PEGAS NONWOVENS SA

First quarter 2010 unaudited consolidated financial results

May 20, 2010

PEGAS NONWOVENS SA announces its unaudited consolidated financial results for the first quarter of 2010 to March 31, 2010, prepared according to International Financial Reporting Standards (IFRS).

„In the first quarter of the year we achieved solid results at the EBITDA level of EUR 8.8 million, which is in line with the Company's outlook. This EBITDA was achieved on the back of strong production output, good sales performance and the minimal impact of external factors and one-off items. Given the significant increase in polymer prices, which will have a negative impact on the Company´s economic performance in the second quarter, meeting our full year guidance remains our main goal.

The key event of the first quarter was our decision to commence with the construction of a new production facility in Znojmo – Přímětice. We believe, this investment will strengthen our position of a technological leader in the industry and the Company has already started financing this expansion," 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)	Q1 January – March 2010	
		yoy
Revenues	34.4	(3.5%)
Operating costs without depreciation and amortization	(25.6)	18.1%
EBITDA	8.8	(37.0%)
Depreciation and amortization	(4.1)	6.9%
Profit from operations (EBIT)	4.8	(53.3%)
FX gains/(losses) and other financial income/(expense) (net)	4.4	n/a
Interest expense (net)	(0.8)	(28.6%)
Income tax (expense)/income	(0.7)	n/a
Net profit	7.7	13.0%
Capital expenditure	4.9	7,097.1%
Number of employees (end of period)	385	1.3%
No. of employees (average)	384	0.5%
Net Debt	96.6	(15.1%)
Production output (in tons)	16,851	(1.3%)
Average CZK/EUR exchange rate	25.868	(6.3%)
End of period CZK/EUR exchange rate	25.445	(7.1%)

Consolidated Financial Results

Revenues, Costs and EBITDA

In the first quarter of 2010 consolidated revenues (revenues from sales of products) reached EUR 34.4 million, down by 3.5% yoy. The annual revenue decrease was primarily driven by lower volumes sold in tonnes, as at the beginning of 2009 the accumulated stock of finished goods from 2008 was sold out. Conversely, the polymer price level went up yoy; though in the first quarter of 2010 this increase did not greatly affected sales price levels due to the delay caused by the pass-through mechanism.

Total consolidated operating costs without depreciation and amortization went up by 18.1% yoy in the first quarter of 2010 to EUR 25.6 million. The main reason behind this is the increase in polymer price indexes, which went up by almost a half.

EBITDA amounted to EUR 8.8 million in the first quarter of 2010, down by 37.0% yoy. The annual comparison was influenced by the extraordinarily high EBITDA achieved in the first quarter of 2009 when the Company benefited from a drop in polymer prices, high sales prices and from the accelerated clearance of the stock of finished goods. However, when compared with the fourth quarter of 2009, the EBITDA went up by 10.5% qoq. This EBITDA was achieved on the back of strong production output, good sales performance and the minimal impact of one-off external factors or items.

EBITDA margin reached 25.7% in the first quarter of 2010, down by 13.6 percentage points in comparison with the same period in 2009.

Operating costs

Total raw materials and consumables used in the first quarter of 2010 amounted to EUR 24.0 million, a 19.5% yoy increase. The key driver was higher purchase prices of polypropylene and polyethylene.

In the first quarter of 2010 total staff costs without the inclusion of the fair value of the share option plan went up by 10.3%, when the fair value of the share option plan is included they went up by 10.7% yoy and amounted to EUR 1.8 million. The yoy increase in staff costs expressed in EUR was caused by the appreciation of the Czech koruna against EUR in the compared periods. Total staff costs denominated in Czech korunas and without the revaluation of the share option plan increased by 3.4% yoy.

Other operating income (net) amounted to EUR 0.2 million in the first quarter of 2010.

Depreciation and amortization

Consolidated depreciation and amortization reached EUR 4.1 million in the first quarter of 2010, up by 6.9% yoy. This increase resulted from the appreciation of the CZK against the EUR compared with the same period in 2009, impacting the presentation of this item in EUR.

Profit from Operations

In the first three months of 2010 profit from operations (EBIT) amounted to EUR 4.8 million, down by 53.3% compared with the first quarter of 2009 on the back of the high EBITDA recorded in the first quarter of last year.

