# PEGAS NONWOVENS SA

# First quarter of 2011 unaudited consolidated financial results

May 26, 2011

**PEGAS NONWOVENS SA announces its unaudited consolidated financial results for the first quarter of 2011 to March 31, 2011 prepared according to International Financial Reporting Standards (IFRS).**

*"In the first quarter of this year, the Company achieved an EBITDA of EUR 8.3 million. We consider the achieved results as positive, especially considering the fact that prices of polymers, the main input raw materials, again increased significantly to reach all-time record levels. Despite our very good sales performance and our consistent efforts in increasing production efficiency, we were unable to fully mitigate the negative effect of this price increase on our financial results. Although it is not possible to predict the future development of polymer prices, we are currently registering signs of stabilisation and the trend of significant price increases should not continue throughout the remainder of this year. The second quarter of this year will continue to be affected by the polymer price development from the first quarter; however, we believe that we will, at least to a certain extent, be able to eliminate this factor, thus, confirming our previous guidance for this year.*

*Currently, we are fully focused on operational matters, namely the successful commencement of the new production line, which will be launched in the third quarter. Our increased production capacity should then support the financial results of the second half of this year," said František Řezáč, member of the Board of Directors of PEGAS NONWOVENS SA and CEO of PEGAS NONWOVENS s.r.o.*

## Overview of Financial Results

| (mil. EUR) | First quarter<br>January – March 2011 | |
|---|---|---|
| | | yoy |
| Revenues | 41.0 | 19.2% |
| Operating costs without depreciation and amortization | (32.8) | 28.2% |
| EBITDA | 8.3 | (6.6%) |
| Depreciation and amortization | (2.1) | (48.1%) |
| Profit from operations (EBIT) | 6.1 | 28.9% |
| FX changes and other financial income/(expense) (net) | 2.2 | (48.8%) |
| Interest expense (net) | (0.8) | (3.5%) |
| Income tax – (expense)/income net | (1.2) | 78.7% |
| Net profit | 6.4 | (16.5%) |
| Capital expenditure | 14.7 | 199.9% |
| Number of employees (end of period) | 406 | 5.5% |
| No. of employees during period (average) | 397 | 3.4% |
| Net Debt | 98.0 | 1.4% |
| Production output (in tonnes) | 17,302 | 2.7% |
| Average CZK/EUR exchange rate during period | 24.375 | (5.8%) |
| End of period CZK/EUR exchange rate | 24.540 | (3.6%) |

*Consolidated Financial Results*

## Revenues, Costs and EBITDA

In the first quarter of 2011 consolidated revenues (revenues from sales of the Company's products) reached EUR 41.0 million, up by 19.2% yoy. The year-on-year growth was primarily the result of the increase in polymer prices, which after a moderate short term decline in the second half of last year again started to show significant growth in the first quarter of 2011. When compared to the average prices in the first quarter of 2010, polymer prices rose by almost 30% yoy.

Total consolidated operating costs without depreciation and amortization (net) went up by 28.2% yoy to EUR 32.8 million in the first quarter of 2011. The primary reason for this increase was the growth in the polymer price indices.

In the first quarter of 2011, EBITDA amounted to EUR 8.3 million, down by 6.6% yoy. The decline in EBITDA is primarily the result of the negative effect of the raw material price pass-through mechanism and the increase in staff costs expressed in EUR.

In the first quarter of 2011 the EBITDA margin was 20.1%, which is 5.6 percentage points lower compared with the same period in 2010.

## Operating Costs

Total raw materials and consumables used in the first quarter of 2011 amounted to EUR 30.6 million, a 27.8% yoy increase. The main factor was the increase in the purchase prices of polypropylene and polyethylene.

Total staff costs went up by 13.9% yoy to EUR 2.0 million in the first quarter of 2011. The year on year growth in staff costs expressed in EUR resulted from the appreciation of the CZK against the EUR in the compared periods. Total staff costs denominated in CZK, excluding the share option plan, increased by 10.4% due to an increased number of employees needed for the new production line and the indexation of wages.

Other operating expenses (net) reached EUR 0.1 million in the first quarter of 2011 compared to an income of EUR 0.2 million in the same period in 2010.

