PEGAS NONWOVENS SA

2010 Preliminary unaudited financial results

March 17, 2011

PEGAS NONWOVENS SA announces its preliminary unaudited consolidated financial results for the fiscal year to December 31, 2010 prepared according to International Financial Reporting Standards (IFRS).

"We are pleased to announce strong financial results for the year 2010. We were successful in meeting the indicated guidance on EBITDA despite significant growth in raw material prices in the first half of the year, which affected the Company's operating profitability in the second quarter. We were able to significantly mitigate this negative impact through solid operating and sales performance and an emphasis on the efficiency of our operations.

We entered 2011 with our capacity fully sold out, including the expected capacity from the new production line, which will be put into operation during the course of the third quarter of 2011. The successful launch of the new production line remains one of our main priorities 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)	Jan – Dec 2010		Q4 Oct – Dec 2010	
		yoy		yoy
Revenues	148.2	20.0%	38.9	28.8%
Operating costs without depreciation and amortization	(112.9)	33.4%	(29.2)	31.4%
EBITDA	35.2	(9.2%)	9.7	21.6%
Amortization and depreciation	(16.4)	2.6%	(4.0)	(1.1%)
Profit from operations (EBIT)	18.9	(17.5%)	5.7	45.0%
FX changes and other financial income/ (expense) (net)	6.3	151.8%	(1.8)	(67.1%)
Interest expense (net)	(3.3)	(14.5%)	(0.8)	(10.4%)
Income tax (expense)/income	(0.9)	18.6%	0.3	(69.5%)
Net profit	21.0	1.1%	3.4	n/a
Capital expenditure	8.2	578.3%	2.5	277.9%
Number of employees (end of period)	384	0%	384	0%
No. of employees during period (average)	380	0%	380	0%
Net Debt	91.6	(4.2%)	91.6	(4.2%)
Production output (in tonnes)	70,182	1.0%	17,820	(0.2%)
Average CZK/EUR exchange rate during period	25.290	(4.4%)	24.786	(4.4%)
End of period CZK/EUR exchange rate	25.060	(5.3%)	25.060	(5.3%)

Consolidated Financial Results

Revenues, Costs and EBITDA

In 2010, consolidated revenues (revenues from sales of the Company's products) reached EUR 148.2 million, up by 20.0% yoy. The key role in the development of revenues was the rapid year on year growth in polymer prices indices, which in 2010 rose on average by almost 50%. In the fourth quarter of 2010, consolidated revenues reached EUR 38.9 million, which represents a growth of 28.8% compared with the same period in 2009. The revenue growth in the fourth quarter of the year was primarily the result of high polymer price index levels, but compared with the third quarter of 2010, they stabilised and quarter on quarter even showed a slight decline.

Total consolidated operating costs without depreciation and amortization went up by 33.4% yoy to EUR 112.9 million in 2010. In the fourth quarter of 2010, the total consolidated operating costs without depreciation and amortization reached EUR 29.2 million, an increase of 31.4% yoy. The primary reason for the increase in operating costs was the growth in polymer price indices.

In 2010, EBITDA amounted to EUR 35.2 million, down by 9.2% yoy. This result is in line with the guidance range announced at the beginning of the year, when the Company indicated an annual EBITDA decrease of 0% to 10%. The year on year comparison was affected by positive one-off items, which improved the financial results in 2009 and which could not be repeated in subsequent periods. On the other hand, profitability in 2010 was negatively impacted by the growth in raw material prices, nonetheless, this impact was largely compensated by the Company's solid operating and sales performance and the optimisation of raw material inventories. Excluding these factors in respective periods, EBITDA would not have shown any substantial changes. An important aspect affecting EBITDA in 2010 were one-off costs connected with the assessment of potential growth opportunities for the Company. These costs represented EUR 0.9 million, and the Company is continuing to work on some of these projects.

In the fourth quarter of 2010, EBITDA reached EUR 9.7 million, up by 21.6% yoy. The achievement of the very good EBITDA in the fourth quarter of 2010 is the result of strong production and sales performance and the positive effect of a delay in the polymer price pass-through mechanism. On the other hand, the mark-to-market revaluation of the share option plan increased staff costs and affected EBITDA negatively.

In 2010, the EBITDA margin was 23.8%, which is 7.6 percentage points lower compared with 2009. In the fourth quarter of 2010, the EBITDA margin was 25.0%, down by 1.5 percentage points yoy.

