PEGAS NONWOVENS SA

FIRST QUARTER RESULTS

2016

26 May 2016

First quarter of 2016 Unaudited Consolidated Financial Results

PEGAS NONWOVENS SA announces its unaudited consolidated financial results for the first quarter of 2016 to 31 March 2016 prepared according to International Financial Reporting Standards (IFRS).

"Our Company's financial results in the first quarter were in line with our expectations and I am pleased that we have been able to continue on from last year's very good performance. Production met the strictly set planned parameters and approached record levels. We were also satisfied with our sales results. Polymer prices have stabilised after declining at the end of last year and so the impact of the polymer price pass-through mechanism on the first quarter results has not been substantial.

We have entered the new year successfully and I believe that stable conditions will permit us to focus our efforts on completing the construction of our warehousing capacities and carrying out work on the investment into the new production line," said František Řezáč, CEO and Member of the Board of PEGAS NONWOVENS SA.

Overview of Financial Results

(EUR mil.)	First quarter January - March 2016	yoy
Financials (EUR mil.)		
Revenues	**55.1**	**(9.0%)**
Operating costs without depreciation and amortization	(43.5)	(9.3%)
EBITDA	**11.6**	**(8.1%)**
Depreciation and amortization	(4.1)	1.5%
Profit from operations (EBIT)	**7.5**	**(12.6%)**
FX gains/(losses) and other financial income/(expense) (net)	(3.7)	n/a
Interest expense (net)	(2.1)	18.9%
Income tax – (expense)/income net	(1.3)	21.2%
Net profit	**0.5**	**(96.7%)**
Net debt	147.6	(1.1%)
Capital expenditure	2.2	157.8%
Profitability ratios		
EBITDA margin	21.1%	0.2 p.p.
Operating profit margin	13.7%	(0.6 p.p.)
Net profit margin	0.9%	(22.8 p.p.)
Operations		
Production output in tonnes	26,036	(0.6%)
Number of employees - end of period	571	0.9%
Number of employees - average	569	0.9%
Exchange rates		
EUR/CZK - average	27.040	(2.1%)
EUR/CZK - end of period	27.051	(1.8%)
EUR/USD - average	1.102	(2.1%)
EUR/USD - end of period	1.139	5.8%

Consolidated Financial Results

Revenues, Costs and EBITDA

In the first quarter of 2016, consolidated revenues (revenues from sales of the Company's products) reached EUR 55.1 million, down by 9.0% yoy. The reason for the decline in revenues were primarily lower polymer prices in a year-on-year comparison. The prices have presently stabilised and are at long term lows. On the other hand, sales volumes in tonnage terms grew on a yearly basis. Despite this, the levels of inventories of finished products increased moderately in the first quarter of 2016, mainly because of very good production.

Total consolidated operating costs without depreciation and amortization (net) went down by 9.3% yoy to EUR 43.5 million in the first quarter of 2016, mainly due to the effect of the pass-through mechanism.

In the first quarter of 2016, EBITDA amounted to EUR 11.6 million, down by 8.1% yoy. This result is in line with the guidance range announced at the beginning of the year, when the Company indicated an increase in EBITDA in the range from EUR 43.0 to 49.0 million. The driver for this very positive result was namely production, which approached record levels. The polymer price pass-through mechanism was the main factor contributing to the year-on-year decline in EBITDA, due to the fact that in the first quarter of last year it had a very positive effect, whilst remaining insignificant in the first three months of this year. The impact of the revaluation of the share option plan in the first quarter results of 2016 was slightly negative.

EBITDA margin reached 21.1% in the first quarter of this year, growing by 0.2 percentage points compared with the same period last year.

Operating Costs

Total raw materials and consumables used in the first quarter of 2016 amounted to EUR 40.0 million, which represented a decline of 9.3% yoy.

In the first quarter of 2016, total staff costs reached an amount of EUR 3.0 million, i.e. down by 13.2% yoy, of which the revaluation of the share option plan contributed an expense of EUR 0.1 million in the first quarter of 2016, i.e. a decrease of EUR 0.6 million with respect to the comparable period last year. Total staff costs expressed in local currencies and without the revaluation of the share option plan grew by approximately 2.0% yoy. The year-on-year increase in staff costs in local currencies resulted namely from an indexation of wages at the end of 2015.

In the first quarter of 2016, Other operating income/expenses (net) reached EUR 0.5 million, i.e. up by EUR 0.1 million compared with the same period in 2015.