## Depreciation and amortization

Consolidated depreciation and amortization reached EUR 2.1 million in the first quarter of 2011, down by 48.1% yoy. In 2011 the Company finalised the 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 depreciation and amortization amount cannot be compared year on year. The prolongation of the estimated useful lifetime will cause the depreciation and amortization expense to decrease in 2011 by approximately EUR 6.7 million.

## Profit from Operations

In the first quarter of 2011 profit from operations (EBIT) amounted to EUR 6.1 million, an increase of 28.9% yoy compared to the same period in 2010. This resulted primarily from the above mentioned changes to the depreciation and amortization of property, plant and equipment.

## Financial Income and Costs

In the first quarter of 2011 FX changes and other financial income/(expense) (net) amounted to EUR 2.2 million, down by 48.8% compared to the same period in the previous year. This item includes realized and unrealized FX gains and losses and other financial income and expenses. The year on year change of this item 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 (particularly bank debt and inter-company loans).

Interest expenses (net) related to debt servicing amounted to EUR 0.8 million in the first quarter of 2011, a 3.5% decrease compared with the first quarter of 2010. The stable level of interest expenses is the result of a similar size of the Company's net debt in the compared periods.

## Income Tax

In the first quarter of 2011 income tax expense amounted to EUR 1.2 million, up by 78.7% over the first quarter of 2010. The total amount represents the current tax payable; changes in deferred tax were negligible in the first quarter of this year.

## Net profit

Net profit reached EUR 6.4 million in the first quarter of 2011, down by 16.5% yoy. The factors affecting the yoy decline in the net profit were primarily lower FX gains and a higher income tax, while lower depreciation and amortization had a positive effect.

## CAPEX and Investments

In the first quarter of 2011 total consolidated capital expenditures amounted to EUR 14.7 million, up by 199.9% over the previous year. Higher capital expenditures in this year are primarily connected with the construction of the new production facility.

## Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at March 31, 2011 was EUR 101.7 million, a 5.0% increase compared with March 31, 2010. The amount of net debt as at March 31, 2011 was EUR 98.0 million, up by 1.4% yoy. This is equivalent to a Net Debt/EBITDA ratio of 2.8x as at March 31, 2011.

## *Business overview for the first quarter of 2011*

In the first quarter of 2011, the total production output (net of scrap) reached 17,302 tonnes, up by 2.7 % compared with the first quarter of 2010.

In the first quarter of 2011, the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 86.5% share of total revenues, which represents a slight decrease compared with an 87.2% share in the first quarter 2010. The high share of products in this category confirms the important position the Company has in this market. Revenues from sales of standard (commodity) textiles for hygiene products reached EUR 27.3 million in the first quarter of 2011, an increase of 15.6% compared to the first quarter of 2010. In the first quarter of 2011 the share of revenues from sales of standard textiles for the hygiene industry represented a 66.6% share of total revenues, a decrease from the 68.8% share in the first quarter of 2010. In the first quarter of 2011, the revenues from sales of light-weight and bi-component materials reached EUR 8.2 million, a 28.9% increase compared to the first quarter of 2010. The proportion of this product category to the total sales in the first quarter of 2011 amounted to 19.9%, compared with an 18.4% share in the first quarter of the previous year.

Revenues from sales of non-hygiene products (for construction, agriculture and the medical industry) amounted to EUR 5.5 million in the first quarter 2011, representing an increase of 24.9% yoy. The proportion of sales of non-hygiene products to the total sales in the first quarter of 2011 amounted to 13.5%, compared with a 12.8% share in the first quarter of 2010.

The geographical distribution[1] of its markets, confirms the Company's steady focus on sales to the broader European area. In the first quarter of 2011 revenues from sales to Western Europe amounted to EUR 22.7 million, which represented a 55.3% share of total revenues, compared with a 60.1% share in the same period in 2010. In this period revenues from sales to Central and Eastern Europe and Russia amounted to EUR 16.9 million and represented a 41.1% share of total revenues compared to a 35% share in the first quarter of 2010. Revenues from sales to other territories amounted to EUR 1.5 million and represented a 3.6% share of total revenues, compared with a 4.9% share in the first quarter of 2010.

[1] Geographical distribution is determined by the product delivery location.

***Confirmation of Guidance for 2011***

In the first quarter of 2011 the Company achieved financial results that are in line with its expectations and with the announced guidance for the entire year 2011.

