PEGAS NONWOVENS SA

2015 Preliminary unaudited financial results

17 March 2016

PEGAS NONWOVENS SA announces its preliminary unaudited consolidated financial results for the fiscal year to 31 December 2015 prepared according to International Financial Reporting Standards (IFRS).

"Very strong sales levels and outstanding production output supported by developments in polymer prices resulted in the best quarterly results in the Company's history. The fourth quarter EBITDA of EUR 14.6 million contributed to the full year result of EUR 44.3 million and confirmed our expectation that we communicated upon the announcement of our results for the previous quarter. EBITDA adjusted for the effect of the revaluation of the share option plan amounted to EUR 47.3 million.

As one of last year's most significant achievements, I consider the completion of the refinancing of our bank debt via a private bond issue as we were able to secure long term financing for further development of the Company under advantageous terms. The first step in this direction was the conclusion of a contract for the delivery of a production line for our Egyptian plant. This production line represents an entirely new concept in the nonwoven textile industry and due to its characteristics we consider it to be a platform for further expansion into new, especially developing markets. We are planning to put it into commercial operation at the beginning of the second quarter of 2017.

The contracts entered into with our customers indicate full utilisation of production capacities, which remain unchanged for 2016. We, therefore, expect to achieve financial results at a level corresponding to the previous two years. A factor that is hard to predict at this point in time, is the price of polymers, which caused substantial fluctuations in last year's quarterly results. Based on present projections, the Company is setting EBITDA guidance for this year in the range from EUR 43.0 to 49.0 million.

I believe that this year we will again be able to please our shareholders with good results. I also hope that they will appreciate the dividend, which the Board of Directors is planning to propose at the payout level of EUR 1.25 per share. This proposal is in line with the Company's progressive dividend policy, whilst it also takes into consideration the benefit to shareholders resulting from the realisation of the share buyback program", said František Řezáč, CEO and Member of the Board of PEGAS NONWOVENS SA.

Overview of Financial Results

(EUR mil.)	January – December 2015		Fourth quarter October - December 2015	
		yoy		yoy
Revenues	229.2	(0.6%)	59.6	1.4%
Operating costs without depreciation and amortization	(184.9)	0.8%	(45.0)	(1.4%)
EBITDA	44.3	(6.1%)	14.6	10.8%
Depreciation and amortization	(16.1)	6.8%	(4.1)	4.9%
Profit from operations (EBIT)	28.3	(12.2%)	10.5	13.3%
FX gains/(losses) and other financial income/(expense) (net)	8.7	28.9%	2.0	(12.4%)
Interest expense (net)	(8.0)	2.7%	(2.2)	18.1%
Income tax – (expense)/income net	(4.0)	(1.4%)	(2.1)	4.9%
Net profit	25.0	(7.8%)	8.1	6.6%
Capital expenditure	9.0	(10.0%)	4.6	122.6%
Number of employees (end of period)	580	1.9%	580	1.9%
No. of employees during period (average)	565	(0.2%)	570	1.0%
Net debt	163.8	15.4%	163.8	15.4%
Production output (in tonnes)	101,665	1.1%	26,106	(0.7%)
Average EUR/CZK exchange rate during period	27.279	(0.9%)	27.057	(2.1%)
End of period EUR/CZK exchange rate	27.023	(2.5%)	27.023	(2.5%)
Average EUR/USD exchange rate during period	1.110	(16.5%)	1.095	(12.4%)
End of period EUR/USD exchange rate	1.089	(10.3%)	1.089	(10.3%)

Consolidated Financial Results

Revenues, Costs and EBITDA

In 2015 consolidated revenues (revenues from sales of products) reached EUR 229.2 million, down by 0.6% yoy. In the fourth quarter of 2015, consolidated revenues reached EUR 59.6 million, up by 1.4% yoy. Revenues remained stable because production capacity, which is the key predetermining factor for sales volumes in tonnage terms, remained unchanged year-on-year. Also sales volumes remained at approximately the same level in the compared periods.

In 2015, total consolidated operating costs without depreciation and amortization (net) increased by 0.8% yoy to EUR 184.9 million. In the fourth quarter of 2015, the total consolidated operating costs without depreciation and amortization reached EUR 45.0 million, i.e. down by 1.4% yoy. Likewise, operating costs also remained at approximately the same level due to the fact that production capacities remained unchanged over the compared periods.