Depreciation and Amortization

Consolidated depreciation and amortization reached the amount of EUR 4.1 million in the first quarter of 2016, up by 1.5% yoy.

Profit from Operations

In the first quarter of this year, profit from operations (EBIT) amounted to EUR 7.5 million, down by 12.6% compared with the first quarter of 2015.

Financial Income and Costs

In the first quarter of 2016, FX changes and other financial income/(expense) (net) amounted to an expense of EUR 3.7 million compared with an income of EUR 8.5 million achieved 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 caused mainly by the development of the EUR/USD exchange rate, where the dollar depreciated by almost 5% in the first quarter of this year. The depreciation of the dollar led to unrealized exchange rate losses 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.

Interest expenses (net) related to debt servicing reached EUR 2.1 million in the first quarter of 2016, which is up by 18.9% relative to the same period last year. The year-on-year increase in interest expenses was caused by the larger volume of external debt resulting from the refinancing of the Company via long term bonds with maturities of seven and ten years. Furthermore, despite the repayment of the bank loans, the interest expenses also reflect interest from interest rate swaps maturing in June 2016.

Income Tax

In the first quarter of 2016, income tax expense amounted to EUR 1.3 million, up by 21.2% compared with 2015. Current tax payable amounted to EUR 0.8 million, changes in deferred tax represented an expense of EUR 0.5 million.

Net profit

In the first quarter of 2016, net profit amounted to EUR 0.5 million representing a yoy decrease of 96.7%, primarily a consequence of unrealized foreign exchange gains/losses.

Investments

In the first quarter of 2016, total capital expenditure amounted to EUR 2.2 million, i.e. a 157.8% increase compared with last year. Of this amount, EUR 1.7 million was spent on investments into production and warehousing capacity expansion, with the remainder being maintenance CAPEX.

Cash and Indebtedness

The amount of net debt as at 31 March 2016, was EUR 147.6 million, down by 9.9% compared with the level as at 31 December 2015. Net debt to EBITDA ratio equated to 3.41. The decline in net debt related primarily to the Company's ability to generate a high degree of free cash flows, the absence of extraordinary expense items, such as, for example, a dividend payout, but also the completion of the share buyback programme.

Business Overview for the first quarter of 2016

In the first quarter of 2016, the total production output (net of scrap) reached 26,036 tonnes, down by 0.6% compared with the same period in 2015.

In the first quarter of 2016, the share of revenues from sales of nonwoven textiles for the hygiene industry constituted an 87.8% share of total revenues, compared with an 87.4% share in the comparable period last year. The high share of products in this category confirms the important position the Company has in this market.

In the first quarter of 2016, revenues from sales of non-hygiene products (for construction, agricultural and medical applications) amounted to EUR 6.7 million, which represented a 12.2% share of total revenues.

In terms of geographical distribution, the Company confirmed its steady sales focus on the broader European area and its establishing presence on to the markets of the Middle East. In the first quarter of 2016, revenues from sales to Western Europe amounted to EUR 21.0 million and represented a 38.1% share of total revenues. In the same quarter of 2015, they amounted to EUR 22.1 million, corresponding to 36.5% of total revenues.

In this period, revenues from sales to Central and Eastern Europe and Russia amounted to EUR 22.5 million and represented a 40.9% share of total revenues. In the first quarter of last year, these sales revenues reached EUR 22.4 million, representing a 37.0% share.

Revenues from sales to other territories amounted to EUR 11.6 million and represented a 21.0% share of total revenues, compared with revenues of EUR 16.1 million and an 26.5% share in the previous year.

Guidance for 2016

In the first quarter of 2016, the Company achieved financial results that are in line with its expectations and with the announced guidance for the entire year 2016.

Based on the results achieved in the first quarter of 2016 and respecting the developments in the European nonwoven textile market, including the expected development in the polymer market, the Company confirms its previously announced guidance for 2016 and expects this year's EBITDA to be in the range from EUR 43.0 to 49.0 million.

