PEGAS NONWOVENS SA

2011 Preliminary unaudited financial results

15 March, 2012

PEGAS NONWOVENS SA announces its preliminary unaudited consolidated financial results for the fiscal year ended 31 December 2011, prepared according to International Financial Reporting Standards (IFRS).

"The financial results for 2011 met our expectations. We were successful in achieving the full year EBITDA guidance announced at the beginning of last year, despite slowing demand on the European nonwoven textile market in the last quarter of the year and expenses connected to the new production plant project in Egypt.

Apart from delivering solid results, we consider 2011 as a successful year in terms of the long term perspective. At the end of last year, we successfully launched into full operation a new production line at our Znojmo plant. The new line, which is PEGAS' most technologically advanced yet, will strengthen our position as the technological leader in the nonwoven textile industry. A historical watershed moment in the Company's development was the decision to proceed with international expansion. The project for the construction of a production plant in Egypt is the first step in the implementation of this strategy. We are pleased that this project is proceeding according to schedule and without any major issues. The expansion of production capacities must go hand in hand with ensuring sales volumes. Customer satisfaction with our products is the fundamental condition in this respect and so we deeply value receiving once again the prestigious Procter & Gamble's "Business Partner of the Year" award for 2011. We are convinced that these positive steps and events will bear fruit and will form the foundation for the Company's successful development in the future.

In 2012, our objective is to stabilise our current production base and optimise the operation of our newest production line so that we are well prepared for 2013, when we plan to launch our first Egyptian production line", said František Řezáč, member of the Board of Directors of PEGAS NONWOVENS SA and CEO of PEGAS NONWOVENS s.r.o.

PEGAS NONWOVENS every single detail

Overview of Financial Results

(mil. EUR)	Jan – Dec 2011		Q4 Oct – Dec 2011	
		yoy		yoy
Revenues	165.8	11.9%	39.6	1.8%
Operating costs without depreciation and amortization	(129.8)	14.9%	(29.6)	1.4%
EBITDA	36.1	2.4%	10.0	3.0%
Depreciation and amortization	(9.2)	(43.7%)	(2.8)	(30.3%)
Profit from operations (EBIT)	26.9	42.3%	7.2	26.6%
FX gains/(losses) and other financial income/(expense) (net)	(4.3)	n/a	(5.8)	230.3%
Interest expense (net)	(4.3)	29.6%	(1.2)	43.4%
Income tax – (expense)/income net	(4.3)	402.6%	(2.5)	(878.1%)
Net profit	14.0	(33.6%)	(2.3)	n/a
Capital expenditure	41.6	407.5%	15.9	538.7%
Number of employees (end of period)	424	10.4%	424	10.4%
No. of employees during period (average)	414	8.9%	422	11.1%
Net Debt	119.5	30.5%	119.5	30.5%
Production output (in tonnes)	73,412	4.6%	19,628	10.1%
Average CZK/EUR exchange rate during period	24.586	(2.8%)	25.279	2.0%
End of period CZK/EUR exchange rate	25.800	3.0%	25.800	3.0%

Consolidated Financial Results

Revenues, Costs and EBITDA

In 2011 consolidated revenues (revenues from sales of the Company's products) reached EUR 165.8 million, up by 11.9% yoy. A key role in the development of revenues was played by the continued growth in polymer price indices (particularly in the first half of the year), which in 2011 rose by 10% compared with the 2010 average. The new production line that was put into operation in the third quarter of last year also contributed to the increase in revenues. In the fourth quarter of 2011 consolidated revenues reached EUR 39.6 million, up by 1.8% yoy. Due to the lower sales in the given period, the higher production volumes connected with the launch of the ninth production line in Přímětice were not fully translated into the Company's revenues. The polymer price level in the fourth quarter of 2011 was similar to the same period in 2010.