In 2015, EBITDA amounted to EUR 44.3 million, down by 6.1% yoy. The achieved result means that the Company reached the lower limit of its guidance range set at EUR 44.0 – 48.5 million. A record fourth quarter was instrumental in achieving this result, during which the Company was very successful both in the area of sales as well as production output, which grew by 1.1 % yoy. Likewise, it also significantly benefited from the polymer price pass-through mechanism. As a result, the price pass-through mechanism had a slightly positive effect on the overall 2015 results. On the other hand, the 2015 result was negatively impacted by the revaluation of the share option plan to fair value. EBITDA adjusted to reflect this effect decreased to EUR 47.3 million yoy, i.e. by 0.8%. Another factor negatively affecting the Company's year-on-year results was the sharp strengthening of the USD and the slight appreciation of CZK against EUR.

In the fourth quarter of 2015, EBITDA reached EUR 14.6 million, up by 10.8% yoy. This figure represents the best quarterly result in the Company's history. The most important factor supporting the financial results in this quarter was the polymer price pass-through mechanism, which conversely had had a significantly negative effect in the preceding two quarters. Nevertheless, from August onwards, polymer prices started to decline sharply, which due the delay in the polymer price pass through mechanism, had a positive impact on the results. Compared on a year-on-year basis, the increase in EBITDA was also the result of significantly higher sales volumes. Production in the fourth quarter approached record levels and compared year-on-year was down only 0.7%. The effect of the revaluation of the share option plan was positive (gain) in the amount of EUR 0.5 million. EBITDA adjusted for this effect actually grew by 7.4% to EUR 14.1 million.

In 2015, the EBITDA margin was at a level of 19.3%, which is 1.2 percentage points lower compared with 2014. In the fourth quarter of 2015, the EBITDA margin was 24.5%, up by 2.1 percentage points yoy.

In 2015, the EBITDA margin adjusted for the effect of the revaluation of the share option plan reached 20.6%, a level comparable to the preceding year. In the fourth quarter, EBITDA adjusted in this way was 23.6%, i.e. an increase of 1.3 percentage points compared to the same period in 2014.

Operating Costs

Total raw materials and consumables used last year amounted to EUR 169.8 million, a 1.2% yoy decrease. In the fourth quarter of 2015, total raw materials and consumables used reached EUR 42.6 million, up by 0.3% yoy.

In 2015, total staff costs reached EUR 14.0 million, up by 30.1% yoy. The increase in staff costs was driven primarily by the revaluation of the share option plan, the increase of which contributed EUR 3.0 million and furthermore by the indexation of wages. 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 2015 by 1.6%.

In the fourth quarter of 2015, staff costs reached EUR 2.8 million, down by 4.9% yoy. The year-on-year decline resulted primarily from the effect of the revaluation of the share option plan. Staff costs in the fourth quarter of 2015 and 2014 include costs related to bonuses for the achievement of planned financial results by the Company at comparable levels.

Other operating expenses (net) reached EUR 1.1 million in 2015, compared with an expense of EUR 0.8 million in 2014. In the fourth quarter of 2015, this item amounted to a gain in the amount of EUR 0.5 million.

Depreciation and Amortization

In 2015, consolidated depreciation and amortization reached EUR 16.1 million, up by 6.8% yoy. In the fourth quarter of 2015, total consolidated depreciation and amortization amounted to EUR 4.1 million, up by 4.9% compared to the same period in 2014. This increase was primarily attributable to the appreciation of USD against EUR, which had an effect on higher depreciation and amortization for the Egyptian production plant.

Profit from Operations

In 2015, profit from operations (EBIT) amounted to EUR 28.3 million, down by 12.2% compared with 2014. In the fourth quarter of 2015, profit from operations (EBIT) increased by 13.3% to EUR 10.5 million.

Financial Income and Costs

In 2015, foreign exchange changes and other financial income/(expense) (net) represented a gain of EUR 8.7 million, compared with a gain of EUR 6.8 million recorded in 2014. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The year-on-year change was affected primarily by the development of the USD against the EUR in the first quarter of this year. The appreciation of the dollar lead to unrealized exchange rate differences related to the revaluation of balance sheet items denominated in EUR, and in particular with respect to the intra-company loans to the subsidiary in Egypt. In the fourth quarter of 2015, foreign exchange gains and other financial income (net) reached EUR 2.0 million compared with foreign exchange gains and other financial income (net) in the amount of EUR 2.3 million in the same period in 2014.

Interest expenses (net) related to debt servicing amounted to EUR 8.0 million in 2015, a 2.7% increase compared with 2014. In the fourth quarter of 2015, interest expenses amounted to EUR 2.2 million, an 18.1% increase compared with the same period in 2014. The slight growth in interest expenses was the result of the Company refinancing its bank debts to long term bonds with seven and ten year maturities. Furthermore, despite paying off the bank loans, these interest expenses also include interest from interest rate swaps payable in July 2016.

Income Tax

In 2015, income tax expense amounted to EUR 4.0 million, down by 1.4% compared with 2014. Current tax payable amounted to EUR 3.1 million, changes in deferred tax represented an expense of EUR 0.9 million.

