PEGAS NONWOVENS SA

2014 Preliminary unaudited financial results

19 March 2015

PEGAS NONWOVENS SA announces its preliminary unaudited consolidated financial results for the fiscal year to 31 December 2014 prepared according to International Financial Reporting Standards (IFRS).

"From the Company's perspective, last year was successful in several aspects. I consider the greatest achievement to be the fact that our Egyptian production line ran problem-free for the entire year, thereby making a substantial contribution to our very good financial results. EBITDA reached EUR 47.2 million, which is the highest level in our history. Another indisputable success indicating shareholder trust in our Company was the positive response to the bond issue, which promises to provide us with increased flexibility and diversification of funding sources in the future. We were also very pleased to have once again after two years received the prestigious Partner of the Year Award from one of our important customers, Procter & Gamble.

In 2015, we will continue to build upon last year's achievements. Our production capacity is now sold out, so we will continue to put effort into improving production efficiency and of course we will again strongly focus on the development of new technologically advanced products. Based on current expectations for this year, the Company has increased the guidance for EBITDA to EUR 44.0 to 48.5 million.

In 2015, we would also like to take advantage of the favourable conditions on the financial markets and to refinance our existing bank debt. Depending on the outcome of the refinancing, the Company's Board of Directors will consider execution of the share buyback authorisation approved by the AGM in 2011 and recommendation for its potential extension.

Finally, I would like to thank our stakeholders for the trust and support that they showed us last year. I believe that this year we will again be able to please our shareholders with good results and a dividend, which the Board of Directors feels comfortable to propose at the level of EUR 1.15 per share, in line with the progressive dividend policy", said František Řezáč, CEO and Member of the Board of PEGAS NONWOVENS SA.

Overview of Financial Results

(mil. EUR)	January – December 2014		Fourth quarter October – December 2014	
		yoy		yoy
Revenues	230.5	15.7%	58.8	10.4%
Operating costs without depreciation and amortization	(183.3)	14.1%	(45.6)	7.1%
EBITDA	47.2	22.4%	13.2	23.8%
Depreciation and Amortization	(15.0)	14.9%	(3.9)	3.6%
Profit from operations (EBIT)	32.2	26.3%	9.2	34.9%
FX gains/(losses) and other financial income/(expense) (net)	6.8	n/a	2.3	n/a
Interest expense (net)	(7.8)	20.1%	(1.9)	(9.2%)
Income tax – (expense)/income net	(4.1)	49.6%	(2.0)	231.0%
Net Profit	27.1	1,820.3%	7.6	n/a
Capital expenditure	10.0	(74.0%)	2.1	5.4%
Number of employees (end of period)	569	(0.9%)	569	(0.9%)
No. of employees during period (average)	566	3.1%	564	(2.3%)
Net debt	142.0	(4.9%)	142.0	(4.9%)
Production output (in tonnes)	100,570	10.6%	26,286	4.9%
Average CZK/EUR exchange rate during period	27.533	6.0%	27.624	3.6%
End of period CZK/EUR exchange rate	27.725	1.1%	27.725	1.1%

Consolidated Financial Results

Revenues, Costs and EBITDA

In 2014, consolidated revenues (revenues from sales of the Company's products) reached EUR 230.5 million, up by 15.7% yoy. In the fourth quarter of 2014, consolidated revenues reached EUR 58.8 million, up by 10.4% yoy. The year-on-year growth in revenues was the result of higher sales of finished products thanks to the production from the new production line in Egypt as well as a slight increase in polymer prices, which culminated in the third quarter and, as a result of the delay in the polymer price pass through mechanism, were thus to a greater extent still reflected in the fourth quarter.

In 2014, total consolidated operating costs without depreciation and amortization (net) increased by 14.1% yoy to EUR 183.3 million. In the fourth quarter of 2014, the total consolidated operating costs without depreciation and amortization reached EUR 45.6 million, an increase of 7.1% yoy. The main factor impacting the growth of operating costs was the increased consumption of raw materials, in particular related to the increase in production volumes on the Egyptian line compared to prior periods.

