PEGAS NONWOVENS SA

2009 Preliminary unaudited financial results

March 18, 2010

PEGAS NONWOVENS SA announces its preliminary unaudited consolidated financial results for the fiscal year to 31 December 2009 prepared according to International Financial Reporting Standards (IFRS).

„In 2009 PEGAS achieved a very good operating result in terms of EBITDA, which reached similar level as in 2008. In the first half of last year the company benefited from the positive effect of the price pass-through mechanism, while from the second half onwards it was necessary to absorb the negative impact of increases in input material prices which continue to prevail. In an effort to eliminate this negative impact, we relied on the traditionally outstanding production efficiency of our modern machinery, on a higher than expected demand for our products and last but not least on a relatively stable CZK/EUR exchange rate compared with 2008. We are also pleased that bank debt was reduced by one fifth to EUR 96 million whilst making a dividend payment of EUR 8.3 million. The continuing ability of our business to generate cash gives us the confidence regarding continued financial stability and the potential for further growth.

2010 has started satisfactorily and whilst we do not believe that the circumstances prevailing this year will be as positive as in 2009 we continue to believe that solid returns will be produced for shareholders," said František Řezáč, member of the Board of PEGAS NONWOVENS SA and CEO of PEGAS NONWOVENS s.r.o.

Overview of Financial Results

(EUR million)	Jan – Dec 2009		Q4 Oct – Dec 2009	
		yoy		yoy
Revenues	123.4	(13.5%)	30.2	(5.7%)
Operating costs without depreciation and amortization	(84.7)	(18.0%)	(22.2)	(3.3%)
EBITDA	38.8	(1.8%)	8.0	(11.8%)
Depreciation and amortization	(15.9)	(5.2%)	(4.1)	(2.5%)
Profit from operations (EBIT)	22.9	+0.8%	3.9	(19.7%)
FX gains/(losses) and other financial income/(expense) (net)	2.5	n/a	(5.3)	(65.0%)
Interest expense (net)	(3.8)	(38.9%)	(0.9)	(38.6%)
Income tax (expense)/income	(0.7)	n/a	1.1	(67.6%)
Net profit	20.8	+39.7%	(1.3)	(85.3%)
Capital expenditure	1.2	(93.5%)	0.7	(13.8%)
Number of employees (end of period)	384	+0.3%	384	+0.3%
No. of employees (average)	380	(0.3%)	380	(0.3%)
Net Debt	95.6	(20.7%)	95.6	(20.7%)
Production output (in tonnes)	69,462	+4.7%	17,859	+9.6%
Average CZK/EUR exchange rate	26.445	+6.0%	25.915	+2.3%
End of period CZK/EUR exchange rate	26.465	(1.7%)	26.465	(1.7%)

Consolidated Financial Results

Revenues, Costs and EBITDA

In 2009 consolidated revenues (revenues from sales of products) reached EUR 123.4 million, down by 13.5% yoy. The key driver of this development was the rapid decline of polymer prices at the end of 2008, which subsequently led to lower sales prices of products, starting from the second quarter of 2009. On the other hand the sale of the stock of finished goods in the first quarter of 2009 had a positive impact on revenues. In the fourth quarter of 2009 the total consolidated revenues were EUR 30.2 million, a 5.7% decline compared with the same period in 2008. The fourth quarter revenues were impacted by the lower input material prices mentioned above.

Total consolidated operating costs without depreciation and amortization went down by 18.0% yoy to EUR 84.7 million in 2009. The main reason for the annual decline of operating costs was the drop in polymer prices between the compared periods. In the fourth quarter of 2009, the total consolidated operating costs without depreciation and amortization reached EUR 22.2 million, or 3.3% down yoy. The polymer prices hit their bottom in the first quarter of 2009 while in the third and the fourth quarter they started to rise again.

In 2009, EBITDA amounted to EUR 38.8 million, down by 1.8% yoy. This result is in the upper end of the guidance range published at the beginning of last year, when the Company indicated an annual EBITDA decrease of 0% to 10%. This very good EBITDA was achieved namely due to its significant upswing in the first quarter of 2009. In the second half of 2009 the Company experienced a higher than expected increase in input prices, which impacted its operational results. Thanks to improved production efficiency, strong sales and optimisation measures, the Company managed to minimise the impact of this. The revaluation of the share option plan negatively impacted the EBITDA by EUR 0.3 million.

