PEGAS NONWOVENS SA

2013 Preliminary unaudited financial results

20 March 2014

PEGAS NONWOVENS SA announces its preliminary unaudited consolidated financial results for the fiscal year to 31 December 2013 prepared according to International Financial Reporting Standards (IFRS).

"In 2013, we achieved an EBITDA of EUR 38.6 million. After excluding the revaluation of the share option plan to fair value we have slightly exceeded the updated guidance that we announced in November last year. From a purely financial point of view, the year 2013 lagged slightly behind our original expectations, nevertheless, we are convinced that, to a significant degree, last year's results were impacted by an array of one-off factors, which should not reoccur. Notwithstanding, from a strategic perspective it was, in my opinion, one of the most successful year's in the company's history, where PEGAS made a truly momentous step forward.

Over the past several years and particularly in 2013, we expended tremendous effort and invested substantial resources into the company's development. We look toward the upcoming years with optimism and we believe that this effort will also manifest itself in our financial results. The primary prerequisite for achieving our goals is and always will be a satisfied customer and secured sales volumes. Therefore, we are pleased that the contracts negotiated with our customers again indicate the full utilisation of our production capacities. This is all the more important considering that, compared to 2013, we have substantially expanded our production capacity thanks to the new Egyptian production line. This facility was put into operation within the context of a challenging political and security environment in Egypt in line with the initially planned schedule and it is now delivering very encouraging operating results. Last year, we dedicated a great deal of attention and resources to the development of new materials, the successful commercialisation of which, will bring a change in our product portfolio mix. Taking into account also the contribution of these factors, we expect an improvement in the financial results in 2014 and a year-on-year EBITDA growth in the range between 12% and 22%.

In terms of both operating and financial results, 2014 should be a year of consolidation for PEGAS. We intend to focus particularly on eliminating the operating issues that we had to deal with last year. In Egypt, our objective is to achieve similar operating results as in the Czech Republic. Considering that we are not planning any demanding investment projects this year, we foresee a reduction of the Company's debt level and an improvement of its financial profile", said František Řezáč, CEO and Member of the Board of PEGAS NONWOVENS SA.

Overview of Financial Results

(EUR mil.)	January – December 2013		Fourth quarter October – December 2013	
		yoy		yoy
Revenues	199.2	6.1%	53.2	11.8%
Operating costs without depreciation and amortization	(160.7)	7.4%	(42.6)	11.2%
EBITDA	38.6	1.1%	10.6	14.3%
Depreciation and amortization	(13.1)	13.0%	(3.8)	48.8%
Profit from operations (EBIT)	25.5	(4.0%)	6.8	1.3%
FX gains/(losses) and other financial income/(expense) (net)	(14.9)	n/a	(11.7)	595.3%
Interest expense (net)	(6.5)	40.3%	(2.0)	82.0%
Income tax – (expense)/income net	(2.7)	(25.2%)	(0.6)	(8.9%)
Net profit	1.4	(93.3%)	(7.6)	n/a
Capital expenditure	38.3	2.7%	2.0	(28.9%)
Number of employees (end of period)	574	27.3%	574	27.3%
No. of employees during period (average)	549	25.6%	577	29.4%
Net debt	149.3	18.6%	149.3	18.6%
Production output (in tonnes)	90,961	5.7%	25,060	11.9%
Average CZK/EUR exchange rate during period	25.974	3.3%	26.657	5.9%
End of period CZK/EUR exchange rate	27.425	9.1%	27.425	9.1%

Consolidated Financial Results

Revenues, Costs and EBITDA

In 2013, consolidated revenues (revenues from sales of the Company's products) reached EUR 199.2 million, up by 6.1% yoy. In the fourth quarter of 2013, consolidated revenues reached EUR 53.2 million, up by 11.8% yoy. The year-on-year growth in revenues was the result increased sales levels related to the start of production on the new Egyptian production line. The development in the price of polymers did not have a significant effect on the year-on-year comparison.

In 2013, total consolidated operating costs without depreciation and amortization (net) increased by 7.4% yoy to EUR 160.7 million. In the fourth quarter of 2013, the total consolidated operating costs without depreciation and amortization reached EUR 42.6 million, an increase of 11.2% yoy. The main factor impacting the growth of operating costs was the increased consumption of raw materials and the growth of staff costs related to the ramp-up of the Egyptian production line.

In 2013, EBITDA amounted to EUR 38.6 million, up by 1.1% yoy. The year-on-year comparison was positively affected by the raw material price pass-through mechanism and a weaker CZK/EUR exchange rate. On the other hand, the comparison was negatively impacted by lower than planned production results and the revaluation of the share option plan to fair value. After excluding costs related to the revaluation of the share option plan to fair value in the amount of EUR 0.8 million, the 2013 result is slightly higher than the updated guidance announced in November last year, where the Company indicated an EBITDA level between EUR 37 and 39 million.