In 2014, EBITDA amounted to EUR 47.2 million, up by 22.4% yoy. The achieved result means that the Company slightly surpassed the ceiling of the range which was set at 12-22% of last year's EBITDA. The production from the Egyptian plant, which was in full commercial production mode throughout 2014, was a substantial contributor to this growth. An increase in sales of technologically advanced materials also had a positive effect. The Company continued to benefit from the low CZK/EUR exchange rate. The year-on-year appreciation of the USD against the EUR has thus far had a negligible effect on results as the appreciation occurred namely in the last quarter of the year. The raw material price pass through mechanism had a negative impact on the year-on-year comparison. This impact was, to a large degree, mitigated only in the fourth quarter, when polymer purchase prices declined substantially. Also in 2014, the growing price of the Company's shares and the resulting revaluation of the share option plan to fair value had an impact on the financial results, nevertheless, on a year-on-year comparison this negative effect was smaller.

In the fourth quarter of 2014, EBITDA reached EUR 13.2 million, up by 23.8% yoy. The most important factor influencing this growth was the raw material price pass through mechanism, which due to the delay in the transfer into the prices invoiced to customers, meant that the Company profited from the falling polymer purchase prices. Further positive effects that can be mentioned are the increased production volumes in both the Czech Republic and Egypt when compared with comparable periods in the previous year, the reduced impact of the revaluation of the share option plan compared with the 4th quarter of 2013 and the weaker CZK/EUR exchange rate which also had a positive effect.

In 2014, the EBITDA margin was at a level of 20.5%, which is 1.1 percentage points higher compared with 2013. In the fourth quarter of 2014, the EBITDA margin was 22.4%, up by 2.4 percentage points yoy.

Operating Costs

Total raw materials and consumables used last year amounted to EUR 171.8 million, a 14.1% yoy increase. In the fourth quarter of 2014, total raw materials and consumables used reached EUR 42.5 million, up by 4.6% over the same period in 2013. The main factor was the increased raw material consumption connected with full production on the Egyptian production line.

In 2014, total staff costs reached EUR 10.7 million, up by 5.5% yoy. The growth in staff costs was caused by a slight increase in the number of employees and the indexation of wages. The increase also included bonuses for the achievement of planned financial results of the Company and the impact of the revaluation of the share option plan to fair value. Likewise, the weaker CZK/EUR exchange rate worked against the growth of expenses expressed in EUR. Total staff costs denominated in local currencies, i.e. in Czech crowns and Egyptian pounds, without the revaluation of the share option plan, increased in 2014 by 11% for the same aforementioned reasons.

In the fourth quarter of 2014, staff costs reached EUR 3.0 million, up by 28.1% yoy. This year-on-year growth was primarily the result of the costs of bonuses related to the achievement of planned financial results of the Company.

Other operating expenses (net) reached EUR 0.8 million in 2014, compared with an income of EUR 0.1 million in 2013. In the fourth quarter of 2014, this item amounted to an expense in the amount of EUR 0.1 million.

Depreciation and Amortization

In 2014, consolidated depreciation and amortization reached EUR 15.0 million, up by 14.9% yoy. In the fourth quarter of 2014, total consolidated depreciation and amortization amounted to EUR 3.9 million, up by 3.6% compared to the same period in 2013. The increase in depreciation and amortization resulted from the fact that the new Egyptian production line was included into the Company's assets during the course of 2013, whilst in 2014 this depreciation and amortization figure corresponds to the entire accounting period.

Profit from Operations

In 2014, profit from operations (EBIT) amounted to EUR 32.2 million, up by 26.3% compared with 2013. In the fourth quarter of 2014, profit from operations (EBIT) increased by 34.9% to EUR 9.2 million.

