PEGAS NONWOVENS SA

2012 Preliminary unaudited financial results

14 March, 2013

PEGAS NONWOVENS SA announces its preliminary unaudited consolidated financial results for the fiscal year to 31 December 2012, prepared according to International Financial Reporting Standards (IFRS).

"In 2012, the Company achieved an EBITDA of EUR 38.1 million, which is an increase of 5.7% over the previous year and therefore in line with the full-year outlook that we announced at the beginning of the year. Our ambition was to achieve a result in the upper limits of the announced range, nonetheless, lower than planned production, particularly in the third quarter, and the unfavourable impact of the polymer price pass-through mechanism, meant that our expectations were achieved at the lower end of the scale. During the last quarter of the year we placed a great deal of emphasis on improving our key production indicators and I am glad to confirm that this effort has started to deliver the results.

Nevertheless, 2012 was not only about financial results. Last year we made considerable progress in the execution of the Egyptian production plant project. This investment is exceptionally important for us. The project presents an opportunity for PEGAS to become a partner with greater global reach, a partner that is able to produce and deliver nonwoven textiles of high quality to its customers not only in Europe but also to other parts of the world, in this case in the fast growing and very promising markets of North Africa, the Middle East and Asia. This is our first investment outside of the Czech Republic and so this project presents a great challenge for the Company. In this respect we are very pleased to see that so far we have been successful in meeting the demanding time schedule.

We positively view the fact that our production capacity should be sold out this year. We greatly value the interest that customers have in our products, thanks to which we are able to maintain the position of one the leading nonwoven textile producers in the market. These sales volumes would not have been possible without the technical cooperation with customers on the development of new materials, which have new, unique or improved properties. At the end of last year we were successful in commercialising several such materials and in 2013, this fact should lead to an increase of the share of technologically advanced materials on total production.

The priority for 2013 is the already-mentioned commissioning of the new production line in Egypt. Obviously, we will put an emphasis on further production efficiency improvements and on the commercialisation of on-going technical projects. Based on the increased production capacity and thanks to the optimized product portfolio mix, we expect 2013 to deliver an improvement in the financial results and a 5 to 15% year-on-year growth in EBITDA", said František Řezáč, CEO and Member of the Board of PEGAS NONWOVENS SA.

Overview of Financial Results

(mil. EUR)	Jan – Dec 2012		4Q Oct – Dec 2012	
		yoy		yoy
Revenues	187.7	13.2%	47.6	20.2%
Operating costs without depreciation and amortization	(149.6)	15.3%	(38.3)	29.6%
EBITDA	38.1	5.7%	9.3	(7.5%)
Depreciation and amortization	(11.6)	25.6%	(2.6)	(9.0%)
Profit from operations (EBIT)	26.5	(1.2%)	6.7	(6.9%)
FX gains/(losses) and other financial income/(expense) (net)	2.6	n/a	(1.7)	(71.0%)
Interest expense (net)	(4.6)	8.3%	(1.1)	(3.8%)
Income tax – (expense)/income net	(3.6)	(15.6%)	(0.7)	(73.2%)
Net profit	20.9	49.8%	3.2	n/a
Capital expenditure	37.3	(10.3%)	2.8	(82.4%)
Number of employees (end of period)	451	6.4%	451	6.4%
No. of employees during period (average)	437	5.6%	446	5.7%
Net Debt	125.9	5.4%	125.9	5.4%
Production output (in tonnes)	86,056	17.2%	22,388	14.1%
Average CZK/EUR exchange rate during period	25.143	2.3%	25.167	(0.4%)
End of period CZK/EUR exchange rate	25.140	(2.6%)	25.140	(2.6%)

Consolidated Financial Results

Revenues, Costs and EBITDA

In 2012, consolidated revenues (revenues from sales of the Company's products) reached EUR 187.7 million, up by 13.2% yoy. The year on year increase in revenues was the result of increased volumes of sold production thanks to the new production line, which was put into operation in the second half of 2011. In the fourth quarter of 2012, consolidated revenues reached EUR 47.6 million, up by 20.2% yoy. The year on year comparison was affected by the lower comparative base of the fourth quarter in 2011, where lower sales volumes were recorded due to a temporary demand slowdown in the European nonwoven textile market.

