PEGAS NONWOVENS SA

First quarter of 2014 Unaudited Consolidated Financial Results

29 May 2014

PEGAS NONWOVENS SA announces its unaudited consolidated financial results for the first quarter of 2014 to 31 March 2014 prepared according to International Financial Reporting Standards (IFRS).

"We see the financial results of the first quarter as very positive. The contribution of the Egyptian production line that went into full commercial production at the start of January has been almost entirely reflected in our figures now. We are glad that since the beginning of the year we have been meeting our targets in the area of our product mix, but also primarily in production efficiency. During the course of the first three months of the year we have also been getting on well in the area of sales. Inventories of finished products at our Czech plants have been reduced beyond our expectations and this fact provided considerable support to our financial results in this period.

We consider the achieved results to be solid ground for the upcoming months and believe that we will be successful in achieving all the goals that we have set ourselves for the rest of the year", said František Řezáč, CEO and Member of the Board of PEGAS NONWOVENS SA.

Overview of Financial Results

(mil. EUR)	First quarter January – March 2014	
		yoy
Revenues	58.8	17.8%
Operating costs without depreciation and amortization	(46.6)	16.8%
EBITDA	12.3	21.8%
Depreciation and amortization	(3.7)	27.0%
Profit from operations (EBIT)	8.6	19.7%
FX changes and other financial income/(expense) (net)	(0.3)	(88.7%)
Interest expense (net)	(2.1)	106.9%
Income tax – (expense)/income net	(0.6)	330.6%
Net profit	5.5	85.7%
Capital expenditure	1.1	(93.9%)
Number of employees (end of period)	573	4.9%
No. of employees during period (average)	571	16.2%
Net debt	146.2	(2.1%)
Production output (in tonnes)	24,878	16.2%
Average CZK/EUR exchange rate during period	27.411	7.3%
End of period CZK/EUR exchange rate	27.440	0.1%

Consolidated Financial Results

Revenues, Costs and EBITDA

In the first quarter of 2014, consolidated revenues (revenues from sales of the Company's products) reached EUR 58.8 million, up by 17.8% yoy. The year-on-year revenue growth was the result of increased sales levels of finished products on the back of production from the new production line in Egypt. In the first quarter of 2014 and 2013, the levels of inventories of finished products declined.

Total consolidated operating costs without depreciation and amortization (net) went up by 16.8% yoy to EUR 46.6 million in the first quarter of 2014. The main reason for the increase was the increased consumption of polymers in connection with the ramp up of production in Egypt.

In the first quarter of 2014, EBITDA amounted to EUR 12.3 million, up by 21.8% yoy. This result is in line with the guidance range announced at the beginning of the year, when the Company indicated a year-on-year increase in EBITDA of 12% to 22%. The EBITDA increase was achieved namely due to the contribution of the new Egyptian production plant. The result was also supported by a weaker CZK/EUR exchange rate. The polymer price pass-through mechanism had a slightly negative effect on the year-on-year comparison.

In the first quarter of 2014, the EBITDA margin amounted to 20.8%, which is 0.7 percentage points higher compared with the same period in 2013.

Operating Costs

Total raw materials and consumables used in the first quarter of 2014 amounted to EUR 44.0 million, a 17.4% yoy increase. The reason for the increase was the increased consumption of polymers in connection with the ramp up of production in Egypt.

In the first quarter of 2014, total staff costs amounted to EUR 2.7 million, an increase of 9.5% yoy. Total staff costs expressed in local currencies and without the revaluation of the share option plan grew by 14.2% yoy. The annual comparison was influenced by the larger number of employees linked to the increased production capacity.

Other operating income (net) reached EUR 0.1 million in the first quarter of 2014, which represents an increase of 91.0% over the same period in the previous year.

Depreciation and Amortization

Consolidated depreciation and amortization reached the amount of EUR 3.7 million in the first quarter of 2014, up by 27.0% yoy. The weakening CZK/EUR exchange rate was a contributing factor to this increase. The increase in depreciation and amortization was also caused by the inclusion of the new Egyptian production line into the Company's depreciable assets.

Profit from Operations

In the first quarter of this year, profit from operations (EBIT) amounted to EUR 8.6 million, up by 19.7% compared with 2013 and it was affected by the higher EBITDA level.

