PEGAS NONWOVENS every single detail

PEGAS NONWOVENS SA

2008 Preliminary unaudited financial results

March 19, 2009

PEGAS NONWOVENS SA announces its preliminary unaudited consolidated financial results for the fiscal year to 31st December 2008 prepared according to International Financial Reporting Standards (IFRS).

„Last year we managed to retain good financial performance and deliver a growth of the main financial indicators of the Company. Our revenues reached EUR 142.8 million thanks to increased production volumes, which is 17.1% more than last year. Our EBITDA grew modestly by 2.9% to EUR 39.5 million. In line with our long-term strategy of growth, we secured a commitment from the Czech government concerning investment incentives for an additional production line in the Czech Republic. Our R&D programmes, often joint projects with our partners, are helping us to remain at the forefront of the nonwovens industry. To this effect, testing equipment for the treatment of nonwovens using atmospheric plasma was launched.

Even though our Company is not entirely shielded from the unfolding global recession, our firm foothold in the comparably stable hygiene markets will ensure ongoing performance and solid financial results in 2009," 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)	Full Year Jan – Dec 2008		Q4 Oct – Dec 2008	
		yoy		yoy
Revenues	142.8	+17.1%	32.0	+2.5%
Operating costs without depreciation and amortization	(103.3)	+23.5%	(22.9)	(0.5%)
EBITDA	39.5	+2.9%	9.1	+11.2%
Depreciation and amortization	(16.8)	+36.3%	(4.2)	+29.2%
Profit from operations (EBIT)	22.7	(12.9%)	4.9	(0.6%)
FX gains/(losses) and other financial income/(expense) (net)	(2.2)	n/a	(15.3)	n/a
Interest expense (net)	(6.3)	(35.5%)	(1.5)	(5.6%)
Income tax (expense)/income	0.7	(65.3%)	3.3	+77.0%
Net profit	14.9	(32.7%)	(8.6)	n/a
Capital expenditure	18.6	(1.4%)	0.8	+281%
Number of employees (end of period)	383	(0.3%)	383	(0.3%)
No. of employees (average)	381	+6.4%	381	+0.5%
Net Debt	120.5	(1.6%)	120.5	(1.6%)
Production output (in tons)	66,349	+15.5%	16,289	+4.2%
Average CZK/EUR exchange rate	24.942	(10.2%)	25.342	(5.5%)
End of period CZK/EUR exchange rate	26.930	+1.2%	26.930	+1.2%

Consolidated Financial Results

Revenues, Costs and EBITDA

In 2008 consolidated revenues (revenues from sales of products) reached EUR 142.8 million, up by 17.1 % yoy. The key driver of this growth was the increased volumes sold resulting from higher production capacity. In the fourth quarter of 2008 consolidated revenues totalled EUR 32 million, a 2.5% increase when compared with the same period last year. The lower year-on-year revenue growth in the fourth quarter in comparison with the previous quarters of 2008 was significantly impacted by a temporary increase of stock of finished goods in connection with a strong slowdown of sales in the technical materials segment.

In 2008 the total consolidated operating costs without depreciation and amortization (net) went up by 23.5% to EUR 103.3 million. The main reasons were a higher consumed volume of raw materials and consumables related to the higher production, increase of energy prices and a strong year-on-year appreciation of the Czech koruna against the EUR, which had a negative impact on those items primarily booked in CZK and their translation into EUR. In the fourth quarter of 2008 total consolidated operating costs without depreciation and amortization (net) reached EUR 22.9 million, down by 0.5% yoy. The slower growth of operating costs in comparison with the previous periods of this year resulted from the change of inventories of finished goods due to unsold production at the end of the year.

EBITDA amounted to EUR 39.5 million in 2008, up by 2.9% yoy, as a result of higher sales of finished goods due to the additional production capacity. The achieved EBITDA is in line with the revised guidance published by the Company in November last year. The main factors negatively impacting the total EBITDA in 2008 were lower sales of materials to the construction industry, the appreciation of the Czech koruna, higher energy costs and margin developments in the European nonwovens market. In the fourth quarter of 2008, EBITDA amounted to EUR 9.1 million, up by 11.2% yoy.

In 2008 the EBITDA margin reached 27.7%, down by 3.8 percentage points in comparison with the year 2007. In the fourth quarter of 2008 EBITDA margin reached 28.3%, up by 2.2 percentage points yoy.

Operating costs

Total raw materials and consumables used in 2008 amounted to EUR 97.1 million, a 23.8% yoy increase. The key drivers of this growth were increased volumes produced through higher production capacity and higher energy prices. In the fourth quarter of 2008 total raw materials and consumables amounted to EUR 21.4 million, up by 1.9% compared with the same period in 2007. The operating costs in the fourth quarter were offset by the realization of significantly lower purchase prices of polymers.