In 2012, total consolidated operating costs without depreciation and amortization (net) increased by 15.3% yoy to EUR 149.6 million. In the fourth quarter of 2012, the total consolidated operating costs without depreciation and amortization reached EUR 38.3 million, an increase of 29.6% yoy. The primary reason for this increase was a higher consumption of input materials in connection with the new production line and in the fourth quarter also with the above-mentioned lower comparative base in 2011.

In 2012, EBITDA amounted to EUR 38.1 million, up by 5.7% 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 EBITDA increase of 5% to 15%. The EBITDA increase was achieved namely due to the launch of the new production line. On the other hand, the year on year comparison was negatively affected by lower than planned production volumes and an increase in electricity prices. The impact of the polymer price pass-through mechanism on the full year 2012 ended up being negative and likewise this had an effect on the year on year comparison.

In the fourth quarter of 2012, EBITDA reached EUR 9.3 million, down by 7.5% yoy. The year on year EBITDA decline is a consequence of the effect of the price pass-through mechanism, which was negative in the last quarter of last year, while in the same period in 2011 it positively affected the results.

In 2012, the EBITDA margin was 20.3%, which is 1.4 percentage points lower compared with 2011. In the fourth quarter of 2012 the EBITDA margin was 19.5%, down by 5.8 percentage points yoy.

Operating Costs

Total raw materials and consumables used last year amounted to EUR 141 million, a 15.5% yoy increase. The primary factor behind the growth in material consumption was the increased consumption of raw materials connected with the new production line. In the fourth quarter of 2012, total raw materials and consumables used reached EUR 36.3 million, up by 31.6% over the same period in 2011. The higher year-on-year increase resulted from a higher polymer price level and the low comparative base in 2011.

Total staff costs reached EUR 8.4 million in 2012, up by 0.3% yoy. The year-on-year comparison was affected by the depreciation of the CZK against the EUR and the positive revaluation of the share option plan. In 2012, total staff costs for the same period expressed in CZK and without the revaluation of the share option plan grew by 5% yoy. The year on year increase was caused by the recruitment of employees for the new production lines in the Czech Republic and Egypt and the indexation of wages. On the other hand, on an annual basis the accrual in bonus remunerations based on achieved financial results declined.

In the fourth quarter of 2012 staff costs reached EUR 2 million, down by 13.2% yoy. The year on year comparison was primarily affected by the positive revaluation of the share option plan. Total staff costs for the same period expressed in CZK and without the revaluation of the share option plan grew by 4.8% yoy as a result of the indexation of wages and the commencement of employee recruitment for the Egyptian production line.

Other operating expenses (net) reached EUR 0.3 million in 2012, compared with an income of EUR 0.6 million achieved in 2011. In the fourth quarter of 2012, this item amounted to an expense in the amount of EUR 47 thousand.

Depreciation and amortization

In 2012, consolidated depreciation and amortization reached EUR 11.6 million, up by 25.6% yoy. The increase in depreciation and amortization resulted from the launch of the ninth production line and the depreciation of related production technologies and buildings. In the fourth quarter of 2012, total consolidated depreciation and amortization amounted to EUR 2.6 million, down by 9.0% compared to the same period in 2011.

Profit from Operations

In 2012, profit from operations (EBIT) amounted to EUR 26.5 million, down by 1.2% compared with 2011. It was affected by the EBITDA level and an increase in depreciation and amortization. In the fourth quarter of 2012, profit from operations (EBIT) declined by 6.9% to EUR 6.7 million. On a year-on-year basis, profit from operations was significantly affected by lower EBITDA resulting from the unfavourable effect of the price pass-through mechanism.

Financial Income and Costs

In 2012, foreign exchange changes and other financial income/(expense) (net) represented a gain of EUR 2.6 million, compared with a loss of EUR 4.3 million recorded in 2011. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The year-on-year change resulted from the development of the CZK/EUR FX rate and from the subsequent unrealized FX changes related to the revaluation of the balance sheet items denominated in EUR (bank debt and inter-company loans). In the fourth quarter of 2012, foreign exchange losses and other financial expenses (net) reached EUR 1.7 million, a yoy decrease of 71.0%.