In the fourth quarter of 2009, EBITDA reached EUR 8.0 million, down by 11.8% yoy. The year-on-year comparison of the last quarters was affected by the pass-through mechanism, which was negative in the fourth quarter of 2009 but positive in the fourth quarter of 2008.

In 2009 the EBITDA margin reached 31.4%, up by 3.7 percentage points in comparison with 2008. The higher EBITDA margin was achieved due to a drop in polymer prices and also due to the easing of the level of finished goods inventory that had built up in 2008 and was subsequently sold in the first quarter of 2009. In the fourth quarter of 2009 the EBITDA margin reached 26.5%, a decline of 1.8 percentage points yoy.

Operating Costs

Total raw materials and consumables used in 2009 amounted to EUR 77.5 million, a 20.1% yoy decrease. This development resulted from the above mentioned annual decrease in polypropylene and polyethylene prices. In the fourth quarter total raw materials and consumables used reached EUR 20.4 million, down by 4.8% yoy. The lower year-on-year change of this item resulted from a repeated increase in polymer prices in the second half of 2009.

Staff costs without the revaluation of the share option plan decreased by 3.4% yoy, with the effect of the share option plan total staff costs increased in the 2009 by 15.4% yoy and amounted to EUR 7.6 million. Total staff costs denominated in Czech korunas (CZK) without the revaluation of the share option plan went up by 9.6% yoy due to salary increases and higher bonuses related to the achieved financial results.

In the fourth quarter of 2009 staff costs reached EUR 1.8 million, up by 11.1% yoy.

Other operating income (net) amounted to EUR 0.4 million in 2009, up by 20.7% compared with 2008. In the fourth quarter of 2009, other operating income (net) was negligible.

Depreciation and Amortization

Consolidated depreciation and amortization reached EUR 15.9 million in 2009, down by 5.2% yoy. This decrease resulted from the depreciation of the CZK against the EUR between the compared periods. In the fourth quarter of 2009, consolidated depreciation and amortization amounted to EUR 4.1 million, down by 2.5% yoy.

Profit from Operations

In 2009 profit from operations (EBIT) amounted to EUR 22.9 million, up by 0.8% compared with 2008 on the back of lower depreciation. In the fourth quarter of 2009 profit from operations (EBIT) declined by 19.7% to EUR 3.9 million.

Financial Income and Costs

In 2009 foreign exchange gains and other financial income (net) reached EUR 2.5 million, compared with the loss of EUR 2.2 million in 2008. This item includes realized and unrealized FX gains/losses, changes in the fair value of interest rate swaps 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 2009 foreign exchange losses and other financial expenses (net) reached EUR 5.3 million, on the back of a weaker Czech koruna.

Interest expenses (net) related to debt servicing amounted to EUR 3.8 million in 2009, a 38.9% decrease compared with 2008. The main reasons for this drop were declining interest rates and the gradual repayment of the external debt. In the fourth quarter of 2009 interest expenses (net) reached EUR 0.9 million, down by 38.6% yoy compared with the same period last year.

The Company keeps its strategy to hedge interest exposure and in December 2009 it entered into new 3-year interest rate swaps (IRS) with a total notional value of EUR 76 million. The Company is paying a fixed interest rate of 2.09% p.a. for the entire period of three years, the floating rate paid by banks is based on the 6-month EURIBOR. According to hedge accounting principles, the change of the fair value is booked in the Company's equity, and not in the P&L, which was used in the previous hedge.

Income Tax

In 2009 income tax expense amounted to EUR 0.7 million. 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 0.9 million while changes in deferred tax represented an income of EUR 0.2 million.

In the fourth quarter of 2009, income tax amounted to a positive amount of EUR 1.1 million on the back of the FX losses in this period.

Net Profit

In 2009 net profit amounted to EUR 20.8 million, up by 39.7% yoy, primarily due to FX changes in the compared periods (including their impact on income tax) and lower interest costs in 2009. In the fourth quarter of 2009, the Company recorded a net loss of EUR 1.3 million, primarily due to a negative impact of the FX changes.

CAPEX and Investments

In 2009 total consolidated capital expenditure amounted to EUR 1.2 million, a 93.5% yoy decrease. High capital expenditures in 2008 were represented mainly by expansion CAPEX related to the eight production line project. The capital expenditure in 2009 was solely related to maintenance capital expenditure. In the fourth quarter of 2009 total consolidated capital expenditure amounted to EUR 0.7 million.