In 2011 Total consolidated operating costs without depreciation and amortization (net) increased by 14.9% yoy to EUR 129.8 million. The main reason for the increase in operating costs was the growth in polymer price indices described above. In the fourth quarter of 2011, the total consolidated operating costs without depreciation and amortization reached EUR 29.6 million, an increase of 1.4% yoy.

In 2011, EBITDA amounted to EUR 36.1 million, up by 2.4% 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 2% to 7%. The year on year EBITDA increase was achieved namely due to the launch of the new production line. The decline in polymer prices recorded in the second half of the year compensated for their growth in the first half and on an annualised basis the effect of the price pass-through mechanism was positive. The achieved EBITDA is at the lower end of the guidance range as it was impacted by a slowdown in demand in the European nonwoven textile market in the last quarter of the year and the costs connected to the new production plant project in Egypt. In 2011 these costs amounted to EUR 0.3 million.

In the fourth quarter of 2011, EBITDA reached EUR 10.0 million, up by 3.0% yoy. The achieved EBITDA in the fourth quarter of 2011 is primarily affected by the launch of the new production line and the positive effect of the price pass-through mechanism.

In 2011, the EBITDA margin was 21.7%, which is 2.1 percentage points lower compared with 2010. In the fourth quarter of 2011 the EBITDA margin was 25.3%, up by 0.3 percentage points yoy.

Operating Costs

Total raw materials and consumables used in 2011 amounted to EUR 122.0 million, a 15.4% yoy increase. The main factor affecting the increase in consumables was the growth in polymer prices and an increased consumption of input materials in connection with the new production line. In the fourth quarter of 2011 total raw materials and consumables used reached EUR 27.6 million, up by 3.1% over the same period in 2010. Polymer prices did not grow in the last quarter of the year and they remained at a level similar to the fourth quarter of 2010.

Total staff costs reached EUR 8.3 million in 2011, up by 4.2% yoy. The annual increase in staff costs was primarily the result of the recruitment of employees for the new production line. Total staff costs for the same period expressed in CZK and without the revaluation of the share option plan grew by 5.5% yoy.

In the fourth quarter of 2011 staff costs reached EUR 2.3 million, down by 2.8% yoy. The year on year comparison was affected by the depreciation of CZK against the EUR, the positive revaluation of the share option plan and lower accrual for bonus remunerations based on achieved financial results.

Other operating income (net) amounted to EUR 0.6 million in 2011, down by 24.9% yoy. In the fourth quarter of 2011 this item amounted to EUR 0.3 million.

Depreciation and amortization

Consolidated depreciation and amortization reached EUR 9.2 million in 2011, down by 43.7% yoy. In 2011 the Company performed an analysis of the useful lifetime of property, plant and equipment. Based on this assessment the Company decided to prolong the residual estimated useful lifetime of production technology. This change is effective as of January 1, 2011. Therefore, the amortization and depreciation amount cannot be compared year on year. In the fourth quarter of 2011, total consolidated depreciation and amortization amounted to EUR 2.8 million, down by 30.3% compared with the same period in 2010. The inclusion of the new production line into the depreciable assets of the Company is already reflected in this quarter's Depreciation and amortization.

Profit from Operations

In 2011 profit from operations (EBIT) amounted to EUR 26.9 million, up by 42.3% compared with 2010. In the fourth quarter of 2011 profit from operations (EBIT) increased by 26.6% to EUR 7.2 million. On a year on year basis the profit from operations was significantly affected by lower depreciation and amortization.

Financial Income and Costs

In 2011 foreign exchange changes and other financial income/(expense) (net) represented a loss of EUR 4.3 million, compared with a gain of EUR 6.3 million achieved in 2010. 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. In the fourth quarter of 2011 foreign exchange losses and other financial expenses (net) reached EUR 5.8 million, a yoy increase of 230.3%.