Interest expenses (net) related to debt servicing amounted to EUR 4.6 million in 2012, a 8.3% increase compared with 2011. The increase in interest expenses was caused by the increased draw down of the loan facility in connection with the financing of the production expansion of the Company. In the fourth quarter of 2012, interest expenses (net) reached EUR 1.1 million, down by 3.8% yoy. A part of the interest expenses connected with the construction of the production plant in Egypt is capitalised in the acquisition price of the investment.

Corporate income tax

In 2012, income tax expense amounted to EUR 3.6 million, down by 15.6% compared to 2011. Current tax payable amounted to EUR 3.2 million, while changes in deferred tax represented an expense of EUR 0.4 million.

In the fourth quarter of 2012, income tax declined by 73.2% yoy to EUR 0.7 million. In this period, tax payable amounted to EUR 0.5 million; the change in deferred tax was EUR 0.2 million.

The year-on-year comparison was both on an annual basis as well as for the fourth quarter itself, affected by the high negative change in deferred tax in the last quarter of 2011 due to the inclusion of the new production in assets.

Net profit

In 2012, net profit amounted to EUR 20.9 million, up by 49.8% yoy, primarily due to FX changes in the compared periods. In the fourth quarter of 2012, the Company recorded a net profit in the amount of EUR 3.2 million compared with a loss of EUR 2.3 million achieved in the same period in 2011.

CAPEX and Investments

In 2012, total consolidated capital expenditure amounted to EUR 37.3 million, a 10.3% yoy decrease. Capital expenditures related to the construction of the Egyptian production plant represented EUR 19.9 million of this amount. Final payments for the already commissioned ninth production line added up to EUR 13.1 million and maintenance CAPEX was EUR 4.3 million. The Company, therefore, did not exceed its updated estimate of capital expenditures for 2012, which expected the maximum level of EUR 40 million. In the fourth quarter of 2012, total consolidated capital expenditures decreased by 82.4% to EUR 2.8 million.

At the beginning of 2012, the Company estimated that total capital expenditures would not exceed EUR 46 million (at the constant exchange rate of CZK/EUR 24.50). Over the course of the year the breakdown of the payment schedule for investments into the construction of the Egyptian plant was clarified. In the third quarter financial results announcement, the Company provided guidance that total capital expenditures in 2012 would not exceed EUR 40 million.

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at 31 December, 2012 was EUR 151.7 million, a 20.7% increase compared with 31 December, 2011. Net debt as at 31 December, 2012 was EUR 125.9 million, up by 5.4% yoy. This is equivalent to a Net Debt/EBITDA ratio of 3.3x.

Business Overview in 2012

Last year the total production output (net of scrap) reached 86,056 tonnes, up by 17.2% compared with 2011. In the fourth quarter, the Company's production volume amounted to 22,388 tonnes, which is 14.1% more than in the same period in 2011. Operational performance in 2012 was affected by the launch of the new production line in Přímětice. The production volumes achieved in the last quarter were the highest in the Company's history.

In 2012, the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 87.6% share of total revenues, remaining more or less unchanged compared with an 87.5% share in 2011. The high share of products in this category confirms the important position the Company has in this market. In the fourth quarter of 2012, the share of revenues from sales of nonwoven textiles for the hygiene industry on total revenues was 88.9%, up by 2.9 percentage points compared with the same period in the previous year.

Revenues from sales of standard (commodity) textiles for hygiene products reached EUR 127.4 million in 2012, an increase of 12.9% yoy. In 2012, the share of revenues from sales of standard textiles for the hygiene industry represented a 67.8% share of total revenues, a slight decrease from the 68% share in 2011. In the fourth quarter of 2012, this share was 67.7%.

In 2012, the revenues from sales of light-weight and bi-component materials for the hygiene segment reached EUR 37.2 million, a 14.9% increase compared with 2011. The proportion of this product category to the total sales in 2012 amounted to 19.8%, a slight increase compared with a 19.5% share in 2011. Revenues from sales of non-hygiene products (for construction, agriculture and medical) amounted to EUR 23.2 million in 2012, an increase of 12.1% yoy. The share of sales of non-hygiene products of total revenues was 12.4% in 2012 and 11.1% in the fourth quarter of last year.