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

PEGAS NONWOVENS SA

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

for the three months ended 31 March 2016

Condensed Consolidated Statement of Comprehensive Income

	Three-month period to		
	31 March 2015 (audited)	31 March 2016 (unaudited)	% change
Revenue	60,561	55,081	(9.0%)
Raw materials and consumables used	(44,131)	(40,012)	(9.3%)
Staff costs	(3,426)	(2,973)	(13.2%)
Other operating income/(expense) net	(379)	(492)	30.1%
EBITDA	**12,625**	**11,603**	**(8.1%)**
EBITDA margin	***20.9%***	***21.1%***	***0.2 pb***
Depreciation and amortization expense	(3,998)	(4,059)	1.5%
Profit from operations	**8,627**	**7,543**	**(12.6%)**
FX gains and other financial income	10,898	113	(99.0%)
FX losses and other financial expenses	(2,355)	(3,819)	62.2%
Interest income	1	26	2453.4%
Interest expense	(1,775)	(2,135)	20.3%
Profit before tax	**15,397**	**1,728**	**(88.8%)**
Income tax (expense)/income	(1,039)	(1,259)	21.2%
Net profit after tax	**14,358**	**470**	**(96.7%)**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	1,227	(2,038)	(266.1%)
Changes in translation reserves	1,955	(3,042)	(255.6%)
Total comprehensive income for the period	**17,540**	**(4,611)**	**n/a**
Net earnings per share			
Basic net earnings per share (EUR)	1.56	0.05	(96.6%)
Diluted net earnings per share (EUR)	1.54	0.05	(96.5%)

Condensed Consolidated Statement of Financial Position

	31 March 2015 (audited)	31 December 2015 (audited)	31 March 2016 (unaudited)
Assets			
Non-current assets			
Property, plant and equipment	185,750	181,250	176,437
Intangible assets	464	2,369	2,352
Goodwill	84,276	85,857	85,769
Total non-current assets	**270,490**	**269,476**	**264,558**
Current Assets			
Inventories	31,538	39,538	29,245
Trade and other receivables	54,236	54,692	48,902
Income tax receivables	0	0	0
Cash and cash equivalents	8,899	28,082	37,154
Total current assets	**94,672**	**122,312**	**115,301**
Total assets	**365,162**	**391,788**	**379,858**
Equity and liabilities			
Share capital and reserves			
Share capital	11,444	11,444	11,444
Legal reserves	9,187	9,451	9,451
Treasury shares	0	(12,797)	(13,672)
Translation reserves	6,868	5,691	2,649
Cash flow hedge reserves	(759)	1,418	(620)
Retained earnings	141,499	141,505	141,976
Total share capital and reserves	**168,239**	**156,712**	**151,227**
Non-current liabilities			
Bank loans	42,785	0	0
Deferred tax liabilities	16,285	17,440	17,660
Other non-current liabilities	89,751	184,806	184,708
Total non-current liabilities	**148,821**	**202,246**	**202,369**
Current liabilities			
Trade and other payables	21,670	23,895	24,030
Tax liabilities	832	1,824	2,232
Bank current liabilities	25,600	7,111	0
Provisions	0	0	0
Total current liabilities	**48,102**	**32,830**	**26,263**
Total liabilities	**196,923**	**235,076**	**228,631**
Total equity and liabilities	**365,162**	**391,788**	**379,858**

Condensed Consolidated Statement of Cash Flows

	2015 (audited)	2016 (unaudited)
Profit before tax	**15,397**	**1,729**
Adjustment for:		
Depreciation and Amortization	3,998	4,059
Foreign exchange gains/losses	(17,507)	3,933
Interest expense	1,775	2,135
Other changes in equity	1,227	(2,038)
Other financial income/(expense)	130	(57)
Cash flows from operating activities		
Decrease/(increase) in inventories	11,794	9,457
Decrease/(increase) in receivables	(3,377)	3,693
Increase/(decrease) in payables	(17,219)	(2,554)
Income tax (paid) / received	(317)	(520)
Net cash flows from operating activities	**(4,099)**	**19,836**
Cash flows from investment activities		
Purchases of property, plant and equipment	(846)	(2,181)
Net cash flows from investment activities	**(846)**	**(2,181)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	5,926	(7,106)
Increase/(decrease) in other non-current liabilities	715	(98)
Acquisiton of own shares and other changes in capital	0	(875)
Distribution of dividends	0	0
Interest paid	(1,630)	(560)
Other financial income/(expense)	(130)	57
Net cash flows from financing activities	**4,881**	**(8,582)**
Cash and cash equivalents at the beginning of the period	8,962	28,082
Net increase (decrease) in cash and cash equivalents	(64)	9,072
Cash and cash equivalents at the end of the period	**8,898**	**37,154**