The financial results depend on a number of factors which are not fully controlled by the Company. In the short term, operating results may be affected by the developments in polymer prices. The continuing growth in polymer prices will also have an effect on the profitability of the Company in the second quarter of 2011.

Based on the results achieved in the first quarter of 2011 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 2011 and expects EBITDA to grow between 2% and 7% in 2011 compared to the result achieved in 2010.

# Interim Unaudited Consolidated Financial Statements of PEGAS NONWOVENS SA for the three months ended March 31, 2011

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

Unaudited statements prepared in accordance with the International Financial Reporting Standards (IFRS) and the IAS 34 Accounting Standards as adopted by the European Union
(in thousands of EUR)

| | Three month period to | | |
|---|---|---|---|
| | **March 31, 2010 (unaudited)** | **March 31, 2011 (unaudited)** | **% change** |
| Revenues | 34,399 | 41,017 | 19.2% |
| Raw materials and consumables used | (23,987) | (30,644) | 27.8% |
| Staff costs | (1,786) | (2,034) | 13.9% |
| Other operating income/(expense) (net) | 211 | (84) | n/a |
| **EBITDA** | **8,837** | **8,255** | **(6.6%)** |
| Depreciation and amortization expense | (4,074) | (2,114) | (48.1%) |
| **Profit from operations** | **4,763** | **6,141** | **28.9%** |
| FX gains and other financial income | 6,770 | 4,608 | (31.9%) |
| FX losses and other financial expenses | (2,394) | (2,368) | (1.1%) |
| Interest income | -- | 9 | n/a |
| Interest expense | (808) | (789) | (2.4%) |
| **Profit before tax** | **8,331** | **7,601** | **(8.8%)** |
| Income tax – (expense)/income net | (681) | (1,217) | 78.7% |
| **Net profit after tax** | **7,650** | **6,384** | **(16.5%)** |
| **Other comprehensive income** | | | |
| Net value gain/(loss) on cash flow hedges | (1,123) | 649 | n/a |
| Changes in translation reserves | 3,301 | 2,027 | (38.6%) |
| **Total comprehensive income for the period** | **9,828** | **9,060** | **(7.8%)** |
| **Net earnings per share** | | | |
| Basic net earnings per share (EUR) | **0.83** | **0.69** | **(16.9%)** |
| Diluted net earnings per share (EUR) | **0.83** | **0.69** | **(16.9%)** |

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

Unaudited financial statements prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union

(in thousands of EUR)

| | March 31, 2010 (unaudited) | December 31, 2010 (audited) | March 31, 2011 (unaudited) |
|---|---|---|---|
| **Assets** | | | |
| ***Non-current assets*** | | | |
| Property, plant and equipment | 114,073 | 107,713 | 123,823 |
| Intangible assets | 205 | 219 | 218 |
| Goodwill | 91,182 | 92,583 | 94,545 |
| **Total non-current assets** | **205,460** | **200,515** | **218,586** |
| ***Current assets*** | | | |
| Inventories | 12,528 | 14,741 | 16,385 |
| Trade and other receivables | 26,395 | 31,280 | 31,853 |
| Cash a cash equivalents | 217 | 4,685 | 3,693 |
| **Total current assets** | **39,140** | **50,706** | **51,931** |
| **Total assets** | **244,600** | **251,221** | **270,517** |
| **Total equity and liabilities** | | | |
| ***Share capital and reserves*** | | | |
| Share capital | 11,444 | 11,444 | 11,444 |
| Share premium | 17,846 | 9,078 | 9,078 |
| Legal reserves | 4,396 | 6,034 | 6,034 |
| Translation reserves | 5,504 | 6,638 | 8,665 |
| Cash flow hedging | (942) | (757) | (108) |
| Retained earnings | 84,853 | 96,604 | 102,988 |
| **Total share capital and reserves** | **123,101** | **129,041** | **138,101** |
| ***Non-current liabilities*** | | | |
| Bank loans | 95,881 | 95,450 | 95,543 |
| Other payables | 33 | 103 | 125 |
| Deferred tax liabilities | 11,357 | 10,686 | 11,067 |
| **Total non-current liabilities** | **107,271** | **106,239** | **106,735** |
| ***Current liabilities*** | | | |
| Trade and other payables | 11,247 | 13,419 | 17,482 |
| Tax liabilities | 2,004 | 1,734 | 2,021 |
| Bank current liabilities | 977 | 788 | 6,178 |
| ***Total current liabilities*** | **14,228** | **15,941** | **25,681** |
| **Total liabilities** | **121,499** | **122,180** | **132,416** |
| **Total equity and liabilities** | **244,600** | **251,221** | **270,517** |