In the fourth quarter of 2013, EBITDA reached EUR 10.6 million, up by 14.3% yoy. The increase in the indicator resulted from the positive effect of the raw material price pass-through mechanism, the weaker CZK/EUR exchange rate and the gradual ramp-up of production in Egypt. However, lower than planned production results and the effect of the revaluation of the share option plan to fair value weighed down the growth of this indicator.

In 2013, the EBITDA margin was at a level of 19.4%, which is 0.9 percentage points lower compared with 2012. In the fourth quarter of 2013, the EBITDA margin was 19.9%, up by 0.4 percentage points yoy.

Operating Costs

Total raw materials and consumables used last year amounted to EUR 150.6 million, a 6.9% yoy increase. In the fourth quarter of 2013, total raw materials and consumables used reached EUR 40.7 million, up by 12.1% over the same period in 2012. The main factor was the increased raw material consumption connected with the ramp-up of the Egyptian production line.

In 2013, total staff costs reached EUR 10.2 million, up by 21.9% yoy. The revaluation of the share option plan to fair value and the growth in the number of employees in connection with the new production plant in Egypt significantly contributed to the growth in staff costs. In 2013, total staff costs denominated in local currencies, i.e. in Czech crowns and Egyptian pounds without the revaluation of the share option plan increased by 11.8% in connection with the increase in the number of employees needed for the new production line in Egypt and the indexation of wages.

In the fourth quarter of 2013, staff costs reached EUR 2.3 million, up by 19.5% yoy. The main negative effect on the year-on-year comparison was the revaluation of the share option plan, which was dampened by the positive effect of the weakening CZK/EUR exchange rate.

Other operating income (net) reached EUR 0.2 million in 2013, compared with an expense of EUR 0.3 million in 2012. In the fourth quarter of 2013, this item amounted to an income of EUR 0.4 million.

Depreciation and Amortization

In 2013, consolidated depreciation and amortization reached EUR 13.1 million, up by 13.0% yoy. In the fourth quarter of 2013, total consolidated depreciation and amortization amounted to EUR 3.8 million, up by 48.8% compared to the same period in 2012. The increase in depreciation and amortization was caused by the inclusion of the new production line in Egypt into the depreciable assets.

Profit from Operations

In 2013, profit from operations (EBIT) amounted to EUR 25.5 million, down by 4.0% compared with 2012, affected by an increase in depreciation and amortization. In the fourth quarter of 2013, profit from operations (EBIT) increased by 1.3% to EUR 6.8 million. In the fourth quarter, profit from operations was affected by an increase in EBITDA and conversely negatively impacted by an increase in depreciation and amortization.

Financial Income and Costs

In 2013, foreign exchange changes and other financial income/expense (net) represented a loss of EUR 14.9 million, compared with a gain of EUR 2.6 million achieved in 2012. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The year-on-year change of this item resulted from 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 fourth quarter of 2013, foreign exchange losses and other financial expenses (net) reached EUR 11.7 million, a yoy increase of 595.3%, primarily a result of the significant weakening of the CZK against the EUR in the final months of 2013.

Interest expenses (net) related to debt servicing amounted to EUR 6.5 million in 2013, a 40.3% increase compared with 2012. The increase in interest expenses was caused by an increased draw down of the loan facility in connection with the financing of the construction of the new production facility in Egypt. 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 past. In the fourth quarter of 2013, interest expenses (net) reached EUR 2.0 million, up by 82.0% yoy.

Income Tax

In 2013, income tax expense amounted to EUR 2.7 million, down by 25.2% compared with 2012. Current income tax amounted to EUR 1.3 million and was greatly affected by unrealised foreign exchange differences. Change in deferred tax represented an expense of EUR 1.4 million, primarily resulting from the Egyptian production line being put into operation.

In the fourth quarter of 2013, income tax declined by 8.9% yoy to EUR 0.6 million. In this period, current income tax amounted to a gain of EUR 0.4 million; the change in deferred tax represented a cost of EUR 1.0 million.

Net Profit

In 2013, net profit amounted to EUR 1.4 million, down by 93.3% yoy, primarily due to the negative effect of FX changes in the compared periods and higher interest costs. In the fourth quarter of 2013, the Company recorded a net loss in the amount of EUR 7.6 million compared with a profit of EUR 3.2 million achieved in the same period in 2012. This was primarily the result of the weakened CZK/EUR foreign exchange rate and the subsequent revaluation of Euro-denominated balance sheet items.