Interest expenses (net) related to debt servicing amounted to EUR 4.3 million in 2011, a 29.6% increase compared with 2010. The increase in interest expenses is connected to the refinancing of external debt and the subsequent write down of the remaining part of the arrangement fee for the previous bank loan. The year on year increase was also caused by the increase in the interest margin of the new loan facility and the increased draw down of the loan. In the fourth quarter of 2011 interest expenses (net) reached EUR 1.2 million, up by 43.4% yoy.

Income Tax

In 2011 income tax expense amounted to EUR 4.3 million, up by 402.6% over 2010. The Company recorded income tax because of changes in deferred tax resulting from the inclusion of the new production line into the depreciable assets and also due to the expiry of investment incentives for the subsidiary PEGAS - DS a.s., which ceased to exist following its merger with PEGAS NONWOVENS s.r.o. on 1 October 2011. Current tax payable amounted to EUR 2.1 million, while changes in deferred tax were EUR 2.2 million.

In the fourth quarter of 2011 income tax amounted to EUR 2.5 million due a significant increase in deferred tax resulting from the inclusion of the new production line into the depreciable assets of the Company. Changes in deferred tax, which does not affect the cash position of the Company, amounted to EUR 2.5 million, while tax payable in this period was negligible.

Net profit

In 2011 net profit amounted to EUR 14.0 million, down by 33.6% yoy, primarily due to FX changes in the compared periods and higher income tax. In the fourth quarter of 2011 the Company recorded a net loss in the amount of EUR 2.3 million compared with a profit of EUR 3.4 million achieved in the same period in 2010. The negative result was caused by high unrealized foreign exchange losses and an increase in deferred tax.

CAPEX and Investments

In 2011 total consolidated capital expenditure amounted to EUR 41.6 million representing a 407.5% yoy increase. Maintenance capital expenditure amounted to EUR 3.4 million and expenses for the construction of new production capacities amounted to EUR 38.2 million. The higher capital expenditures in this year were connected to the project for the construction of the new production facility in the Czech Republic and the construction of the plant in Egypt. The Company met its revised investment expenditure estimate, which totalled EUR 42 million. In the fourth quarter of 2011 total consolidated capital expenditures increased by 538.7% to EUR 15.9 million.

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at 31 December, 2011 was EUR 125.7 million, a 30.7% increase compared with 31 December, 2010. Net debt as at 31 December, 2011 was EUR 119.5 million, up by 30.5% yoy. This is equivalent to a Net Debt/EBITDA ratio of 3.3x.

Business Overview in 2011

In 2011, total production output (net of scrap) reached 73,412 tonnes, up by 4.6% compared with 2010. In the fourth quarter, the Company's production volume amounted to 19,628 tonnes, which is 10.1% more than in the same period in 2010. Operational performance in 2011 was affected by the launch of the new production line in Přímětice.

In 2011, the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 87.5% share of total revenues, remaining more or less unchanged compared with an 87.7% share in 2010. The high share of products in this category confirms the important position the Company has in this market. In the fourth quarter of 2011 the share of revenues from sales of nonwoven textiles for the hygiene industry on total revenues was 86.0%, down by 2.0 percentage points compared with the same period last year.

Revenues from sales of standard (commodity) textiles for hygiene products reached EUR 112.8 million in 2011, an increase of 13.4% yoy. In 2011 the share of revenues from sales of standard textiles for the hygiene industry represented a 68.0% share of total revenues, an increase from the 67.1% share in 2010. In the fourth quarter of 2011 this share was 66.7%.

In 2011, the revenues from sales of light-weight and bi-component materials for the hygiene segment reached EUR 32.4 million, a 6.1% yoy increase. The proportion of this product category to the total sales in 2011 amounted to 19.5%, a slight decline compared with a 20.6% share in 2010. Revenues from sales of non-hygiene products (for construction, agriculture and medicine) amounted to EUR 20.7 million in 2011, an increase of 13.9% yoy. The share of sales of non-hygiene products of total revenues was 12.5% in 2011 and 14.0% 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 2011 revenues from sales to Western Europe amounted to EUR 87.5 million, which represented a 52.7% share of total revenues, compared with a 58.0% share in 2010. In this period revenues from sales to Central and Eastern Europe and Russia amounted to EUR 72.1 million and represented a 43.5% share of total revenues. In 2010 this share was 38.3%. Revenues from sales to other territories amounted to EUR 6.2 million and represented a 3.8% share of total revenues, compared with a 3.7% share in the previous year.