## *Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2010 and March 31, 2011*

Unaudited financial statements prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union

(in thousands of EUR)

| | Three month period to | |
|---|---|---|
| | **March 31, 2010 (unaudited)** | **March 31, 2011 (unaudited)** |
| **Profit before tax** | **8,331** | **7,601** |
| *Adjustment for:* | | |
| Depreciation and amortization | 4,074 | 2,114 |
| Foreign exchange changes | (3,532) | (784) |
| Interest expense | 808 | 789 |
| Fair value changes of interest rate swaps | (1,123) | 649 |
| Other financial income/(expense) | 10 | (48) |
| ***Cash flows from operating activities*** | | |
| Decrease/(increase) in inventories | 1,643 | (1,053) |
| Decrease/(increase) in receivables | (406) | (198) |
| Increase/(decrease) in payables | (1,404) | 2,600 |
| Income tax paid | (3) | (907) |
| ***Cash from operating activities*** | **8,398** | **10,763** |
| ***Net cash flows from investment activities*** | | |
| Purchases of property, plant and equipment | (4,894) | (14,677) |
| ***Net cash flows from investment activities*** | **(4,894)** | **(14,677)** |
| ***Cash flows from financing activities*** | | |
| Increase/(decrease) in bank loans | (3,142) | 3,345 |
| Increase/(decrease) in long term debt | 6 | 22 |
| Interest paid | (614) | (493) |
| Other financial income/(expense) | (10) | 48 |
| ***Net cash flows from financing activities*** | **(3,760)** | **2,922** |
| **Cash and cash equivalents at the beginning of the period** | **473** | **4,685** |
| **Net increase/(decrease) in cash and cash equivalents** | **(256)** | **(992)** |
| **Cash and cash equivalents as at March 31** | **217** | **3,693** |

## Condensed Consolidated Statement of Changes in Equity as at March 31, 2010 and as at March 31, 2011

Unaudited financial statements prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union
(in thousands of EUR)

| | Share capital | Share premium | Legal reserves | Cash flow hedging | Translation reserves | Retained earnings | **Total equity attributable to equity holders of the Company** | Minority Interests | **Total Equity** |
|---|---|---|---|---|---|---|---|---|---|
| **as at January 1, 2010** | **11,444** | **17,846** | **4,396** | **181** | **2,203** | **77,203** | **113,273** | **--** | **113,273** |
| Distribution | -- | -- | -- | -- | -- | -- | **--** | -- | **--** |
| Other comprehensive income for the period | -- | -- | -- | (1,123) | 3,301 | -- | **2,178** | -- | **2,178** |
| Net profit for the period | -- | -- | -- | -- | -- | 7,650 | **7,650** | -- | **7,650** |
| Legal reserves created from retained earnings | -- | -- | -- | -- | -- | -- | **--** | -- | **--** |
| **as at March 31, 2010** | **11,444** | **17,846** | **4,396** | **(942)** | **5,504** | **84,853** | **123,101** | **--** | **123,101** |
| **as at January 1, 2011** | **11,444** | **9,078** | **6,034** | **(757)** | **6,638** | **96,604** | **129,041** | **--** | **129,041** |
| Distribution | -- | -- | -- | -- | -- | -- | **--** | -- | **--** |
| Other comprehensive income for the period | -- | -- | -- | 649 | 2,027 | -- | **2,676** | -- | **2,676** |
| Net profit for the period | -- | -- | -- | -- | -- | 6,384 | **6,384** | -- | **6,384** |
| Legal reserves created from retained earnings | -- | -- | -- | -- | -- | -- | **--** | -- | **--** |
| **as at March 31, 2011** | **11,444** | **9,078** | **6,034** | **(108)** | **8,665** | **102,988** | **138,101** | **--** | **138,101** |

## *Selected Explanatory Notes to the Interim Consolidated Financial Statements for the Three Month Period Ending March 31, 2011*

Prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union.

### *a. Basis of preparation*

These financial statements were prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 for interim financial reporting as adopted by the European Union. The condensed interim financial statements do not include all the information and disclosures required in annual financial statements. This interim report was not audited by the Company´s external auditors.