CAPEX and Investments

In 2013, total consolidated capital expenditure amounted to EUR 38.3 million, a 2.7% yoy increase. Capital expenditures related to the construction of the Egyptian production plant represented EUR 34.2 million of this amount, up by 71.8% yoy. Maintenance CAPEX constituted EUR 4.1 million, down by 4% compared with the previous year. The Company, therefore, did not exceed its estimate of capital expenditures for 2013, which expected the maximum level of EUR 41 million. In the fourth quarter of 2013, total consolidated capital expenditures decreased by 28.9% to EUR 2.0 million.

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at 31 December 2013 was EUR 162.4 million, a 7.0% increase compared with 31 December, 2012. Net debt as at 31 December, 2013 was EUR 149.3 million, up by 18.6% yoy. This is equivalent to a Net Debt/EBITDA ratio of 3.87x.

Business Overview of 2013

Last year, the total production output (net of scrap) reached 90,961 tonnes, up by 5.7% compared with 2012. In the fourth quarter, the Company's production volume amounted to 25,060 tonnes, which is 11.9% more than in the same period in 2012. Operating performance in 2013 was affected by the launch of the new production line in Egypt. The production volumes achieved in the last quarter were the highest in the Company's history.

In 2013, the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 89.0% share of total revenues compared with an 87.6% share in 2012. The high share of products in this category confirms the important position the Company has in this market. In the fourth quarter of 2013, the share of revenues from sales of nonwoven textiles for the hygiene industry on total revenues was 90.4%, a slight increase compared to the 88.9% share achieved in the same period in 2012.

Revenues from sales of standard (commodity) textiles for hygiene products reached EUR 121.8 million in 2013, a decrease of 4.4% yoy. In 2013, the share of revenues from sales of standard textiles for the hygiene industry represented a 61.1% share of total revenues, a decrease from the 67.8% share in 2012. In the fourth quarter of 2013, this share was 57.0%.

In 2013, the revenues from sales of light-weight and bi-component materials for the hygiene segment reached EUR 55.4 million, a 49.1% increase compared with 2012. The proportion of this product category to the total sales in 2013 amounted to 27.9%, a substantial increase compared with a 19.8% share in 2012. Revenues from sales of non-hygiene products (for construction, agriculture and medicine) amounted to EUR 22.0 million in 2013, a decrease of 5.2% yoy. The share of sales of non-hygiene products of total revenues was 11.0% in 2013 and 9.6% 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 2013, revenues from sales to Western Europe amounted to EUR 72.7 million, which represented a 36.5% share of total revenues, compared with a 46.2% share in 2012. In this period revenues from sales to Central and Eastern Europe and Russia amounted to EUR 100.9 million and represented a 50.6% share of total revenues. In 2012 this share was 48.4%. Revenues from sales to other territories amounted to EUR 25.6 million, up by 152.4% yoy. This represented an 12.9% share of total revenues compared to a 5.4% share in the previous year and also here the sales volumes coming from the new Egyptian production plant started to have an impact.

Investment in Egypt

The new production line in Egypt successfully completed the demanding testing and qualification process and at the beginning of January 2014 went into standard commercial operation. During the course of this year, the production line's technology will continue to be optimised with the objective of achieving maximum efficiency and productivity.

Guidance for 2014

In 2014, thanks to the new production capacity in Egypt, we expect an increase in production of more than 10%.

On the basis of agreements with customers, this year's production capacity should be sold out. With respect to the transition of the Egyptian production line to full operation mode at the beginning of 2014, a slight increase in inventories of finished products is expected relative to the levels at the end of 2013.

Thanks to the successful commercialisation of new materials, PEGAS expects a change in the product portfolio mix and an increase in the share of technologically advanced materials compared with 2013.

Based on the above factors and information known to date, the Company expects EBITDA to grow in the range from 12% to 22% in 2014, compared with the level 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).

Appendix 1

Condensed Consolidated Statement of Comprehensive Income for the years 2013 and 2012

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

	2012 (audited)	**2013** (unaudited)	**% change**
Revenues	187,745	199,210	6.1%
Raw materials and consumables used	(140,964)	(150,634)	6.9%
Staff costs	(8,351)	(10,179)	21.9%
Other operating income/(expense) (net)	(318)	153	n/a
EBITDA	**38,112**	**38,550**	**1.1%**
EBITDA margin	***20.3%***	***19.4%***	**(0.9 pp)**
Depreciation and amortization expense	(11,570)	(13,079)	13.0%
Profit from operations	**26,542**	**25,471**	**(4.0%)**
FX gains and other financial income	12,875	13,338	3.6%
FX losses and other financial expenses	(10,238)	(28,205)	175.5%
Interest income	3	3	0%
Interest expense	(4,614)	(6,470)	40.2%
Profit before tax	**24,568**	**4,137**	**(83.2%)**
Income tax – (expense)/income net	(3,644)	(2,726)	(25.2%)
Net profit after tax	**20,924**	**1,411**	**(93.3%)**
Other comprehensive income			
Other changes in equity	(2,683)	1,149	n/a
Changes in translation reserves	2,180	(8,730)	n/a
Total comprehensive income for the period	**20,421**	**(6,170)**	**n/a**
Net earnings per share			
Basic net earnings per share (EUR)	**2.27**	**0.15**	**(93.3%)**
Diluted net earnings per share (EUR)	**2.27**	**0.15**	**(93.3%)**