2012 Guidance

In 2012 the ramp up of the new production line that was put into operation in the second half of last year will demonstrate its full effect. PEGAS expects an approximately 20% annual increase in production.

Due to the slowdown in market demand at the end of 2011, the Company increased its inventory of finished goods. During the course of the first quarter of this year this market situation has persisted and the inventories will continue to increase. Based on present knowledge and indications from customers, the Company believes that it will be able to reduce its inventories in the second half of the year.

PEGAS will continue to rely on its production efficiency, which partially reduces and compensates for the impact of pricing pressures from customers.

The expenses connected with the construction of the production line in Egypt will reduce the operating profitability of the Company in 2012 by approximately EUR 1 million.

Based on the above factors and information known to date, the Company expects 2012 EBITDA to grow in the range from 5% to 15% compared with the level achieved in 2011 (EUR 36.1 million).

In the short term, operating results may be affected by the developments in polymer prices. The Company expects continuing volatility in the polymer price level, which will affect profitability in the individual quarters of 2012. In contrast to the end of 2011, price indices are currently experiencing significant growth.

The Company estimates that in 2012 the total capital expenditure will not exceed EUR 46 million (at the constant exchange rate of CZK/EUR 24.50).

Appendix 1

Condensed Consolidated Statement of Comprehensive Income for the years 2011 and 2010

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

	2010 (audited)	2011 (unaudited)	% change
Revenues	148,150	165,848	11.9%
Raw materials and consumables used	(105,690)	(122,018)	15.4%
Staff costs	(7,996)	(8,330)	4.2%
Other operating income/(expense) (net)	754	566	(24.9%)
EBITDA	**35,218**	**36,066**	**2.4%**
EBITDA margin	***23.8%***	***21.7%***	**(2.1 pp)**
Depreciation and amortization expense	(16,353)	(9,213)	(43.7%)
Profit from operations	**18,865**	**26,853**	**42.3%**
FX gains and other financial income	11,302	10,168	(10.0%)
FX losses and other financial expenses	(4,985)	(14,481)	190.5%
Interest income	16	24	50.0%
Interest expense	(3,300)	(4,281)	29.7%
Profit before tax	**21,898**	**18,283**	**(16.5%)**
Income tax – (expense)/income net	(859)	(4,317)	402.6%
Net profit after tax	**21,039**	**13,966**	**(33.6%)**
Other comprehensive income			
Other changes in equity	(938)	(620)	(33.9%)
Changes in translation reserves	4,435	(2,394)	(154.0%)
Total comprehensive income for the period	**24,536**	**10,952**	**(55.4%)**
Net earnings per share			
Basic net earnings per share (EUR)	**2.28**	**1.51**	**(33.8%)**
Diluted net earnings per share (EUR)	**2.28**	**1.51**	**(33.8%)**

Appendix 2

Condensed Consolidated Statement of Comprehensive Income for the three months ended 31 December, 2011 and 31 December, 2010