In 2008 total staff costs amounted to EUR 6.5 million, a 4.2% yoy increase. Staff costs expressed in EUR were negatively affected by the strong appreciation of the

Czech koruna against the EUR, whereas the revaluation of the share option plan had a positive impact on staff costs. Total staff costs denominated in Czech korunas and without the revaluation of the share option plan went up by 9.3% yoy due to a 6.4% yoy increase in the average number of employees in 2008 and salary adjustments. In the fourth quarter of 2008 total staff costs went down by 17.6% yoy to EUR 1.6 million primarily driven by the revaluation of the share option plan realized in the fourth quarter 2007.

Other operating income (net) amounted to EUR 363 thousand in 2008, and to EUR 116 thousand in the fourth quarter of 2008.

Depreciation and amortization

Consolidated depreciation and amortization reached EUR 16.8 million in 2008, up by 36.3% yoy. In the fourth quarter of 2008 the total consolidated depreciation and amortization reached EUR 4.2 million, which is 29.2% higher than in the same period of the previous year. This increase resulted from an increase in the value of the Company's depreciated non-current assets (production hall and machinery for the 8th production line).

Profit from Operations

In 2008 profit from operations (EBIT) amounted to EUR 22.7 million, down by 12.9% compared with 2007 on the back of EBITDA development and higher depreciation. In the fourth quarter of 2008 EBIT amounted to EUR 4.9 million, a 0.6% yoy decrease.

Financial Income and Costs

In 2008 foreign exchange changes and other financial income/(expense) (net) represented a loss of EUR 2.2 million. This item includes realized and unrealized FX gains/losses, changes in the fair value of interest rate swaps and other financial income and expenses. This item was impacted by the development of the Czech koruna against the EUR through unrealized FX changes related to the revaluation of balance sheet items (mainly bank debt and the inter-company loan) denominated in EUR into CZK. During the first half of 2008, when the Czech koruna strongly appreciated, the Company recorded foreign exchange gains. However, the opposite movement of the foreign exchange rate in the second half of 2008 and the level of CZK/EUR fixing as at December 31st, 2008 finally led to unrealized losses for the year. In addition to the unrealized FX losses, the mark-to-market revaluation of the interest rate swaps also had a negative impact due to the decline of interest rates based on the Euribor. In the fourth quarter of 2008, foreign exchange changes and other financial income/(expense) (net) represented a loss of EUR 15.3 million due to the rapid weakening of the Czech koruna against EUR and the revaluation of the interest rate swaps.

Interest expenses (net) related to debt servicing amounted to EUR 6.3 million in 2008, a 35.5% decrease compared with 2007. The main reasons were the arrangement fee write-off associated with previous senior debt facilities refinanced in

May 2007 and more favourable conditions of new loan facilities. In the fourth quarter of 2008, interest expenses (net) amounted to EUR 1.5 million, down by 5.6% yoy due to the decline of interest rates.

Income tax

In 2008 income tax amounted to EUR 0.7 million of income, down by 65.3% yoy compared with 2007, as a result of changes in deferred tax. In the fourth quarter of 2008 income tax reached amount of EUR 3.3 million of income, which is an increase of 77.0% yoy.

Net Profit

Net profit in 2008 amounted to EUR 14.9 million, down by 32.7% yoy, mainly due to FX changes and revaluation of the IRS (including their impact on the income tax) and higher depreciation. In the fourth quarter of 2008 the Company recorded a net loss of EUR 8.6 million, primarily as a result of negative FX changes and IRS revaluation.

CAPEX and Investments

In 2008 total consolidated capital expenditure amounted to EUR 18.6 million, a 1.4% yoy decrease. The capital expenditure was primarily related to the remaining payment for the 8th production line project. In the fourth quarter of 2008 total consolidated capital expenditure amounted to EUR 0.8 million. The total achieved CAPEX in 2008 exceeded the indicated guidance level of EUR 18 million solely due to a lower than expected Czech koruna FX rate.

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at December 31, 2008 was EUR 120.9 million, a 1.8% reduction compared with December 31, 2007. Net debt as at December 31, 2008 was EUR 120.5 million, down by 1.6% yoy. This was equivalent to a Net Debt / EBITDA ratio of 3.1. As at September 30, 2008 the Company paid out a dividend of EUR 7.8 million. The financial position of the Company is stable and credit lines are secure.

Business Overview in 2008

In 2008 the total production output (net of scrap) reached 66,349 tons, up by 15.5% when compared with 2007. In the fourth quarter of 2008 the total production output in tons increased by 4.2% yoy to 16,289 tons. The development of the production output expressed in tons was affected by the difference between the production mix in 2007 and 2008 and also by the launch of new production capacity in the last quarter of 2007.