Operating Costs

Total raw materials and consumables used in 2010 amounted to EUR 105.7 million, a 36.3% yoy increase. In the fourth quarter of 2010, total raw materials and consumables used reached EUR 26.8 million, up by 31.0% over the same period in 2009. The main factor of the high material consumption was the increase in the prices of polypropylene and polyethylene. The prices of polymers in the last quarter of 2010 stopped increasing when compared with the third quarter of 2010 and registered a slight decline of single percentage points.

Total staff costs reached EUR 8.0 million in 2010, up by 5.9% yoy. The year on year increase in staff costs was caused namely by the appreciation of the CZK against the EUR in the reported periods. Total staff costs for the same period expressed in CZK and without the revaluation of the share option plan grew by 1.7% yoy. In the fourth quarter, of 2010 staff costs reached EUR 2.3 million, up by 28.8% yoy. This increase was fundamentally affected by the effect of the mark-to-market revaluation of the share option plan. Staff costs excluding the share option plan rose by 8.5%. Total staff costs expressed in CZK without the revaluation of the share option plan increased in the last quarter of the year by 3.8% yoy, namely due to the payout of extra bonuses to all employees for their contribution to the "Supplier of the Year" award received from a major customer.

Other operating income (net) amounted to EUR 0.8 million in 2010, up by 72.1% compared with 2009. In the fourth quarter of 2010, this item amounted to the expense of EUR 0.1 million.

Amortization and depreciation

Consolidated depreciation and amortization reached EUR 16.4 million in 2010, up by 2.6% yoy. The increase in depreciation and amortization was the result of the CZK appreciating against the EUR, which affected the presentation of this category in EUR. In the fourth quarter of 2010, total consolidated depreciation and amortization amounted to EUR 4.0 million, down by 1.1% yoy.

Profit from Operations

In 2010, profit from operations (EBIT) amounted to EUR 18.9 million, down by 17.5% compared with 2009. In the fourth quarter of 2010, profit from operations (EBIT) increased by 45% to EUR 5.7 million.

Financial Income and Costs

FX gains and other financial income (net) reached EUR 6.3 million and, compared with the previous year, grew by 151.8%. 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 2010, foreign exchange losses and other financial expenses (net) reached EUR 1.8 million, a yoy decrease of 67.1%.

Interest expenses (net) related to debt servicing amounted to EUR 3.3 million in 2010, a 14.5% decrease compared with 2009. The main reasons for this drop were declining interest rates in the compared periods and the gradual repayment of the Company's external debt. In the fourth quarter of 2010, interest expenses (net) reached EUR 0.8 million, down by 10.4% yoy.

Income Tax

In 2010 income tax expense amounted to EUR 0.9 million, up by 18.6% over 2009. The Company reported income tax due to unrealized FX gains (resulting mainly from the revaluation of the bank debt and the inter-company loan) and based on the operating profit recorded by PEGAS NONWOVENS s.r.o. The current tax payable was EUR 2.1 million, while changes in deferred tax represented an income of EUR 1.2 million.

In the fourth quarter of 2010, income tax amounted to a positive amount of EUR 0.3 million, a decrease of 69.5% over 2009 primarily on the back of the FX losses in the compared periods.

Net profit

In 2010, net profit amounted to EUR 21.0 million, up by 1.1% yoy, primarily due to FX changes in the compared periods (including their impact on income tax) and lower interest costs. In the fourth quarter of 2010, the Company recorded a net profit of EUR 3.4 million, compared with a loss of EUR 1.3 million in the same period in the previous year primarily due to higher operating profitability and lower FX losses.

CAPEX and Investments

In 2010, total consolidated capital expenditure amounted to EUR 8.2 million, a 578.3% yoy increase. Maintenance capital expenditure amounted to EUR 2.1 million and expansion capital expenditure amounted to EUR 6.1 million. The Company did not exceed its planned investment expenditure from the beginning of the year, which represented EUR 9 million. Higher capital expenditure in 2010 represented namely expenditure into the construction of the new production facility. In the fourth quarter of 2010, total consolidated capital expenditure increased by 277.9% to EUR 2.5 million.

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at December 31, 2010 was EUR 96.2 million, a 0.2% increase compared with December 31, 2009. Net debt as at December 31, 2010 was EUR 91.6 million, down by 4.2% yoy. This is equivalent to a Net Debt/EBITDA ratio of 2.6x. In October 2010, the Company paid out a dividend of almost EUR 8.8 million, or EUR 0.95 per share.