Financial Income and Costs

In 2014, foreign exchange changes and other financial income/(expense) (net) represented a gain of EUR 6.8 million, compared with an expense of EUR 14.9 million recorded in 2013. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The year-on-year change in this item was given by the development of the CZK/EUR exchange rate, though primarily by the increase in the USD/EUR exchange rate, which resulted in unrealized foreign exchange changes related to the revaluation of intra-company loans denominated in EUR that were provided to the Egyptian subsidiary. In the fourth quarter of 2014, foreign exchange gains and other financial income (net) reached EUR 2.3 million compared with foreign exchange losses and other financial expenses (net) in the amount of EUR 11.8 million in the same period in 2013.

Interest expenses (net) related to debt servicing amounted to EUR 7.8 million in 2014, a 20.1% increase compared with 2013. Up to the time that the Egyptian production line was put into operation during the course of 2013, the interest costs connected to the construction of the production plant had been capitalised in the acquisition price of the investment and therefore the interest expenses in 2013 are lower than those in 2014. In the 4th quarter of 2014, interest expenses amounted to EUR 1.9 million, a 7.8% decrease compared with the same period in 2013. The reduction of interest expenses was primarily the result of the lower interest rate payable on the bank debt due to improved indicators of indebtedness.

Income Tax

In 2014, the income tax expense amounted to EUR 4.1 million, up by 49.6% over 2013. Current tax payable amounted to EUR 2.1 million, changes in deferred tax represented an expense of EUR 2.0 million.

In the fourth quarter of 2014, income tax increased by 231.0% yoy to EUR 2.0 million. Current tax payable amounted to EUR 0.4 million, changes in deferred tax represented an expense of EUR 1.6 million.

Net Profit

Net profit reached EUR 27.1 million in 2014, up by 1,820.3% yoy. The growth in net profit was the result of growth in operating profit and unrealized FX gains and losses. In 2013, net profit was negatively impacted by unrealized foreign exchange losses resulting from a sharp weakening of the CZK/EUR exchange rate. In 2014, on the other hand, net profit was supported by the strengthening of the USD against the EUR, which lead to unrealized foreign exchange gains from the revaluation of inter-company loans provided to the Egyptian subsidiary.

In the fourth quarter of 2014, the Company recorded a net profit in the amount of EUR 7.6 million compared with a loss of EUR 7.6 million in the same period in 2013.

CAPEX and Investments

In 2014, total consolidated capital expenditure amounted to EUR 10.0 million, a 74.0% yoy decrease. Approximately half of this amount, i.e. EUR 5.1 million represented an additional payment for production technology related to the construction of the Egyptian plant. Maintenance CAPEX constituted the remaining EUR 4.9 million, up by 20% compared with the previous year. The Company, therefore, did not exceed its updated estimate of capital expenditures for 2014, which expected a maximum level capital expenditures of EUR 10 million.

In the fourth quarter of 2014, total consolidated capital expenditures amounted to EUR 2.1 million.

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at 31 December 2014 was EUR 150.9 million, a 7.0% decrease compared with 31 December 2013. Net debt as at 31 December 2014 was EUR 142.0 million, down by 4.9% yoy. This is equivalent to a Net Debt/EBITDA ratio of 3.01x.

Business Overview of 2014

Last year, the total production output (net of scrap) reached 100,570 tonnes, up by 10.6% compared with 2013. In the fourth quarter, the Company's production volume amounted to 26,286 tonnes, which is 4.9% more than in the same period in 2013. In 2014, operating performance was influenced by the fact that the new Egyptian production line ran in standard commercial operation throughout the entire year 2014. The production volumes achieved in the last quarter of 2014 were the highest in the Company's history.

In 2014, the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 88.0% share of total revenues compared with an 89.0% share in 2013. The high share of products in this category confirms the important position the Company has in this market. In the fourth quarter of 2014, the share of revenues from sales of nonwoven textiles for the hygiene industry on total revenues was 92.3%, a slight increase compared to the 90.4% share achieved in the same period in 2013.

In 2014, revenues from sales of non-hygiene products (for construction, agricultural and medical applications) amounted to EUR 27.6 million, which represented a 12.0% share of total revenues.