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at December 31, 2009 was EUR 96.1 million, a 20.5% decrease compared with December 31, 2008. Net debt as at December 31, 2009 was EUR 95.6 million, down by 20.7% yoy. This was equivalent to a Net Debt/EBITDA ratio of 2.5x as at December 31, 2009 compared with the 3.1x ratio as at December 31, 2008. The financial position of the Company is stable and credit lines are secure.

Business Overview in 2009

In 2009, the total production output (net of scrap) reached 69,462 tonnes, up by 4.7% compared with 2008. In the fourth quarter of 2009, the Company produced 17,859 tonnes, which is 9.6% more than in the same period last year. Higher operational performance was achieved through focus on efficiency, maximum utilisation of production capacities and through fewer maintenance breaks.

In 2009, the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 89.0% share of total revenues, an increase compared with an 86.9% share in 2008, which confirms the Company's primary focus on the hygiene market. In the fourth quarter of 2009 the share of revenues from sales of nonwoven textiles for the hygiene industry of total revenues was 89.3%, up by 1.6 percentage points compared with the same period last year.

Revenues from sales of standard (commodity) textiles for hygiene products reached EUR 85.2 million in 2009, a decrease of 4.0% yoy in comparison with 2008. In 2009 the share of revenues from sales of commodity textiles for the hygiene industry represented a 69.1% share of total revenues, an increase from the 62.2% share in 2008. In the fourth quarter of 2009 this share was 69.5%. In 2009, the revenues from sales of light-weight and bi-component materials for the hygiene segment reached EUR 24.6 million, a 30.1% yoy decrease over 2008. The proportion of this product category to the total sales in 2009 amounted to 19.9%. Revenues from sales of non-hygiene products (for construction, agriculture and medicine) amounted to EUR 13.6 million in 2009, a decrease of 27.7% yoy. The share of the sales of non-hygiene products of total revenues was 11.0% in 2009 and slightly decreased to a 10.7% share in the fourth quarter of 2009.

In terms of geographical distribution, the Company confirmed its steady sales focus on the broader European area. Sales to Western Europe amounted to EUR 75.3 million in 2009 and represented a 61.0% share of total revenues compared with the 56.2% share in 2008. Revenues from sales to CEE and Russia reached EUR 43.3 million and represented a 35.1% share of total revenues, while in the same period in 2008 this proportion was 40.8%. The sales substitution between Western Europe and CEE is common and is dependent on the geographical priorities of customers at a given time. Revenues from sales to other territories amounted to EUR 4.8 million and represented a 3.9% share of total revenues, compared with a 3.0% share in the last year.

2010 Guidance

The Company entered 2010 with its production capacity sold out, once more demonstrating its ability to succeed in the highly competitive nonwovens textile market.

The market continued to be price sensitive in 2009 and PEGAS relies on its productivity improvements to partially mitigate and offset this pressure on margins.

The 2009 operating results were impacted by some one-off factors, which are not likely to be repeated this year. These factors are the positive effects of the price pass-through mechanism and the clearance of the stock of finished goods in the first quarter of 2009.

Based on the above factors and information known to date, the Company's expectations regarding EBITDA for 2010 are similar to the expectations at the beginning of 2009. This means that the EBITDA for 2010 is likely to be lower than that actually achieved in 2009, however the decline should not exceed 10% yoy.

The total sales volume expressed in tonnes should be similar to the 2009 level.

The financial results are dependent on a number of factors which are not fully controlled by the Company. Polymer price development may impact profitability in each of the quarters. The Company has based its business plan for 2010 on polymer price levels from the end of 2009. Currently, polymer price indices are higher than at the end of 2009.

At the end of February 2010, the Company made the decision to commence a new production line project. The anticipated launch of the line has been set for the second half of 2011. The investment costs related to the project will not exceed EUR 50 million and will be spread over the lifetime of the project until the turn of 2011/2012. The Company estimates that the total capital expenditure related to the new line project together with the maintenance CAPEX will reach EUR 9 million in 2010 (at the constant exchange rate of CZK/EUR 26).

The Company's strong ability to generate cash should again be demonstrated in 2010. The Company plans to further reduce its debt whilst also investing in the new production line project.