Revenues from sales of nonwoven textiles for the hygiene industry represented 86.8% of 2008 revenues, compared with 86.0% in 2007 confirming the Company’s focus on the core hygiene market. In the fourth quarter of 2008, the proportion of revenues from sales of nonwoven textiles for the hygiene industry reached 87.7% compared with 85.1% in the fourth quarter of 2007.

Revenues from sales of standard (commodity) nonwovens textiles for hygiene products reached EUR 88.80 million, an increase of 14.9% yoy in comparison with 2007. The proportion of revenues from sales of commodity nonwovens textiles for the hygiene industry in 2008 represented a 62.2% share of total revenues, a decrease from 63.4% in 2007. In the fourth quarter of 2008 revenues from sales of standard (commodity) textiles for hygiene products reached EUR 21.19 million, up by 12.8% yoy.

The achieved revenues from sales of technologically advanced products, such as soft, lightweight and bi-component materials confirm the Company's focus on this segment. In 2008 the sales in this segment reached EUR 35.14 million, a 27.6% yoy increase over 2007. Going forward, sales expansion of technologically advanced materials remains one of the key objectives for the Company. However, sales to this segment are driven by the demand of end-users of disposable hygiene products, who may as a result of the current economic situation, potentially substitute more expensive products for cheaper commodity material products. In the fourth quarter of 2008 revenues from sales of technologically advanced products amounted to EUR 6.88 million, a decrease of 11.4% yoy due to the change in product mix.

The proportion of technologically advanced sales of total sales in 2008 increased to 24.6%, compared with 22.6% in 2007. The rising share of revenues in this segment confirms the Company's position of a leader in technologically sophisticated materials for hygienic applications.

Revenues from sales of non-hygiene products (for construction, agriculture and medical) amounted to EUR 18.83 million in 2008, an increase of 9.9% over 2007. In the fourth quarter of 2008 revenues from sales of non-hygiene products went down by 15.5% yoy to EUR 3.94 million. The sales decrease in the fourth quarter resulted from a significant decline of orders from the construction industry.

In terms of geographical distribution[1], the Company confirms its strong and growing position in its core European market. Sales to Western Europe amounted to EUR 80.20 million in 2008, up by 3.0% over last year. Revenues from sales to CEE and Russia reached in the given period EUR 58.30 million, up by 43.9% yoy, this was the result of increased sales in the Czech Republic and Poland. Revenues from sales to other territories amounted to EUR 4.27 million, up by 18.1% yoy. In the fourth quarter of 2008 sales to Western Europe amounted to EUR 19.64 million, down by 2.5% over the same period last year. Revenues from sales to CEE and Russia reached EUR 11.29 million, up by 3.1% yoy, while sales to other territories amounted to EUR 1.08 million.

[1] Geographical breakdown is based on the location of delivery.

Commitment concerning investment incentives for 9th production line project

On January 12, 2009, the Ministry of Industry and Trade issued a decision granting a commitment concerning the following investment incentives for PEGAS - NS a.s.:

- corporate income tax relief for a period of 10 years; and
- financial support for job creation in the Znojmo region in the amount of CZK 200 thousand for every new work position created.

The total amount of incentives may not exceed 30% of the total invested amount. At the same time, the total amount of the public grant may not be higher than CZK 403.5 million and commercial production must be launched within 3 years of the delivery date of the decision about the commitment of the investment incentives. Total investment costs of the ninth production line project will not exceed EUR 50 million and the execution of the project will depend on the development of conditions in the nonwovens market.

2009 Outlook

PEGAS expects that the year 2009 will demonstrate the underlying strength of its core hygiene nonwovens market. The total sales volume expressed in tonnes should exceed the 2008 levels primarily as a result of a different product mix and clearance of the accumulated inventories of finished goods from the end of 2008. Current sales numbers indicate that accumulated stock of finished goods from the end of 2008 should be sold out during the early part of 2009.

The slowdown in the non-hygiene segment (technical nonwovens) has resulted in the shift of a part of the production capacity into the hygienic segment, which consequently became more competitive. In order to protect the Company's overall profitability and volumes, PEGAS has responded to the more competitive market conditions by reducing margins.

Based on the information known to date, the Company expects that the 2009 EBITDA will be lower than that which was achieved in 2008 (EUR 39.5 million) however, it should not decrease by more than 10 % compared to 2008.

The development of polymer prices in 2008 and 2009 will have a significant impact on the quarterly reported EBITDA in 2009. The first quarter of 2009 started strongly with high sales volumes and a considerable positive effect from the polymer price pass-through mechanism. A sharp decline of polymer prices in the previous months resulted in lower input costs in the first quarter of 2009 while the revenues still reflected higher sales prices from the fourth quarter of 2008. As a result, the first quarter 2009 EBITDA is likely to be significantly higher than those in the upcoming quarters.

