	57	91
Proceeds from sale of property, plant and equipment	78	108	200
Proceeds from liquidation of associate	212	-	-
Loans issued	(4,790)	(2,000)	-
Proceeds from repayment of loans issued	100	0	8
Acquisition of property, plant and equipment	(7,746)	(1,698)	(3,347)
Acquisition of intangible assets	(56)	(37)	(155)
Liquidation of a subsidiary	-	(3)	-
Acquisition of shares in associate	-	(97)	-
Proceeds from sale of investment property	489	-	-
Total cash flow from investing activities	**(11,685)**	**(3,670)**	**(3,203)**
Cash flow from financing activities			
Proceeds from loans and borrowings	7,072	1,278	1,563
Repayment of borrowings	(3,687)	(1,509)	(1,833)
Payment of finance lease liabilities	(87)	(454)	(654)
Dividends paid	(845)	(13,649)	(888)
Loans issued to shareholders in lieu of future dividends	(1,085)	-	-
Receipt/repayment of factoring	646	-	480
Dividends paid to NCI	-	-	(35)
Proceeds from grants and donations	173	748	291
Total cash flow from financing activities	**2,187**	**(13,586)**	**(1,076)**
Net increase in cash and cash equivalents	**(3,946)**	**(10,695)**	**(567)**
Cash and cash equivalents at the beginning of the period	**6,485**	**16,150**	**16,838**
Effect of exchange rate fluctuations on cash held	59	1,030	(121)
Cash and cash equivalents at the end of the period	**2,598**	**6,485**	**16,150**

Commentary on the pro forma financials

In 2015, the Group's consolidated sales decreased due to (i) economic headwinds in Russia and other CIS countries which impacted sales negatively, and (ii) the discontinuation of a low margin brand of Felina Group called "[un:usual]", which previously generated EUR 2.7 million of turnover. However, even though top-line decreased over 2014-2016, the Group was successful in decreasing its cost base leading to maintained/improved margins. Main cost initiatives undertaken by the Group pertain to:

- In Felina Group: the discontinuation of low margin "[un:usual]" brand, simplification of Felina group structure and reduction of number of administrative employees within it, introduction of design-to-cost product development
- In Lauma Group: reconstruction and upgrade of the dye-house achieving energy savings and improved quality

Other operating income in 2016 includes one-off profit of EUR 3.9 million on sale of Felina Group office properties in Budapest, Hungary and Mannheim, Germany explained below.

Decrease in other operating expenses in 2015 as compared to 2014 was mainly caused by the drop in volumes explained above, which affected utility costs, sales and marketing expenses as well as storage, transportation and packaging. In addition to that, utility costs in Lauma Group decreased further with savings achieved by upgrade of the dye-house. Further decrease in other operating expenses in 2016 as compared to 2015 was achieved by discontinuation of low-margin business lines, simplification of the group structure and introduction of design-to-cost product development.

For purposes to illustrate the normalized and sustainable EBITDA of the pro forma Group the following adjustments regarding events that are not expect to be recurring after formation of the Group are made:

- *Shareholder costs.* Costs related to current and previous shareholders which do not continue going forward or one-off costs related to different investment projects
- *Real estate sale adjustment* in 2016 related to the spin-off of Mannheim and Budapest real estate by Felina and a profit recognised on the deals
- *Restructuring of brands/subsidiaries* relate to restructuring costs of Lauma Fabrics' German subsidiaries (LE Textile and Textile Dyehouse) to bring the companies to break-even operations – these restructuring costs include compensations to dismissed employees, legal costs of lawyers involved in restructuring and other one-off items. In Felina Group, the restructuring mainly includes the profit effect from discontinuation of [un:usual] brand and restructuring/consolidation of some functions/subsidiaries within the group which caused one-off dismissal costs and closure costs
- *Transaction costs* in 2015 related to the costs for the purchase of Felina by previous shareholders (these are mainly transaction bonuses paid to the management). In 2017, transaction costs are related to the acquisition of Felina
- *Redundancy costs* in 2014 and 2015 related to the redundancy compensations to the directors of Felina. Redundancy in 2015 was a result of the ownership change in Felina. In 2014, the redundancy costs relate to the compensation paid by Lauma Fabrics to a board member.

The Group's fixed assets are primarily comprised of property, plant and equipment. In 2016 the real estate owned by Felina Group was disposed off while related purchase price was not received. As the result, property, plant and equipment decreased and receivables increased.

Decrease in cash balance at 31 December 2015 as compared to 31 December 2014 was mainly cause by dividend distribution of EUR 13.6 million, majority of which was paid to the previous shareholders of Felina group before Palero acquired it. On the opposite effect, there was also a net cash improvement achieved in 2015 by optimising net working capital.

Increase in the short-term portion of loans and borrowings at 31 December 2015 was caused by reclassifying finance lease liabilities of Felina Group in respect of Mannheim property from long-term to short-term as the year of maturity of the lease contract was in 2016. Looking at the trend of total loans and borrowings, these stayed stable subject to the repayments made.

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