Business Overview in 2010

In 2010, the total production output (net of scrap) reached 70,182 tonnes, up by 1.0% compared with 2009. In the fourth quarter of 2010, the Company produced a total of 17,820 tonnes, which is 0.2% less than in the same period in 2009. The operational performance in 2010 was achieved through a focus on efficiency, maximum utilisation of production capacities and through the optimisation of the number of maintenance breaks.

In 2010, the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 87.7% share of total revenues, a slight decrease compared with an 89.0% share in 2009. The high share of products in this category confirms the important position the Company has in this market. In the fourth quarter of 2010, the share of revenues from sales of nonwoven textiles for the hygiene industry of total revenues was 88.0%, down by 1.3 percentage points compared with the same period in the previous year.

Revenues from sales of standard (commodity) textiles for hygiene products reached EUR 99.5 million in 2010, an increase of 16.7% yoy. In 2010, the share of revenues from sales of standard textiles for the hygiene industry represented a 67.1% share of total revenues, a decrease from the 69.1% share in 2009. In the fourth quarter of 2010, this share was 68.4%.

In 2010, the revenues from sales of light-weight and bi-component materials for the hygiene segment reached EUR 30.5 million, a 24.1% yoy increase. The proportion of this product category to the total sales in 2010 amounted to 20.6%, a slight increase compared with a 19.9% share in 2009. Revenues from sales of non-hygiene products (for construction, agriculture and medical) amounted to EUR 18.2 million in 2010, an increase of 33.4% yoy. The share of sales of non-hygiene products of total revenues was 12.3% in 2010 and 12.0% in the fourth quarter of 2010.

In terms of geographical distribution, the Company confirmed its steady sales focus on the broader European area. In 2010, revenues from sales to Western Europe amounted to EUR 85.9 million, which represented a 58.0% share of total revenues, compared with a 61.0% share in 2009. In this period, revenues from sales to Central and Eastern Europe and Russia amounted to EUR 56.8 million and represented a 38.3% share of total revenues. In 2009 this share was 35.1%. Revenues from sales to other territories amounted to EUR 5.5 million and represented a 3.7% share of total revenues, compared with a 3.9% share in the previous year.

2011 Guidance

The Company entered 2011 with its production capacity sold out, and this included the expected capacity from the new production line, once more demonstrating its ability to succeed in the highly competitive nonwovens textile market.

During sales negotiations for 2011, the Company registered a pressure on prices, however, the situation was not as difficult as in the years 2008 and 2009. PEGAS continues to rely on its production efficiency, which partially reduces and balances the impact on profitability.

A significant moment during this year will be the launch of the new production line with production expected to be rolled out in the third quarter.

Based on the above factors and information known to date, the Company expects 2011 EBITDA to grow in the range from 2% to 7% compared with the level achieved in 2010.

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 Company expects continuing volatility in the polymer price level, which will affect profitability in the individual quarters of 2011. In contrast to the end of 2010, price indices are currently experiencing significant growth.

The Company estimates that in 2011 the total capital expenditure related to the new production line project, together with the maintenance CAPEX, will not exceed EUR 32 million (at the constant exchange rate of CZK/EUR 24.50).

Appendix 1

Condensed Consolidated Statement of Comprehensive Income for the years 2010 and 2009

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

	2009 (audited)	**2010** (unaudited)	**% change**
Revenues	123,447	148,150	20.0%
Raw materials and consumables used	(77,543)	(105,690)	36.3%
Staff costs	(7,551)	(7,996)	5.9%
Other operating income/(expense) (net)	438	754	72.1%
EBITDA	**38,791**	**35,218**	**(9.2%)**
EBITDA margin	***31.4%***	***23.8%***	**(7.6 pp)**
Depreciation and amortization expense	(15,934)	(16,353)	2.6%
Profit from operations	**22,857**	**18,865**	**(17.5%)**
FX gains and other financial income	8,649	11,302	30.7%
FX losses and other financial expenses	(6,140)	(4,985)	(18.8%)
Interest income	10	16	60.0%
Interest expense	(3,850)	(3,300)	(14.3%)
Profit for the period before tax	**21,526**	**21,898**	**1.7%**
Income tax – (expense)/income net	(724)	(859)	18.6%
Net profit after tax	**20,802**	**21,039**	**1.1%**
Other comprehensive income			
Other changes in equity	181	(938)	n/a
Changes in translation reserves	1,417	4,435	213.0%
Total comprehensive income for the period	**22,400**	**24,536**	**9.5%**
Net earnings per share			
Basic net earnings per share (EUR)	**2.25**	**2.28**	
Diluted net earnings per share (EUR)	**2.25**	**2.28**	