In terms of geographical distribution, the Company confirmed its steady sales focus on the broader European area. In 2012, revenues from sales to Western Europe amounted to EUR 86.8 million, which represented a 46.2% share of total revenues, compared with a 52.7% share in 2011. In this period revenues from sales to Central and Eastern Europe and Russia amounted to EUR 90.8 million and represented a 48.4% share of total revenues. In 2011 this share was 43.5%. Revenues from sales to other territories amounted to EUR 10.2 million and represented a 5.4% share of total revenues, compared with a 3.8% share in the previous year.

Investment in Egypt

The construction of the first production line is proceeding according to the demanding planned time schedule. At the beginning of this year, the gross assembly of the production technology was completed and the plant was connected to the power grid. In February, work began on the initial commissioning of the production line itself. The Company continues to expect the production line to be commissioned in the third quarter of this year.

The Company now expects that the total investment sum expended within the scope of the first phase of the project will be in the EUR 64 to 67 million range (at current exchange rate levels, and without including capitalised interest expenses).

In the first phase of the project, the value of the investment was initially planned in the range of EUR 55-60 million. During the construction of the first production line the Company took the decision to accelerate a part of the investment that was originally planned to be included later during the construction of the second production line. This acceleration was, to a significant degree, forced upon the Company by Egyptian legislation. The warehouse building and other auxiliary production areas were thereby extended also for the future needs of the planned second production line.

Also, in contrast to the original expectations, the greater demands for operating a production line in the specific North African environment necessitated an increase in the budget for the construction works and technologies.

2013 Guidance

In 2013, we expect production volumes to increase as a result of the Egyptian production line being commissioned.

The Company's production capacity has been sold out. On the back of the new capacity and the related need to create inventories at the Egyptian plant, there should be a slight increase in the level of inventories of finished products compared with the end of 2012.

Thanks to the successful commercialisation of new materials, PEGAS expects a more favourable product portfolio mix and an increase in the share of technologically advanced materials.

The new plant in Egypt should achieve a positive EBITDA.

Based on the above factors and information known to date, the Company expects EBITDA to grow in the range from 5% to 15% in 2013, compared with the level achieved in 2012 (EUR 38.1 million).

The Company estimates that in 2013 the total capital expenditure will not exceed EUR 41 million (at the constant exchange rate of CZK/EUR 25).

Appendix 1

Condensed Consolidated Statement of Comprehensive Income for the years 2012 and 2011

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

	2011 (audited)	**2012** (unaudited)	**% change**
Revenues	165,848	187,745	13.2%
Raw materials and consumables used	(122,018)	(140,964)	15.5%
Staff costs	(8,330)	(8,351)	0.3%
Other operating income/(expense) (net)	566	(318)	n/a
EBITDA	**36,066**	**38,112**	**5.7%**
EBITDA margin	***21.7%***	***20.3%***	**(1.4 pp)**
Depreciation and amortization expense	(9,213)	(11,570)	25.6%
Profit from operations	**26,853**	**26,542**	**(1.2%)**
FX gains and other financial income	10,168	12,857	26.4%
FX losses and other financial expenses	(14,481)	(10,220)	(29.4%)
Interest income	24	3	(87.5%)
Interest expense	(4,281)	(4,614)	7.8%
Profit before tax	**18,283**	**24,568**	**34.4%**
Income tax – (expense)/income net	(4,317)	(3,644)	(15.6%)
Net profit after tax	**13,966**	**20,924**	**49.8%**
Other comprehensive income			
Other changes in equity	(620)	(2,683)	332.7%
Changes in translation reserves	(2,394)	2,180	n/a
Total comprehensive income for the period	**10,952**	**20,421**	86.5%
Net earnings per share			
Basic net earnings per share (EUR)	**1.51**	**2.27**	**50.3%**
Diluted net earnings per share (EUR)	**1.51**	**2.27**	**50.3%**

Appendix 2

Condensed Consolidated Statement of Comprehensive Income for the three months ended 31 December, 2012 and 31 December, 2011