Appendix 1

Consolidated Income Statement

prepared under International Financial Reporting Standards (IFRS)

(in thousands of EUR)

	2009 (unaudited)	**2008** (audited)
Revenue	123,447	142,771
Raw materials & consumables used	(77,543)	(97,098)
Staff costs	(7,551)	(6,545)
Other operating income/(expense) (net)	438	363
EBITDA	**38,791**	**39,491**
EBITDA margin %	***31.4%***	***27.7%***
Depreciation and amortization	(15,934)	(16,810)
Profit from operations	**22,857**	**22,681**
Operating margin in %	***18.5%***	***15.9%***
FX changes and other financial income/(expense) (net)	2,509	(2,230)
Interest expense (net)	(3,840)	(6,288)
Income tax (expense)/ income	(724)	726
Net profit	**20,802**	**14,889**

Appendix 2

Consolidated Income Statement

prepared under International Financial Reporting Standards (IFRS)

(in thousands of EUR)

	Q4 2009 (unaudited)	**Q4 2008** (unaudited)
Revenue	30,194	32,011
Raw materials & consumables used	(20,418)	(21,444)
Staff costs	(1,800)	(1,616)
Other operating income/(expense) (net)	22	116
EBITDA	**7,998**	**9,067**
EBITDA margin %	***26.5%***	***28.3%***
Depreciation and amortization	(4,067)	(4,172)
Profit from operations	**3,931**	**4,895**
Operating margin in %	***13.0%***	***15.3%***
FX changes and other financial income/(expense) (net)	(5,348)	(15,290)
Interest expense (net)	(910)	(1,482)
Income tax (expense)/ income	1,063	3,282
Net profit	**(1,264)**	**(8,595)**

Appendix 3
Consolidated Balance Sheet
prepared under International Financial Reporting Standards (IFRS)

As at December 31
(in thousands of EUR)

	2009 (unaudited)	**2008** (audited)
Non-current assets		
Property, plant and equipment	108,865	121,440
Intangible assets	206	249
Goodwill	87,668	86,154
Total non-current assets	**196,739**	**207,843**
Current assets		
Inventories	13,652	12,731
Trade and other receivables	24,983	27,360
Cash and cash equivalents	473	309
Total current assets	**39,108**	**40,400**
Total assets	**235,847**	**248,243**
Share capital and reserves		
Share capital	11,444	11,444
Share premium	17,846	26,152
Legal reserves	4,396	2,433
Translation reserves	2,203	786
Other changes in equity	181	--
Retained earnings	77,203	58,364
Total share capital and reserves	**113,273**	**99,179**
Non-current liabilities		
Bank loans	82,614	96,131
Other payables	27	5
Deferred tax liabilities	11,471	11,378
Total non-current liabilities	**94,112**	**107,514**
Current liabilities		
Trade and other payables	13,977	16,751
Tax liabilities	1,016	79
Bank current liabilities	13,469	24,720
Total current liabilities	**28,462**	**41,550**
Total equity and liabilities	**235,847**	**248,243**

Appendix 4
Consolidated Cash Flow Statement
prepared under International Financial Reporting Standards (IFRS)

(in thousands of EUR)

	2009 (unaudited)	**2008** (audited)
Profit for the period before tax	**21,526**	**14,163**
Adjustment for:		
Amortization and depreciation	15,934	16,810
Foreign exchange changes	(216)	(330)
Interest expense	3,850	6,362
Fair value changes of interest rate swap	(515)	2,055
Other financial income/(expense)	(66)	2,048
Cash flows from operating activities		
Decrease/(increase) in inventories	(698)	(495)
Decrease/(increase) in receivables	2,561	(798)
Increase/(decrease) in payables	(2,532)	(2,581)
Income tax paid	649	(2,119)
Net cash from operating activities	**40,493**	**35,115**
Cash flows from investment activities		
Purchases of property, plant and equipment	(1,208)	(18,619)
Net cash used in investment activities	**(1,208)**	**(18,619)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	(27,363)	(1,314)
Increase/(decrease) in long term debt	22	(96)
Distribution (dividends)	(8,306)	(7,845)
Interest paid	(3,721)	(5,395)
Other changes in equity	181	--
Other financial income/(expense)	66	(2,048)
Net cash used in financing activities	**(39,121)**	**(16,698)**
Cash and cash equivalents at the beginning of the period	309	511
Net increase/(decrease) in cash and cash equivalents	164	(202)
Cash and cash equivalents at 31 December	**473**	**309**