Appendix 2

Condensed Consolidated Statement of Comprehensive Income for the three months ended December 31, 2010 and December 31, 2009

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

	Three month period to		
	December 31, 2009 (unaudited)	**December 31, 2010** (unaudited)	**% change**
Revenues	30,194	38,883	28.8%
Raw materials and consumables used	(20,418)	(26,756)	31.0%
Staff costs	(1,800)	(2,318)	28.8%
Other operating income/(expense) (net)	22	(87)	n/a
EBITDA	**7,998**	**9,722**	**21.6%**
EBITDA margin	***26.5%***	***25.0%***	**(1.5 pp)**
Depreciation and amortization expense	(4,067)	(4,024)	(1.1%)
Profit from operations	**3,931**	**5,698**	**45.0%**
FX gains and other financial income	(4,261)	(619)	(85.5%)
FX losses and other financial expenses	(1,087)	(1,139)	4.8%
Interest income	1	8	n/a
Interest expense	(911)	(823)	(9.7%)
Profit for the period before tax	**(2,327)**	**3,125**	**n/a**
Income tax – (expense)/income net	1,063	324	(69.5%)
Net profit after tax	**(1,264)**	**3,449**	**n/a**
Other comprehensive income			
Other changes in equity	181	308	70.2%
Changes in translation reserves	(4,308)	(1,802)	(58.2%)
Total comprehensive income for the period	**(5,391)**	**1,955**	**n/a**
Net earnings per share			
Basic net earnings per share (EUR)	**(0.14)**	**0.37**	
Diluted net earnings per share(EUR)	**(0.14)**	**0.37**	

Appendix 3

Condensed Consolidated Statement of the financial position as at December 31, 2010 and December 31, 2009

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

	December 31, 2009 (audited)	**December 31, 2010** (unaudited)
Assets		
Non-current assets		
Property, plant and equipment	108,865	107,713
Intangible assets	206	219
Goodwill	87,668	92,583
Total non-current assets	**196,739**	**200,515**
Current assets		
Inventories	13,652	14,741
Trade and other payables	24,983	31,280
Cash a cash equivalents	473	4,685
Total current assets	**39,108**	**50,706**
Total assets	**235,847**	**251,221**
Total equity and liabilities		
Share capital and reserves		
Share capital	11,444	11,444
Share premium	17,846	9,078
Legal reserves	4,396	6,034
Translation reserves	2,203	6,638
Other changes in equity	181	(757)
Retained earnings	77,203	96,604
Total share capital and reserves	**113,273**	**129,041**
Non-current liabilities		
Bank loans	82,614	95,365
Other payables	27	103
Deferred tax liabilities	11,471	10,686
Total non-current liabilities	**94,112**	**106,154**
Current liabilities		
Trade and other payables	13,879	13,419
Tax liabilities	1,016	1,734
Bank current liabilities	13,469	873
Provisions	98	--
Total current liabilities	**28,462**	**16,026**
Total liabilities	**122,574**	**122,180**
Total equity and liabilities	**235,847**	**251,221**

Appendix 4

Condensed Consolidated Statement of Cash Flows for the years 2010 and 2009

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

	2009 (audited)	**2010** (unaudited)
Profit before tax	**21,526**	**21,898**
Adjustment for:		
Amortization and depreciation	15,934	16,353
Foreign exchange changes	(216)	(2,095)
Interest expense	3,850	3,300
Fair value changes of interest rate swaps	(515)	(1,162)
Other changes in equity	181	(938)
Other financial income/(expense)	(66)	8
Cash flows from operating activities		
Decrease/(increase) in inventories	(698)	(320)
Decrease/(increase) in receivables	2,561	(4,511)
Increase/(decrease) in payables	(2,532)	(1,680)
Income tax paid	649	(1,358)
Net cash from operating activities	**40,674**	**29,495**
Net cash flows from investment activities		
Purchases of property, plant and equipment	(1,208)	(8,194)
Net cash flows from investment activities	**(1,208)**	**(8,194)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	(27,363)	(5,657)
Increase/(decrease) in long term debt	22	76
Distribution of dividends	(8,306)	(8,768)
Interest paid	(3,721)	(2,732)
Other financial income/(expense)	66	(8)
Net cash flows from financing activities	**(39,302)**	**(17,089)**
Cash and cash equivalents at the beginning of the period	309	473
Net increase/(decrease) in cash and cash equivalents	164	4,212
Cash and cash equivalents as at December 31	**473**	**4,685**