Financial Income and Costs

In the first quarter of 2014, FX changes and other financial income/(expense) (net) amounted to an expense of EUR 0.3 million compared with an expense of EUR 3.0 million recorded in the same period last year. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The year-on-year change was affected by the development of the CZK/EUR and USD/EUR FX rates, which led to subsequent unrealized FX changes related to the revaluation of balance sheet items denominated in EUR (bank debt and inter-company loans including intra-company loans to the subsidiary in Egypt).

Interest expenses (net) related to debt servicing reached EUR 2.1 million in the first quarter of 2014, which is up by 106.9% relative to the same period last year. Up to the time that the Egyptian production line was put into operation, the interest costs connected to the construction of the production plant had been capitalised in the acquisition price of the investment and therefore they were lower in the first quarter of 2013.

Income Tax

In the first quarter of 2014, income tax amounted to EUR 0.6 million, up by 330.6% compared with 2013. The increase in income tax was affected by high unrealized foreign exchange losses of the Company in the first quarter of 2013, which lowered the amount of the current tax.

Net Profit

In the first quarter of 2014, net profit amounted to EUR 5.5 million representing a yoy increase of 85.7%, primarily a consequence of higher EBITDA and lower unrealized foreign exchange losses.

CAPEX and Investments

In the first quarter of 2014, total capital expenditure amounted to EUR 1.1 million and consisted exclusively of maintenance capital expenditures. The year-on-year decline of 93.9% was the result of high capital expenditures on the construction of the Egyptian production plant in the first quarter of last year.

The Company estimates that in 2014, total capital expenditure will not exceed EUR 12 million (at the constant exchange rate of CZK/EUR 27).

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at 31 March 2014 was EUR 157.4 million, a 3.0% decrease compared with 31 December 2013. The amount of net debt as at 31 March 2014, was EUR 146.2 million, down by 2.1% compared to the level as at 31 December 2013. Net debt to EBITDA ratio equates to 3.59.

Business Overview for the First Quarter of 2014

In the first quarter of 2014, the total production output (net of scrap) reached 24,878 tonnes, up by 16.2% compared with the same period in 2013.

In the first quarter of 2014, the share of revenues from sales of nonwoven textiles for the hygiene industry fell to an 87.6% share of total revenues, relative to an 89.8% share in the same period last year. Despite the slight decline in the share of products in this category, this confirms the important position that the Company has in this market.

Revenues from sales of standard (commodity) textiles for hygiene products reached EUR 31.9 million in the first quarter of 2014, a decrease of 4.7% yoy. In the first quarter of this year, the share of revenues from sales of standard textiles for the hygiene industry fell to 54.2% compared to a 67% share in the same period in 2013.

In the first quarter of 2014, the revenues from sales of light-weight and bi-component materials for the hygiene segment reached EUR 19.7 million, a 72.9% increase compared to the same period in 2013. The proportion of this product category to the total sales in the first quarter of 2014 amounted to 33.4%, thus growing compared with the 22.8% share in the first quarter of 2013.

Revenues from sales of non-hygiene products (for construction, agriculture and the medical industry) amounted to EUR 7.3 million in the first quarter 2014, representing an increase of 42.5% yoy. The share of sales of non-hygiene products to total sales in the first quarter of 2014 amounted to 12.4%, representing an increase compared to the 10.2% share achieved in the first quarter of 2013.

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 the first quarter of 2014, revenues from sales to Western Europe amounted to EUR 19.2 million, representing a 32.7% share of total revenues, compared with EUR 20.5 million, representing a 41.1% share of total revenues in the same quarter in 2013.

In this period revenues from sales to Central and Eastern Europe and Russia amounted to EUR 28.5 million and represented a 48.4% share of total revenues. In the first quarter of last year, revenues reached EUR 25.2 million, representing a 50.4% share.

Revenues from sales to other territories amounted to EUR 11.1 million and represented an 18.9% share of total revenues, compared with revenues of EUR 4.3 million and an 8.5% share in the previous year.

Guidance for 2014

In the first quarter of 2014, the Company achieved financial results that are in line with its expectations and with the announced outlook for the entire year 2014.

During the course of the first quarter, the Company substantially reduced its inventories in the Czech Republic, which fully compensated for the expected increase in inventories in Egypt. At the end of the quarter, the level of inventories of finished products in the Czech Republic was at a very low level and in order to ensure effective production planning the Company will take steps to partially increase inventory levels during the second quarter.

Based on the results achieved in the first quarter of 2014 and respecting the developments in the European nonwoven textile market, including the expected development in the polymer market, the Company confirms its previously announced outlook for 2014 and expects this year's EBITDA to grow between 12 and 22% compared with the result achieved in 2013 (EUR 38.6 million).