In the fourth quarter of 2015, income tax increased by 4.9% yoy to EUR 2.1 million. Current tax payable amounted to EUR 1.5 million, changes in deferred tax represented an expense of EUR 0.6 million.

Net profit

Net profit reached EUR 25.0 million in 2015, down by 7.8% yoy.

In the fourth quarter of 2015, the Company recorded a net profit of EUR 8.1 million, up by 6.6% yoy.

Investments

In 2015, total consolidated capital expenditures amounted to EUR 9.0 million, a 10.0% yoy decrease. Capital expenditures related to expanding production capacity represented EUR 5.6 million of this amount. Maintenance CAPEX constituted the remaining EUR 3.4 million, down by 31.8% compared with the previous year. The Company, therefore, did not exceed its estimate of capital expenditures for 2015, which expected a maximum level of expenditures of EUR 10 million.

In the fourth quarter of 2015, total consolidated capital expenditures amounted to EUR 4.6 million. Capital expenditures related to expanding production capacity represented EUR 3.5 million of this amount. Maintenance CAPEX constituted the remaining EUR 1.1 million, down by 48.3% compared with the previous year.

Cash and Indebtedness

The amount of net debt as at 31 December 2015, was EUR 163.8 million, up by 15.4% compared with the level as at 31 December 2014. The net debt to EBITDA ratio equated to 3.70. Net debt grew primarily in the first quarter and was related to the decline in trade payables, where the Company started to fully utilise the financial discounts for early payment of polymer purchases. Capital expenditures related to the expansion of production capacity and the share buyback program also contributed to the increase in net debt.

Business Overview of 2015

Last year, the total production output (net of scrap) reached 101,665 tonnes, up by 1.1% compared with 2014. In the fourth quarter, the Company's production volume amounted to 26,106 tonnes, which is 0.7% less than in the same period in 2014. The production volumes achieved in the final quarter of 2015 were very close to the record volumes in the fourth quarter of 2014 and the first quarter of 2015.

In 2015, the share of revenues from sales of nonwoven textiles for the hygiene industry constituted an 85.8% share of total revenues, compared with an 88.0% share in the comparable period of the preceding year. The high share of products in this category confirms the important position the Company has in this market.

In 2015, revenues from sales of non-hygiene products (for construction, agricultural and medical applications) amounted to EUR 32.5 million, which represented a 14.2% 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 2015, revenues from sales to Western Europe amounted to EUR 81.4 million and represented a 35.5% share of total revenues. In 2014, they amounted to EUR 76.0 million, corresponding to 33.0% of total revenues.

In this period, revenues from sales to Central and Eastern Europe and Russia amounted to EUR 94.3 million and represented a 41.1% share of total revenues. In 2014, these sales reached EUR 101.4 million, representing a 44.0% share.

Revenues from sales to other territories amounted to EUR 53.5 million and represented a 23.3% share of total revenues, compared with revenues of EUR 53.1 million and an 23.0% share in the previous year.

Guidance for 2016

The contracts entered into with customers indicate full utilisation of production capacities in 2016.

In 2016, we expect only a slight increase in production, depending on the successful implementation of optimisation measures in the area of production.

Based on the above factors and information known to date, the Company is setting its guidance for EBITDA in the range of EUR 43.0 to 49.0 million.

The Company is planning for total CAPEX in 2016 not to exceed the EUR 25 million level.

Appendix 1

Condensed Consolidated Statement of Comprehensive Income for the years 2015 and 2014

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

	Twelve-month period to		
	31 December 2014 (audited)	**31 December 2015** (unaudited)	**% change**
Revenues	230,547	229,200	(0.6%)
Raw materials and consumables used	(171,843)	(169,776)	(1.2%)
Staff costs	(10,739)	(13,974)	30.1%
Other operating income/(expense) - (net)	(763)	(1,139)	49.2%
EBITDA	**47,202**	**44,311**	**(6.1%)**
EBITDA margin	***20.5%***	***19.3%***	***(1.2 pp)***
Depreciation and amortization expense	(15,030)	(16,059)	6.8%
Profit from operations	**32,172**	**28,252**	**(12.2%)**
FX gains and other financial income	15,697	13,537	(13.8%)
FX losses and other financial expenses	(8,931)	(4,817)	(46.1%)
Interest income	20	44	120.0%
Interest expense	(7,785)	(8,019)	3.0%
Profit for the period before tax	**31,173**	**28,997**	**(7.0%)**
Income tax (expense)/income	(4,077)	(4,019)	(1.4%)
Net profit after tax	**27,096**	**24,978**	**(7.8%)**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	925	3,404	268.0%
Changes in translation reserves	14,161	(6,165)	n/a
Total comprehensive income for the period	**42,182**	**22,217**	**(47.3%)**
Net earnings per share			
Basic net earnings per share (EUR)	2.94	2.74	(6.8%)
Diluted net earnings per share (EUR)	2.91	2.71	(7.0%)