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

	Three month period to		
	31 December, 2011 (unaudited)	**31 December, 2012** (unaudited)	**% change**
Revenues	39,595	47,586	20.2%
Raw materials and consumables used	(27,596)	(36,322)	31.6%
Staff costs	(2,253)	(1,956)	(13.2%)
Other operating income/(expense) (net)	269	(47)	n/a
EBITDA	**10,015**	**9,261**	**(7.5%)**
EBITDA margin	***25.3%***	***19.5%***	**(5.8 pp)**
Depreciation and amortization expense	(2,803)	(2,550)	(9.0%)
Profit from operations	**7,212**	**6,711**	**(6.9%)**
FX gains and other financial income	3,441	106	(96.9%)
FX losses and other financial expenses	(9,247)	(1,791)	(80.6%)
Interest income	7	1	(85.7%)
Interest expense	(1,176)	(1,126)	(4.3%)
Profit before tax	**237**	**3,901**	**1,546.0%**
Income tax – (expense)/income net	(2,521)	(675)	(73.2%)
Net profit after tax	**(2,284)**	**3,226**	**n/a**
Other comprehensive income			
Other changes in equity	(899)	(28)	(96.9%)
Changes in translation reserves	(3,539)	(2,139)	(39.6%)
Total comprehensive income for the period	**(6,722)**	**1,059**	**n/a**
Net earnings per share			
Basic net earnings per share (EUR)	**(0.25)**	**0.35**	**n/a**
Diluted net earnings per share (EUR)	**(0.25)**	**0.35**	**n/a**

Appendix 3

Condensed Consolidated Statement of Financial Position as at 31 December, 2012 and 31 December, 2011

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

	31 December 2011 (audited)	31 December, 2012 (unaudited)
Assets		
Non-current assets		
Property, plant and equipment	151,826	191,226
Long term intangible assets	452	700
Goodwill	89,927	92,288
Total non-current assets	**242,205**	**284,214**
Current assets		
Inventories	17,624	20,448
Trade and other receivables	36,866	43,803
Cash and cash equivalents	6,248	25,758
Total current assets	**60,738**	**90,009**
Total assets	**302,943**	**374,223**
Total equity and liabilities		
Share capital and reserves		
Share capital	11,444	11,444
Share premium	--	--
Legal reserves	6,942	7,896
Translation reserves	4,244	6,424
Other changes in equity	(1,377)	(4,060)
Retained earnings	109,511	119,790
Total share capital and reserves	**130,764**	**141,494**
Non-current liabilities		
Bank loans	125,512	151,704
Other payables	55	--
Deferred tax liabilities	12,337	12,672
Total non-current liabilities	**137,904**	**164,376**
Current liabilities		
Trade and other payables	33,943	68,265
Tax liabilities	95	86
Bank current liabilities	226	--
Reserves	11	2
Total current liabilities	**34,275**	**68,353**
Total liabilities	**172,179**	**232,729**
Total equity and liabilities	**302,943**	**374,223**

Appendix 4

Condensed Consolidated Statement of Cash Flows for 2012 and 2011

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

	2011 (audited)	**2012** (unaudited)
Profit before tax	**18,283**	**24,568**
Adjustment for:		
Depreciation and amortization	9,213	11,570
Foreign exchange (gains)	(172)	1,622
Interest expense	4,281	4,614
Fair value changes of interest rate swaps	(765)	(3,313)
Other changes in equity	(620)	630
Other financial income/(expense)	(55)	1,092
Cash flows from operating activities		
Decrease/(increase) in inventories	(3,469)	(2,362)
Decrease/(increase) in receivables	(6,811)	(7,248)
Increase/(decrease) in payables	6,440	19,902
Income tax (paid) / received	(5,427)	(1,506)
Net cash from operating activities	**20,898**	**49,569**
Cash flows from investment activities		
Purchases of property, plant and equipment	(41,586)	(37,300)
Net cash flows from investment activities	**(41,586)**	**(37,300)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	34,910	22,292
Increase/(decrease) in long term payables	(48)	(55)
Distribution of dividends	(9,229)	(9,691)
Interest paid	(3,437)	(4,213)
Other financial income/(expense)	55	(1,092)
Net cash flows from financing activities	**22,251**	**7,241**
Cash and cash equivalents at the beginning of the period	4,685	6,248
Net increase (decrease) in cash and cash equivalents	1,563	19,510
Cash and cash equivalents at 31 December	**6,248**	**25,758**