Condensed Consolidated Statement of Changes in Equity

	Share capital	Legal reserves	Treasury shares	Translation reserves	Cash flow hedge reserves	Retained earnings	Total share capital and reserves
as at 1 January 2015	**11,444**	**9,187**	**--**	**4,913**	**(1,986)**	**127,141**	**157,641**
Distribution	--	--	--	--	--	--	**--**
Other comprehensive income for the period	--	--	--	1,955	1,227	--	**(3,760)**
Net profit for the period	--	--	--	--	--	14,358	**14,358**
Legal reserves created from retained earnings	--	--	--	--	--	--	**--**
as at 31 March 2015	**11,444**	**9,187**	**--**	**6,868**	**(759)**	**141,499**	**168,239**
as at 1 January 2016	**11,444**	**9,451**	**(12,797)**	**5,691**	**1,418**	**141,505**	**156,712**
Distribution	--	--	--	--	--	--	**--**
Other comprehensive income for the period	--	--		(3,043)	(2,038)		**(5,081)**
Net profit for the period	--	--				470	**470**
Acquisition of own shares			(875)				**(875)**
Legal reserves created from retained earnings	--	--	--	--	--	--	**--**
as at 31 March 2016	**11,444**	**9,451**	**(13,672)**	**2,648**	**(620)**	**141,976**	**151,227**

Selected explanatory notes to the interim consolidated financial statements

These financial statements were prepared under International Financial Reporting Standards (IFRS) 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.

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 2015.

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.

Important events and transactions

There were no important events or transactions in the first quarter of 2016 which would have a significant effect on the understanding of the changes in the statement of financial position and performance of the Company.

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.

Repurchases and repayments of debt and equity securities

The bank facilities utilised by the Company consist of an overdraft facility (up to EUR 20 million). During the first three months of 2016, the Company reduced its balance on the overdraft facility from EUR 7,111 thousand to EUR 0 and is presently not utilising this line of credit. The Company did not conclude any new bank facilities in the first quarter of 2016.

In the first three months of 2016, the Company did not make any repurchases or repayments of debt securities.

In the first three months of 2016, within the scope of the share buyback programme, the Company bought back 32,929 of its own shares at the acquisition value of EUR 875 thousand, equivalent to 0.36% of the Company's share capital. Thereby, as at 8 February 2016, the Company completed the share buyback programme and presently holds 461,470 of its own shares, equivalent to 5% of its share capital.

Dividend

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

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.

Material events subsequent to the end of the interim period

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 2016.

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.

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 2016, the Company had two interest rate swaps open, these were initially concluded in 2011 at a total nominal value of EUR 98,000 thousand. In connection with the refinancing of the Company, hedge accounting was terminated for these swaps. Up until the maturity date of the swaps, i.e. 14 June 2016, the changes in fair value of these swaps will be recorded in the profit and loss statement.

The fair value of these swaps as at 31 March 2016 and 31 March 2015 is presented in the following table.

Counterparty	as at 31 March 2015	as at 31 March 2016
Česká spořitelna	(1,262)	(294)
ING	(1,264)	(294)
Total	**(2,526)**	**(588)**

in EUR '000

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 0.3 million as at 31 March 2016 (by approximately EUR 1 million as at 31 March 2015).

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 0.2 million as at 31 March 2016 (by approximately EUR 0.2 million as at 31 March 2015).

Cross currency swaps

As at 31 March 2016, the Company held three open cross currency swaps.

The first swap was entered into in November of 2014 at a total nominal value of CZK 2,489,575 thousand (receiving leg) against EUR 90,201 thousand (paying leg) with the objective of hedging the currency risk on the CZK issue of public bonds Pegas 2.85/2018.

The second swap was entered into in July of 2015 at a total nominal value of CZK 678,000 thousand (receiving leg) against EUR 25,000 thousand (paying leg) with the objective of hedging the interest and currency risk on the CZK issue of private bonds maturing on 14 July 2025 with a variable interest rate of 6M PRIBOR + 2.00% p.a.

The third swap was entered into in July of 2015 at a total nominal value of CZK 1,080,000 thousand (receiving leg) against EUR 39,852 thousand (paying leg) with the objective of hedging the currency risk on the CZK issue of private bonds maturing on 14 July 2022 with a fixed interest rate of 2.646% p.a.

The company performs hedge accounting for the cross currency swaps. The change in the fair value of these swaps, that is considered as effective in terms of hedging, is recorded in equity. The change in the fair value of these swaps, that is considered as non-effective in terms of hedging, is recorded in the profit and loss statement.