Appendix 2

Condensed Consolidated Statement of Comprehensive Income for the three months ended 31 December 2015 and 31 December 2014

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

	Three-month period to		
	31 December 2014 (unaudited)	**31 December 2015** (unaudited)	**% change**
Revenues	58,761	59,559	1.4%
Raw materials and consumables used	(42,481)	(42,600)	0.3%
Staff costs	(2,993)	(2,847)	(4.9%)
Other operating income/(expense) - (net)	(135)	465	n/a
EBITDA	**13,152**	**14,577**	**10.8%**
EBITDA margin	***22.4%***	***24.5%***	***2.1 pp***
Depreciation and amortization expense	(3,912)	(4,104)	4.9%
Profit from operations	**9,240**	**10,473**	**13.3%**
FX gains and other financial income	6,516	2,441	(62.5%)
FX losses and other financial expenses	(4,205)	(416)	(90.1%)
Interest income	13	24	80.9%
Interest expense	(1,901)	(2,253)	18.5%
Profit for the period before tax	**9,663**	**10,269**	**6.3%**
Income tax (expense)/income	(2,025)	(2,124)	4.9%
Net profit after tax	**7,638**	**8,145**	**6.6%**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	621	172	(72.3%)
Changes in translation reserves	11,977	(1,594)	(113.3%)
Total comprehensive income for the period	**20,236**	**6,723**	**(66.8%)**
Net earnings per share			
Basic net earnings per share (EUR)	0.83	0.92	10.7%
Diluted net earnings per share (EUR)	0.83	0.91	10.0%

Appendix 3

Condensed Consolidated Statement of Financial Position as at 31 December 2015 and 31 December 2014

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

	31 December 2014 (audited)	31 December 2015 (unaudited)
Assets		
Non-current assets		
Property, plant and equipment	178,939	183,208
Long term intangible assets	495	411
Goodwill	83,684	85,857
Total non-current assets	**263,118**	**269,476**
Current Assets		
Inventories	41,666	39,538
Trade and other receivables	42,451	54,692
Tax assets	0	0
Cash and cash equivalents	8,962	28,082
Total current assets	**93,079**	**122,312**
Total assets	**356,197**	**391,788**
Equity and liabilities		
Share capital and reserves		
Share capital	11,444	11,444
Legal reserves	9,187	9,451
Treasury shares	0	(12,797)
Translation reserves	11,855	5,690
Other changes in equity	(1,986)	1,418
Retained earnings	127,141	141,506
Total share capital and reserves	**157,641**	**156,712**
Non-current liabilities		
Bank loans	35,402	0
Deferred tax liabilities	15,583	17,440
Other non-current liabilities	89,036	184,806
Total non-current liabilities	**140,021**	**202,246**
Current liabilities		
Trade and other payables	31,792	23,895
Tax liabilities	233	1,824
Bank current liabilities	26,500	7,111
Reserves	10	0
Total current liabilities	**58,535**	**32,830**
Total liabilities	**198,556**	**235,076**
Total equity and liabilities	**356,197**	**391,788**

Appendix 4

Condensed Consolidated Statement of Cash Flows for 2015 and 2014

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

	2014 (audited)	2015 (unaudited)
Profit before tax	**31,173**	**28,997**
Adjustment for:		
Depreciation and Amortization	15,030	16,059
Foreign exchange gains/losses	(234)	(22,683)
Interest expense	7,785	8,019
Other changes in equity	925	3,404
Other financial income/(expense)	1,643	1,035
Cash flows from operating activities		
Decrease/(increase) in inventories	(7,265)	4,701
Decrease/(increase) in receivables	205	(9,677)
Increase/(decrease) in payables	(13,245)	(8,389)
Income tax (paid) / received	(1,973)	(642)
Net cash flows from operating activities	**34,044**	**20,824**
Cash flows from investment activities		
Purchases of property, plant and equipment	(9,964)	(8,968)
Net cash flows from investment activities	**(9,964)**	**(8,968)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	(97,831)	(56,450)
Increase/(decrease) in long term payables	89,036	95,769
Other changes in capital	49	(12,797)
Distribution of dividends	(10,152)	(10,349)
Interest paid	(7,640)	(7,874)
Other financial income/(expense)	(1,643)	(1,035)
Net cash flows from financing activities	**(28,181)**	**7,264**
Cash and cash equivalents at the beginning of the period	13,063	8,962
Net increase (decrease) in cash and cash equivalents	(4,101)	19,120
Cash and cash equivalents at the end of the period	**8,962**	**28,082**