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

	Three month period to		
	31 December, 2010 (unaudited)	**31 December, 2011** (unaudited)	**% change**
Revenues	38,883	39,595	1.8%
Raw materials and consumables used	(26,756)	(27,596)	3.1%
Staff costs	(2,318)	(2,253)	(2.8%)
Other operating income/(expense) (net)	(87)	269	n/a
EBITDA	**9,722**	**10,015**	**3.0%**
EBITDA margin	***25.0%***	***25.3%***	**0.3 pp**
Depreciation and amortization expense	(4,024)	(2,803)	(30.3%)
Profit from operations	**5,698**	**7,212**	**26.6%**
FX gains and other financial income	(619)	3,441	(656.0%)
FX losses and other financial expenses	(1,139)	(9,248)	711.9%
Interest income	8	7	(12.5%)
Interest expense	(823)	(1,176)	42.8%
Profit before tax	**3,125**	**237**	**(92.4%)**
Income tax – (expense)/income net	324	(2,521)	n/a
Net profit after tax	**3,449**	**(2,284)**	**n/a**
Other comprehensive income			
Other changes in equity	308	(899)	n/a
Changes in translation reserves	(1,802)	(3,539)	96.4%
Total comprehensive income for the period	**1,955**	**(6,722)**	**n/a**
Net earnings per share			
Basic net earnings per share (EUR)	**0.37**	**(0.25)**	
Diluted net earnings per share (EUR)	**0.37**	**(0.25)**	

Appendix 3

Condensed Consolidated Statement of Financial Position as at 31 December, 2011 and 31 December, 2010

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

	31 December, 2010 (audited)	31 December, 2011 (unaudited)
Assets		
Non-current assets		
Property, plant and equipment	107,713	151,826
Long term intangible assets	219	452
Goodwill	92,583	89,927
Total non-current assets	**200,515**	**242,205**
Current assets		
Inventories	14,741	17,624
Trade and other receivables	31,280	36,866
Cash and cash equivalents	4,685	6,248
Total current assets	**50,706**	**60,738**
Total assets	**251,221**	**302,943**
Total equity and liabilities		
Share capital and reserves		
Share capital	11,444	11,444
Share premium	9,078	--
Legal reserves	6,034	6,942
Translation reserves	6,638	4,244
Other changes in equity	(757)	(1,377)
Retained earnings	96,604	109,511
Total share capital and reserves	**129,041**	**130,764**
Non-current liabilities		
Bank loans	95,450	125,512
Other payables	103	55
Deferred tax liabilities	10,686	12,337
Total non-current liabilities	**106,239**	**137,904**
Current liabilities		
Trade and other payables	13,419	33,943
Tax liabilities	1,734	95
Bank current liabilities	788	226
Provisions	--	11
Total current liabilities	**15,941**	**34,275**
Total liabilities	**122,180**	**172,179**
Total equity and liabilities	**251,221**	**302,943**

Appendix 4

Condensed Consolidated Statement of Cash Flows for 2011 and 2010

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

	2010 (audited)	**2011** (unaudited)
Profit before tax	**21,898**	**18,283**
Adjustment for:		
Depreciation and amortization	16,353	9,213
Foreign exchange (gains)	(2,095)	(172)
Interest expense	3,300	4,281
Fair value changes of interest rate swaps	(1,162)	(765)
Other changes in equity	(938)	(620)
Other financial income/(expense)	8	(55)
Cash flows from operating activities		
Decrease/(increase) in inventories	(320)	(3,469)
Decrease/(increase) in receivables	(4,511)	(6,811)
Increase/(decrease) in payables	(1,680)	6,440
Income tax paid	(1,358)	(5,427)
Net cash from operating activities	**29,495**	**20,898**
Cash flows from investment activities		
Purchases of property, plant and equipment	(8,194)	(41,586)
Net cash flows from investment activities	**(8,194)**	**(41,586)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	(5,657)	34,910
Increase/(decrease) in long term payables	76	(48)
Distribution of dividends	(8,768)	(9,229)
Interest paid	(2,732)	(3,437)
Other financial income/(expense)	(8)	55
Net cash flows from financing activities	**(17,089)**	**22,251**
Cash and cash equivalents at the beginning of the period	473	4,685
Net increase (decrease) in cash and cash equivalents	4,212	1,563
Cash and cash equivalents at 31 December	**4,685**	**6,248**