The fair value of these swaps, as at 31 March 2016, is presented in the following table. A positive value represents a receivable of the Company, a negative value a payable of the Company.

Counterparty	as at 31 March 2015	as at 31 March 2016	% hedging of the underlying liability
Česká spořitelna – EUR 90.201 mil.	843	2,040	108%
ČSOB – EUR 25 mil.	--	(1,037)	100%
Česká spořitelna – EUR 39.852 mil.	--	(401)	100%
Total	**843**	**602**	**105%**

in EUR '000

Fair value of these swap as at 31 March 2016 represents a receivable of the Company. To this date, these swaps cover approximately 105% Other long term payables of the Company which constitute a total nominal value of the public bond issue in the amount of CZK 2.5 billion (less the sum of the repurchased bonds in the amount of CZK 198 million) and two private bond issues in the amount of CZK 1,080 million, resp. CZK 678 million.

Sensitivity of the fair value of cross currency swaps
The appreciation of CZK against EUR by 1% would, as at 31 March 2016, increase the fair value of the cross currency swaps by approximately EUR 1.5 million.

The depreciation of CZK against EUR by 1% would, as at 31 March 2016, decrease the fair value of the cross currency swaps by approximately EUR 1.5 million.

Currency forward contracts

As at 31 March 2016, the Company held no open currency forward contracts.

Foreign currency options

As at 31 March 2016, the Company held an open position in a foreign currency option structure that was concluded by the Company in March 2016 with ČSOB, a.s. The objective of this foreign currency option structure is to hedge currency risk connected to revenues in EUR and their conversion to CZK in approximately the amount as the Company expends each month on the payment of wages and salaries. Based on this structure, the Company has, in the period from July 2016 to July 2019 the right to sell EUR 1.1 million and to purchase CZK 29.348 million under the condition that the exchange rate as at the date of the monthly expiration is lower than 26.68. Concurrently, the Company has, in the same period the obligation to sell EUR 1.375 million and to purchase CZK 36.685 million under the condition that the EUR/CZK exchange rate as at the date of the monthly expiration is higher than 27.52.

The fair value of the foreign currency option structure, as at 31 March 2016, is presented in the following table. A positive value represents a receivable of the Company, a negative value a payable of the Company.

Counterparty	as at 31 March 2015	as at 31 March 2016
ČSOB – foreign currency option structure	--	(387)
Total	**--**	**(387)**

in EUR '000

Sensitivity of the fair value of the foreign currency option structure
The appreciation of CZK against EUR by 5% would, as at 31 March 2016, increase the fair value of the foreign currency option structure by approximately EUR 2.1 million.

The depreciation of CZK against EUR by 5% would, as at 31 March 2016, decrease the fair value of the foreign currency option structure by approximately EUR 1.9 million.

Earnings per share

Basic earnings per Share are calculated as the net profit for the period attributable to equity holders of the Company divided by the weighted average number of shares existing each day in the given period, which take into account (by reduction) the shares bought back.

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 for the effect of the expected issue of all potential diluting securities, i.e. warrants in the case of the Company.

No changes to the number of shares occurred during the first three months of 2016 nor in the first three months of 2015.

The weighted average number of ordinary registered shares used for the calculation of the basic earnings per share, as at 31 March 2016, reflects the shares bought back on the basis of the share buyback programme completed in February 2016.

The weighted average of the number of ordinary registered shares used for the calculation of diluted earnings per share, as at 31 March 2016, is based on the number of shares used for the calculation of basic earnings per share, whilst taking into account (by increasing) the potential diluting securities, i.e. warrants.

Basic earnings per share

		Three months ended	
		31 March 2015	31 March 2016
Net profit attributable to equity holders	'000 EUR	14,358	470
Weighted average number of ordinary shares	number	9,229,400	8,770,090
Basic earnings per share	**EUR**	**1.56**	**0.05**

Diluted earnings per share

		Three months ended	
		31 March 2015	31 March 2016
Net profit attributable to equity holders	'000 EUR	14,358	470
Weighted average number of ordinary shares	number	9,331,910	8,819,670
Diluted earnings per share	**EUR**	**1.54**	**0.05**

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 2016.

Approval of the interim financial statements

The interim financial statements were approved by the Company's Board of Directors on 25 May 2016.

Marek Modecki Chairman of the Board of Directors PEGAS NONWOVENS SA	František Řezáč Member of the Board of Directors PEGAS NONWOVENS SA