The Company estimates that in 2014, total capital expenditure will not exceed EUR 12 million (at the constant exchange rate of CZK/EUR 27).

Interim Unaudited Consolidated Financial Statements of PEGAS NONWOVENS SA for the three months ended 31 March 2014

Condensed Consolidated Statement of Comprehensive Income for the three months ended 31 March 2014 and 31 March 2013

Unaudited financial statements prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union (in thousands of EUR)

	Three month period to		
	31 March 2013 (unaudited)	**31 March 2014 (unaudited)**	**% change**
Revenues	49,942	58,829	17.8%
Raw materials and consumables used	(37,514)	(44,041)	17.4%
Staff costs	(2,432)	(2,664)	9.5%
Other operating income/(expense) (net)	67	128	91.0%
EBITDA	**10,063**	**12,252**	**21.8%**
EBITDA margin	***20.1%***	***20.8%***	***0.7 pp***
Depreciation and amortization expense	(2,889)	(3,668)	27.0%
Profit from operations	**7,174**	**8,584**	**19.7%**
FX gains and other financial income	3,052	657	(78.5%)
FX losses and other financial expenses	(6,082)	(999)	(83.6%)
Interest income	1	0	(100.0%)
Interest expense	(1,030)	(2,129)	106.7%
Profit before tax	**3,115**	**6,113**	**96.2%**
Income tax – (expense)/income net	(134)	(577)	330.6%
Net profit after tax	**2,981**	**5,536**	**85.7%**
Other comprehensive income			
Other changes in equity	823	115	(86.0%)
Changes in translation reserves	(1,021)	121	n/a
Total comprehensive income for the period	**2,783**	**5,772**	**107.4%**
Net earnings per share			
Basic net earnings per share (EUR)	**0.32**	**0.60**	
Diluted net earnings per share (EUR)	**0.32**	**0.60**	

Condensed Consolidated Statement of Financial Position as at 31 March 2014, 31 December 2013, and 31 March 2013

Unaudited financial statements prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union (in thousands of EUR)

	31 March 2013 (unaudited)	31 December 2013 (audited)	31 March 2014 (unaudited)
Assets			
Non-current assets			
Property, plant and equipment	200,256	181,584	178,734
Long term intangible assets	663	586	560
Goodwill	90,155	84,599	84,553
Total non-current assets	**291,074**	**266,769**	**263,847**
Current assets			
Inventories	18,870	32,618	29,409
Trade and other receivables	45,972	43,250	45,356
Income tax receivable	583	1,042	1,122
Cash and cash equivalents	12,281	13,063	11,292
Total current assets	**77,706**	**89,973**	**87,179**
Total assets	**368,780**	**356,742**	**351,026**
Total equity and liabilities			
Share capital and reserves			
Share capital	11,444	11,444	11,444
Legal reserves	7,896	8,733	8,733
Translation reserves	5,403	(2,306)	(2,185)
Other changes in equity	(3,237)	(2,911)	(2,796)
Retained earnings	122,771	110,673	116,139
Total share capital and reserves	**144,277**	**125,633**	**131,335**
Non-current liabilities			
Bank loans	143,925	146,200	135,157
Deferred tax liabilities	12,603	13,126	13,081
Total non-current liabilities	**156,528**	**159,326**	**148,238**
Current liabilities			
Trade and other payables	60,698	56,489	49,989
Tax liabilities	1,990	1,094	1,164
Bank current liabilities	5,287	14,200	20,300
Total current liabilities	**67,975**	**71,783**	**71,453**
Total outside resources	**224,503**	**231,109**	**219,691**
Total liabilities	**368,780**	**356,742**	**351,026**

Condensed Consolidated Statement of Cash Flows for the three months ended 31 March 2014 and 31 March 2013

Unaudited financial statements prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union (in thousands of EUR)