In terms of geographical market distribution, 2014 saw substantial growth in the share of sales to other territories. This growth was driven in the same extent by both the increase in sales from the new production plant in Egypt and the growth in the sales of products which are supplied even to more distant locations outside the European region. In 2014, revenues from sales to Western Europe amounted to EUR 76.0 million, which represented a 33.0% share of total revenues, compared with a 36.5% share in 2013. In this period, revenues from sales to Central and Eastern Europe and Russia amounted to EUR 101.4 million and represented a 44.0% share of total revenues. In 2013, this share was 50.5%. Revenues from sales to other territories amounted to EUR 53.1 million, up by 104.3% yoy. They represented a 23.0% share of total revenues compared with a share of 13.0% in the year before.

Investment in Egypt

The Egyptian production line successfully ran in standard commercial production mode for the entire year 2014 and met the expectations. In terms of operating parameters, the production line is achieving parameters comparable to the production lines in the Czech Republic. In 2014, there were no unexpected interruptions to production. In upcoming years, the Company will focus on further optimisation of production parameters with the objective of increasing production from this line.

Guidance for 2015

Based on agreements with customers, the Company's production capacity for 2015 has been sold out.

In 2015, we expect only a slight increase in production output, depending on the successful implementation of optimisation measures in the production.

As a result of sufficient cash flows, in 2015 we would like to reduce the indebtedness of the Company.

Based on the above factors and information known to date, the Company has increased the guidance for EBITDA to EUR 44.0 to 48.5 million in 2015.

The Company is planning for total CAPEX in 2015 not to exceed the EUR 10 million level.

Appendix 1

Condensed Consolidated Statement of Comprehensive Income for the years 2014 and 2013

Unaudited financial statements prepared under IFRS
(in thousands of EUR)

	2013 (audited)	**2014** (unaudited)	**% change**
Revenues	199,210	230,547	15.7%
Raw materials and consumables used	(150,559)	(171,844)	14.1%
Staff costs	(10,179)	(10,739)	5.5%
Other operating income/(expense) (net)	78	(762)	n/a
EBITDA	**38,550**	**47,202**	**22.4%**
EBITDA margin	***19.4%***	***20.5%***	**1.1pp**
Depreciation and amortization expense	(13,079)	(15,030)	14.9%
Profit from operations	**25,471**	**32,172**	**26.3%**
FX gains and other financial income	13,338	15,697	17.7%
FX losses and other financial expenses	(28,205)	(8,931)	(68.3%)
Interest income	3	20	566.7%
Interest expense	(6,470)	(7,785)	20.3%
Profit before tax	**4,137**	**31,173**	**653.5%**
Income tax – (expense)/income net	(2,726)	(4,077)	49.6%
Net profit after tax	**1,411**	**27,096**	**1,820.3%**
Other comprehensive income			
Other changes in equity	1,149	925	(19.5%)
Changes in translation reserves	(8,730)	14,161	n/a
Total comprehensive income for the period	**(6,170)**	**42,182**	**n/a**
Net earnings per share			
Basic net earnings per share (EUR)	**0.15**	**2.94**	**1,820.3%**
Diluted net earnings per share (EUR)	**0.15**	**2.94**	**1,820.3%**

Appendix 2

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

Unaudited financial statements prepared under IFRS
(in thousands of EUR)