Appendix 2

Condensed Consolidated Statement of Comprehensive Income for the three months ended 31 December 2013 and 31 December 2012

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

	Three month period ending		
	31 December 2012 (unaudited)	**31 December 2013** (unaudited)	**% change**
Revenues	47,586	53,219	11.8%
Raw materials and consumables used	(36,322)	(40,731)	12.1%
Staff costs	(1,956)	(2,338)	19.5%
Other operating income/(expense) (net)	(47)	440	n/a
EBITDA	**9,261**	**10,590**	**14.3%**
EBITDA margin	***19.5%***	***19.9%***	**0.4 pp**
Depreciation and amortization expense	(2,550)	(3,794)	48.8%
Profit from operations	**6,711**	**6,796**	**1.3%**
FX gains and other financial income	106	7,156	6,650.9%
FX losses and other financial expenses	(1,791)	(18,872)	953.7%
Interest income	1	0	--
Interest expense	(1,126)	(2,047)	81.8%
Profit before tax	**3,901**	**(6,967)**	**n/a**
Income tax – (expense)/income net	(675)	(615)	(8.9%)
Net profit after tax	**3,226**	**(7,582)**	**n/a**
Other comprehensive income			
Other changes in equity	(28)	578	n/a
Changes in translation reserves	(2,139)	(6,939)	224.4%
Total comprehensive income for the period	**1,059**	**(13,943)**	**n/a**
Net earnings per share			
Basic net earnings per share (EUR)	**0.35**	**(0.82)**	**n/a**
Diluted net earnings per share (EUR)	**0.35**	**(0.82)**	**n/a**

Appendix 3

Condensed Consolidated Statement of Financial Position as at 31 December 2013 and 31 December 2012

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

	31 December 2012 (audited)	31 December 2013 (unaudited)
Assets		
Non-current assets		
Property, plant and equipment	191,226	181,584
Long term intangible assets	700	586
Goodwill	92,288	84,599
Total non-current assets	**284,214**	**266,769**
Current assets		
Inventories	20,448	32,618
Trade and other receivables	43,803	38,925
Tax assets	--	5,367
Cash and cash equivalents	25,758	13,063
Total current assets	**90,009**	**89,973**
Total assets	**374,223**	**356,742**
Total equity and liabilities		
Share capital and reserves		
Share capital	11,444	11,444
Share premium	--	--
Legal reserves	7,896	8,733
Translation reserves	6,424	(2,306)
Other changes in equity	(4,060)	(2,911)
Retained earnings	119,790	110,670
Total share capital and reserves	**141,494**	**125,630**
Non-current liabilities		
Bank loans	151,704	146,200
Deferred tax liabilities	12,672	13,126
Total non-current liabilities	**164,376**	**159,326**
Current liabilities		
Trade and other payables	66,693	56,492
Tax liabilities	1,658	1,094
Bank current liabilities	--	14,200
Reserves	2	--
Total current liabilities	**68,353**	**71,786**
Total liabilities	**232,729**	**231,112**
Total equity and liabilities	**374,223**	**356,742**

Appendix 4

Condensed Consolidated Statement of Cash Flows for 2013 and 2012

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

	2012 (audited)	2013 (unaudited)
Profit before tax	**24,568**	**4,137**
Adjustment for:		
Depreciation and Amortization	11,570	13,079
Foreign exchange gains/losses	1,622	(12,190)
Interest expense	4,614	6,470
Other changes in equity	(2,683)	1,149
Other financial income/(expense)	1,092	4,824
Cash flows from operating activities		
Decrease/(increase) in inventories	(2,362)	(10,730)
Decrease/(increase) in receivables	(7,248)	(8,650)
Increase/(decrease) in payables	19,902	28,291
Income tax (paid) / received	(1,506)	(2,474)
Net cash from operating activities	**49,569**	**23,906**
Cash flows from investment activities		
Purchases of property, plant and equipment	(37,300)	(38,301)
Net cash flows from investment activities	**(37,300)**	**(38,301)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	22,292	22,540
Increase/(decrease) in long term payables	(55)	--
Distribution of dividends	(9,691)	(9,691)
Interest paid	(4,213)	(6,325)
Other financial income/(expense)	(1,092)	(4,824)
Cash flows from financing activities	**7,241**	**1,700**
Cash and cash equivalents at the beginning of the period	6,248	25,758
Net increase (decrease) in cash and cash equivalents	19,510	(12,695)
Cash and cash equivalents as at 31 December	**25,758**	**13,063**