	Three month period to	
	31 March 2013 (unaudited)	**31 March 2014 (unaudited)**
Profit before tax	**3,115**	**6,113**
Adjustment for:		
Depreciation and amortization	2,889	3,668
Foreign exchange (gains)	1,211	1,394
Interest expense	1,030	2,129
Fair value changes of interest rate swaps	823	115
Other financial income/(expense)	209	106
Cash flows from operating activities		
Decrease/(increase) in inventories	1,118	2,886
Decrease/(increase) in receivables	(3,767)	(1,791)
Increase/(decrease) in payables	(1,723)	(7,525)
Income tax (paid) / received	(524)	(670)
Net cash flows from operating activities	**4,381**	**6,425**
Cash flows from investment activities		
Purchases of property, plant and equipment	(17,692)	(1,086)
Net cash flows from investment activities	**(17,692)**	**(1,086)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	928	(5,020)
Interest paid	(885)	(1,984)
Other financial income/(expense)	(209)	(106)
Cash flows from financing activities	**(166)**	**(7,110)**
Cash and cash equivalents at the beginning of the period	**25,758**	**13,063**
Net increase (decrease) in cash and cash equivalents	**(13,477)**	**(1,771)**
Cash and cash equivalents as at 31 March	**12,281**	**11,292**

Condensed Consolidated Statement of Changes in Equity as at 31 March 2014 and as at 31 March 2013

Unaudited financial statements prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union (in thousands of EUR)

	Share capital	Legal reserves	Cash flow hedging	Translation reserves	Retained earnings	**Total equity attributable to equity holders of the Company**
As at 1 January 2013	**11,444**	**7,896**	**(4,060)**	**6,424**	**119,790**	**141,494**
Distribution	--	--	--	--	--	**--**
Other comprehensive income for the	--	--	823	(1,021)	--	**(198)**
Net profit for the period	--	--	--	--	2,981	**2,981**
Legal reserves created from retained earnings	--	--	--	--	--	**--**
as at 31 March 2013	**11,444**	**7,896**	**(3,237)**	**5,403**	**122,771**	**144,277**
as at 1 January 2014	**11,444**	**8,733**	**(2,911)**	**(2,306)**	**110,603**	**125,563**
Distribution	--	--	--	--	--	**--**
Other comprehensive income for the period	--	--	115	121	--	**236**
Net profit for the period	--	--	--	--	5,536	**5,536**
Legal reserves created from retained earnings	--	--	--	--	--	**--**
as at 31 March 2014	**11,444**	**8,733**	**(2,796)**	**(2,185)**	**116,139**	**131,335**

Selected explanatory notes to the interim consolidated financial statements for the three month period ending 31 March 2014

Basis of preparation

These financial statements were prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 for interim financial reporting 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.

a. 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 2013.

b. 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.

c. Unusual items given their size, nature or frequency

In the first quarter of 2014, consolidated revenues (revenues from sales of the Company's products) reached EUR 58,829 thousand, up by 17.8% yoy. The year-on-year revenue growth was the result of increased sales levels of finished products on the back of production from the new production line in Egypt. In the first quarter of 2014 and 2013, the levels of inventories of finished products declined.

In the first quarter of 2014, EBITDA amounted to EUR 12,252 thousand, up by 21.8% yoy. This result is in line with the guidance range announced at the beginning of the year, when the Company indicated a year-on-year increase in EBITDA of 12% to 22%. The EBITDA increase was achieved namely due to the contribution of the new Egyptian production plant. The result was also supported by a weaker CZK/EUR exchange rate. The polymer price pass-through mechanism had a slightly negative effect on the year-on-year comparison.

In the first three months of 2014, FX gains and other financial income amounted to EUR 657 thousand and FX losses and other financial expenses amounted to EUR 999 thousand. These items represent realized and unrealized FX gains/losses and other financial income and expenses. The year-on-year change was affected by the development of the CZK/EUR and USD/EUR FX rates, which led to subsequent unrealized FX changes related to the revaluation of balance sheet items denominated in EUR (bank debt and inter-company loans including intra-company loans to the subsidiary in Egypt).

In the first quarter of 2014, total capital expenditure amounted to EUR 1,086 thousand and consisted exclusively of maintenance capital expenditures. The year-on-year decline of 93.9% was the result of high capital expenditures on the construction of the Egyptian production plant in the first quarter of last year.

d. 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.

e. Repurchases and repayments of debt and equity securities

The bank facilities used by PEGAS Group consist of a revolving credit facility of up to EUR 165 million and of an overdraft facility of up to EUR 15 million. The facilities are non-amortizing, which removes from the Company its obligations to make mandatory repayments. During the first three months of 2014, the Company decreased its bank debt from EUR 162,386 thousand to EUR 157,443 thousand (from EUR 151,704 thousand to EUR 149,212 thousand in the first three months of 2013). The Company did not conclude any new bank facilities in the first quarter of 2014.