PEGAS has no major capital expenditures planned in 2009. The total capital expenditure (CAPEX) in 2009 is planned at EUR 2 million at the constant exchange rate of CZK/EUR 26. This entire capital investment represents maintenance CAPEX.

The Company will rely on its healthy balance sheet and cash flow as well as borrowing facilities, which remain strong and secure.

In these challenging economic times, PEGAS is reaping the benefit of the strategy of technical innovation, meeting customer satisfaction, focussing on resilient areas of the market and having the productivity and cost base allowing the Company to respond to a competitive market.

Appendix 1

Consolidated Income Statement
prepared under International Financial Reporting Standards (IFRS)

(in thousands of EUR)

	2008 (unaudited)	**2007** (audited)
Revenue	142,771	121,971
Raw materials & consumables used	(97,098)	(78,421)
Staff costs	(6,545)	(6,279)
Other operating income/(expense) (net)	363	1,105
EBITDA	**39,491**	**38,376**
EBITDA margin %	***27.7%***	***31.5%***
Depreciation	(16,810)	(12,333)
Profit from operations	**22,681**	**26,043**
Operating margin in %	***15.9%***	***21.4%***
FX changes and other financial income/(expense) (net)	(2,230)	3,760
Interest expense (net)	(6,288)	(9,756)
Income tax (expense)/ income	726	2,091
Net profit	**14,889**	**22,138**

Appendix 2
Consolidated Income Statement
prepared under International Financial Reporting Standards (IFRS)

(in thousands of EUR)

	Q4 2008 (unaudited)	**Q4 2007** (unaudited)
Revenue	32,011	31,220
Raw materials & consumables used	(21,444)	(21,054)
Staff costs	(1,616)	(1,960)
Other operating income/(expense) (net)	116	(53)
EBITDA	**9,067**	**8,153**
EBITDA margin %	***28.3%***	***26.1%***
Depreciation	(4,172)	(3,228)
Profit from operations	**4,895**	**4,925**
Operating margin in %	***15.3%***	***15.8%***
FX changes and other financial income/(expense) (net)	(15,290)	4,443
Interest expense (net)	(1,482)	(1,570)
Income tax (expense)/ income	3,282	1,854
Net profit	**(8,595)**	**9,652**

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

As at December 31
(in thousands of EUR)

	2008 (unaudited)	**2007 (audited)**
Non-current assets		
Property, plant and equipment	121,440	137,355
Intangible assets	249	196
Goodwill	86,154	87,157
Total non-current assets	**207,843**	**224,708**
Current assets		
Inventories	12,731	12,416
Trade and other receivables	27,360	26,244
Cash and cash equivalents	309	511
Total current assets	**40,400**	**39,171**
Total assets	**248,243**	**263,879**
Share Capital and reserves		
Share capital	11,444	11,444
Share premium	26,152	33,997
Legal reserves	2,433	1,120
Translation reserves	786	2,536
Retained Earnings	58,364	44,788
Total share capital and reserves	**99,179**	**93,885**
Non-current liabilities		
Bank loans	96,131	116,508
Other payables	5	101
Deferred tax liabilities	11,378	12,190
Total non-current liabilities	**107,514**	**128,799**
Current liabilities		
Trade and other payables	16,751	33,218
Tax liabilities	79	1,427
Bank current liabilities	24,720	6,550
Total current liabilities	**41,550**	**41,195**
Total equity and liabilities	**248,243**	**263,879**

Appendix 4

Consolidated Cash Flow Statement

prepared under International Financial Reporting Standards (IFRS)

(in thousands of EUR)

	2008 (unaudited)	2007 (audited)
Profit for the period before tax	**14,163**	**20,047**
Adjustment for:		
Amortization and depreciation	16,810	12,333
Foreign exchange changes	(330)	(1,533)
Interest expense	6,362	9,955
Fair value changes of interest rate swap	2,055	(36)
Other financial income/(expense)	2,048	(251)
Cash flows from operating activities		
Decrease/(increase) in inventories	(495)	(3,623)
Decrease/(increase) in receivables	(798)	(1,753)
Increase/(decrease) in payables	(2,581)	(3,462)
Income tax paid	(2,119)	(140)
Net cash from operating activities	**35,115**	**31,537**
Cash flows from investment activities		
Purchases of property, plant and equipment	(18,619)	(18,878)
Net cash used in investment activities	**(18,619)**	**(18,878)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	(1,314)	(17,735)
Increase/(decrease) in long term debt	(96)	(174)
Distribution (dividends)	(7,845)	(7,014)
Interest paid	(5,395)	(9,490)
Other financial income/(expense)	(2,048)	251
Net cash used in financing activities	**(16,698)**	**(34,162)**
Cash and cash equivalents at the beginning of the period	511	22,014
Net increase/(decrease) in cash and cash equivalents	(202)	(21,503)
Cash and cash equivalents at 31 December	**309**	**511**