### *b. 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 December 31, 2010.

### *c. 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.

### *d. Unusual items given their size, nature or frequency*

In the first quarter of 2011 consolidated revenues (revenues from sales of the Company's products) reached EUR 41,017 thousand, up by 19.2% yoy. The year-on-year growth was primarily the result of the increase in polymer prices, which after a moderate short term decline in the second half of last year again started to show significant growth in the first quarter of 2011. When compared to the average prices in the first quarter of 2010, polymer prices rose by almost 30% yoy.

In the first quarter of 2011, EBITDA amounted to EUR 8,255 thousand, down by 6.6% yoy. The decline in EBITDA is primarily the result of the negative effect of the raw material price pass-through mechanism and the increase in staff costs expressed in EUR.

In the first three months of 2011 FX gains and other financial income amounted to EUR 4,608 thousand and FX losses and other financial expenses amounted to EUR 2,368 thousand. These items represent realized and unrealized FX gains/losses and other financial income and expenses. The year on year change of these items 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 (particularly bank debt and inter-company loans).

In the first quarter of 2011 total consolidated capital expenditures amounted to EUR 14,677 thousand, up by 199.9% over the previous year. Higher capital expenditures in this year are primarily connected to the construction of the new production facility.

*e. 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 that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

There were no material changes in nature or amount of changes in estimates of amounts reported in previous financial statements.

*f. Repurchases and repayments of debt and equity securities*

The bank facilities used by PEGAS Group consist of a revolving credit facility of up to EUR 130 million and of a non-syndicated overdraft facility of up to EUR 20 million. The facilities are non-amortizing, which removes from the Company its obligations to make mandatory repayments. During the first three months of 2011 the Company increased bank indebtedness from EUR 96,238 thousand to EUR 101,721 thousand (from EUR 96,083 thousand to EUR 96,858 thousand in the first three months of 2010). The Company did not conclude any new bank facilities in the first quarter of 2011.

In the first three months of 2011 the Company did not make any repurchases or repayments of equity securities.

*g. Dividend*

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

*h. 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.

*i. Material events subsequent to the end of the interim period*

The management of the Group is not aware of any events that occurred subsequent to the end of the interim period, which would have a significant effect on the consolidated financial statements as at March 31, 2011.

*j. 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.

*k. Earnings per share*

Earnings per Share (EPS) are calculated as net profit for the period attributable to equity holders of the Company divided by the weighted average of the number of shares existing each day in the given period.

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 by the effect of the expected issue of all potential diluted securities, i.e. the effect of convertible loan notes in the case of the Group. Convertible bonds are the bonds with a right to convert to ordinary shares.

The basic and diluted earnings per share for all periods are equal due to the fact, that the Group does not have any agreement at the balance sheet date which will cause a potential future issue of securities. No changes to the number of shares occurred during either first three months of 2011 or in the first three months of 2010.

***Weighted average number of ordinary shares***

***2010***

| | Number of outstanding shares | Weighted average |
|---|---|---|
| January – March | 9,229,400 | 9,229,400 |

***2011***

| | Number of outstanding shares | Weighted average |
|---|---|---|
| January – March | 9,229,400 | 9,229,400 |

### *Basic earnings per share*

| | | Three months ended | |
|---|---|---|---|
| | | **31/3/2010** | **31/3/2011** |
| Net profit attributable to equity holders | TEUR | 7,650 | 6,384 |
| Weighted average number of ordinary shares | number | 9,229,400 | 9,229,400 |
| **Basic earnings per share** | **EUR** | **0.83** | **0.69** |

### *Diluted earnings per share*

| | | Three months ended | |
|---|---|---|---|
| | | **31/3/2010** | **31/3/2011** |
| Net profit attributable to equity holders | TEUR | 7,650 | 6,384 |
| Weighted average number of ordinary shares | number | 9,229,400 | 9,229,400 |
| **Diluted earnings per share** | **EUR** | **0.83** | **0.69** |

## *l. 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 2011.

## *m. Approval of the interim financial statements*

The interim financial statements were approved by the Company's Board of Directors on May 16, 2011.

**Marek Modecki**
**Chairman of the Board of Directors**
**PEGAS NONWOVENS SA**

**František Řezáč**
**Member of the Board of Directors**
**PEGAS NONWOVENS SA**