In the first three months of 2014, the Company did not make any repurchases or repayments of equity securities.

f. Dividend

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

g. 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.

h. Material events subsequent to the end of the interim period

On 14 May 2014, the Company's Board of Directors took the decision to propose a dividend payment in the amount of EUR 10,152,340, i.e. EUR 1.10 per share.

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 2014.

i. Disclosures on changes in the composition of the entity / changes in consolidation

There were no changes in this field during the reporting period ended relative to the compared period.

j. 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 2014, the Company had two interest rate swaps open, these were concluded in 2011 at a total nominal value of EUR 98,000 thousand. The fair value of these swaps as at 31 March 2014 and 31 December 2013 is presented in the following table:

Counterparty	**as at 31 December 2013**	**as at 31 March 2014**
Česká spořitelna	(1,794)	(1,749)
ING	(1,799)	(1,762)
Total	**(3,593)**	**(3,511)**

Fair value of the swaps as at 31 March 2014 represents a payable of the Company. Currently these swaps hedge 62.7% of the Company's debts (60.7% as at 31 December 2013).

Sensitivity of the fair value of interest rate swaps
A parallel increase of the yield curve by 1% would increase the fair value of the interest rate swaps by approximately EUR 1,935 thousand as at 31 March 2014 (by approximately EUR 2,168 thousand as at 31 December 2013).

An instantaneous and parallel decrease of the yield curve by 1% would lead to a reduction of the fair value of the interest rate swaps by approximately EUR 1,133 thousand as at 31 March 2014 (by approximately EUR 1,554 thousand as at 31 December 2013).

Currency forwards

As at 31 March 2014, the Company held nine EUR/CZK currency forwards open at a total nominal value of EUR 9,000 thousand. Over the course of the first three months of 2014, three EUR/CZK currency forwards with a total nominal value of EUR 3,000 thousand matured.

The fair value of the currency forwards as at 31 March 2014 amounted to minus EUR 198 thousand (minus EUR 250 thousand as at 31 December 2013).

Sensitivity of the fair value of currency forwards
The depreciation of the CZK against the EUR by 10% would reduce the fair value of the currency forwards by approximately EUR 817 thousand as at 31 March 2014 (by approximately EUR 1,066 thousand as at 31 December 2013).

The appreciation of the CZK against the EUR by 10% would increase the fair value of the currency forwards by approximately EUR 998 thousand as at 31 March 2014 (by approximately EUR 1,303 thousand as at 31 December 2013).

Fair value of these swaps and currency forwards is determined by the EUR or CZK yield curve at the balance sheet date and the discounted cash flow method. The inputs used in the fair value calculation are categorised in accordance with IFRS 7 into level 2 of fair value hierarchy, i.e. inputs other than unadjusted quoted prices in active markets, however, these inputs are observable for the assets or liability, either directly (as prices) or indirectly (derived from prices).

k. Earnings per share

Earnings per Share (EPS) are calculated as the net profit for the period attributable to equity holders of the Company divided by the weighted average of the number of shares existing each day in the given period.

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 by the effect of the expected issue of all potential diluted securities, i.e. the effect of convertible loan notes in the case of the Group. Convertible bonds are bonds with a right to convert to ordinary shares.

The basic and diluted earnings per share for all periods are equal due to the fact, that the Group does not have any agreement at the balance sheet date which will cause a potential future issue of securities. No changes to the number of shares occurred during either first three months of 2014 or in the first three months of 2013.

Weighted average number of ordinary shares

2013

	Number of outstanding shares	Weighted average
January – March	9,229,400	9,229,400

2014

	Number of outstanding shares	Weighted average
January – March	9,229,400	9,229,400

Basic earnings per share

		Three months ended	
		31/3/2013	**31/3/2014**
Net profit attributable to equity holders	ths. EUR	2,981	5,536
Weighted average number of ordinary shares	number	9,229,400	9,229,400
Basic earnings per share	**EUR**	**0.32**	**0.60**

Diluted earnings per share

		Three months ended	
		31/3/2013	**31/3/2014**
Net profit attributable to equity holders	ths. EUR	2,981	5,536
Weighted average number of ordinary shares	number	9,229,400	9,229,400
Diluted earnings per share	**EUR**	**0.32**	**0.60**

l. 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 2014.

m. Approval of the interim financial statements

The interim financial statements were approved by the Company's Board of Directors on 28 May 2014.

Marek Modecki
Chairman of the Board of Directors
PEGAS NONWOVENS SA

František Řezáč
Member of the Board of Directors
PEGAS NONWOVENS SA