	Three month period ending		
	31 December 2013 (unaudited)	**31 December 2014** (unaudited)	**% change**
Revenues	53,216	58,761	10.4%
Raw materials and consumables used	(40,615)	(42,482)	4.6%
Staff costs	(2,337)	(2,993)	28.1%
Other operating income/(expense) (net)	361	(134)	n/a
EBITDA	**10,625**	**13,152**	**23.8%**
EBITDA margin	***20.0%***	***22.4%***	**2.4 pp**
Depreciation and amortization expense	(3,775)	(3,912)	3.6%
Profit from operations	**6,850**	**9,240**	**34.9%**
FX gains and other financial income	7,154	6,516	(8.9%)
FX losses and other financial expenses	(18,952)	(4,205)	(77.8%)
Interest income	(18)	13	n/a
Interest expense	(2,061)	(1,901)	(7.8%)
Profit before tax	**(7,027)**	**9,663**	**n/a**
Income tax – (expense)/income net	(612)	(2,026)	231.0%
Net profit after tax	**(7,639)**	**7,637**	**n/a**
Other comprehensive income			
Other changes in equity	578	621	7.4%
Changes in translation reserves	(6,939)	11,977	n/a
Total comprehensive income for the period	**(14,000)**	**20,235**	**n/a**
Net earnings per share			
Basic net earnings per share (EUR)	**(0.83)**	**0.83**	**n/a**
Diluted net earnings per share (EUR)	**(0.83)**	**0.83**	**n/a**

Appendix 3

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

Unaudited financial statements prepared under IFRS
(in thousands of EUR)

	31 December 2013 (audited)	31 December 2014 (unaudited)
Assets		
Non-current assets		
Property, plant and equipment	181,584	178,939
Long term intangible assets	586	495
Goodwill	84,599	83,684
Total non-current assets	**266,769**	**263,118**
Current assets		
Inventories	32,618	41,666
Trade and other receivables	43,250	42,451
Tax assets	1,042	0
Cash and cash equivalents	13,063	8,962
Total current assets	**89,973**	**93,079**
Total assets	**356,742**	**356,197**
Total equity and liabilities		
Share capital and reserves		
Share capital	11,444	11,444
Share premium	--	--
Legal reserves	8,733	9,187
Translation reserves	(2,306)	11,855
Other changes in equity	(2,911)	(1,986)
Retained earnings	110,673	127,141
Total share capital and reserves	**125,633**	**157,641**
Non-current liabilities		
Bank loans	146,200	35,402
Deferred tax liabilities	13,126	15,583
Other non-current liabilities	--	89,036
Total non-current liabilities	**159,326**	**140,021**
Current liabilities		
Trade and other payables	56,489	31,792
Tax liabilities	1,094	233
Bank current liabilities	14,200	26,500
Reserves	--	9
Total current liabilities	**71,783**	**58,535**
Total liabilities	**231,109**	**198,556**
Total equity and liabilities	**356,742**	**356,197**

Appendix 4

Condensed Consolidated Statement of Cash Flows for 2014 and 2013

Unaudited reports prepared in accordance with the International Financial Reporting Standards (IFRS)
(in thousands of EUR)

	2013 (audited)	2014 (unaudited)
Profit before tax	**4,137**	**31 173**
Adjustment for:		
Depreciation and Amortization	13,079	15 030
Foreign exchange gains/losses	(12,035)	(234)
Interest expense	6,470	7 785
Other changes in equity	1,149	925
Other financial income/(expense)	4,824	1 643
Cash flows from operating activities		
Decrease/(increase) in inventories	(10,730)	(7 265)
Decrease/(increase) in receivables	(8,650)	205
Increase/(decrease) in payables	28,291	(13 245)
Income tax (paid) / received	(2,474)	(1 973)
Net cash from operating activities	**24,061**	**34,045**
Cash flows from investment activities		
Purchases of property, plant and equipment	(38,301)	(9,964)
Net cash flows from investment activities	**(38,301)**	**(9,964)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	22,540	(97,831)
Increase/(decrease) in long term payables	--	89,036
Other changes in capital		49
Distribution of dividends	(9,691)	(10,152)
Interest paid	(6,325)	(7,640)
Other financial income/(expense)	(4,824)	(1,643)
Cash flows from financing activities	**1,700**	**(28,182)**
Cash and cash equivalents at the beginning of the period	25,758	13,063
Net increase (decrease) in cash and cash equivalents	(12,695)	(4,101)
Cash and cash equivalents as at 31 December	**13,063**	**8,962**