Financial Income and Costs

In the first quarter of 2010 foreign exchange changes and other financial income/(expense) (net) represented a gain of EUR 4.4 million, compared with the EUR 2.7 million expense in the first quarter of 2009. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The annual change of this item was given 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).

Interest expenses (net) related to debt servicing amounted to EUR 0.8 million in the first quarter of 2010, a 28.6% decrease compared with the first quarter of 2009. The main reasons for this decline were the gradual repayment of the external debt and the decrease in interest rates in the compared periods.

Income tax

In the first quarter of 2010 income tax amounted to EUR 0.7 million. The current tax payable was EUR 1.0 million while the changes in the deferred tax equalled EUR 0.3 million gain.

Net Profit

Net profit in the first quarter of 2010 amounted to EUR 7.7 million, up by 13.0% yoy, as FX gains offset the drop in the operating profit.

CAPEX and Investments

In the first quarter of 2010 total consolidated capital expenditure amounted to EUR 4.9 million, compared with EUR 0.1 million last year. The increase in capital expenditure represents primarily expenditures for the new production line project.

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at March 31, 2010 was EUR 96.9 million, a 15.2% reduction when compared with March 31, 2009. Net debt as at March 31, 2010 was EUR 96.6 million, down by 15.1% yoy. This was equivalent to a Net Debt / EBITDA ratio of 2.9 as of March 31, 2010.

Business Overview of the Q1 2010

In the first quarter of 2010 the total production output (net of scrap) reached 16,851 tonnes, down by 1.3% when compared with the first three months of 2009, also affected by a higher number of maintenance breaks in 2010.

Revenues from sales of nonwoven textiles for the hygiene industry represented an 87.1% share of total revenues in the first quarter of 2010, slightly down compared with an 89.9% share in the same period in 2009. A high share of these materials confirms the Company’s continuing primary focus on the hygiene market. Revenues from sales of standard (commodity) textiles for hygiene products reached EUR 23.6 million in the first quarter of 2010, a decrease of 8.8% yoy in comparison with the same period in 2009. The proportion of revenues from sales of commodity textiles for the hygiene industry represented a 68.7% share of total revenues, a drop from 72.7% in the same period in 2009. In the hygiene segment, revenues from sales of light weight and bi-component materials in the first quarter of 2010 reached EUR 6.4 million, a 3.3% yoy increase over the first quarter of 2009. The proportion of this product category of total sales in the first quarter of 2010 amounted to 18.4%, compared with 17.2% in the same period in 2009.

Revenues from sales of non-hygiene products (mainly construction, agriculture and medical) amounted to EUR 4.4 million in the first quarter of 2010, an increase of 22.4% over the first quarter of 2009. The share of sales of non-hygiene products of total sales amounted to 12.9% in the first quarter of 2010, compared to a 10.1% share in the first quarter of 2009.

In terms of geographical distribution[1], the Company confirmed its steady focus on the broader European market. Sales to Western Europe amounted to EUR 20.7 million in the first quarter of 2010, which represents a 60.1% share of total sales, compared with a 56.5% share in the same period in 2009. Revenues from sales to CEE and Russia reached EUR 12.0 million in this quarter, which is a 35.0% share of total revenues compared to a 41.0% share in the first quarter of 2009. Revenues from sales to other territories amounted to EUR 1.7 million and represented a 4.9% share of total sales in comparison with a 2.5% share on total sales in the first quarter of 2009.

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

2010 Outlook Confirmed

In the first quarter of 2010 the Company recorded financial results in line with the communicated guidance for the full year of 2010.

In the short term horizon business results might also be impacted by the development of polymer prices and subsequent pass-through mechanism delay. Contrary to the assumptions used in the 2010 business plan, polymer price indexes have increased significantly since the beginning of the year and this development will negatively affect the financial results in the second quarter.

On the basis of the financial and business results in the first quarter of 2010 and taking into account the developments in the nonwovens market including the anticipated development of the polymer market, the Company confirms its initial outlook for 2010.

Appendix 1

Consolidated Statement of Comprehensive Income

prepared under International Financial Reporting Standards (IFRS)

(in thousands of EUR)

	Q1 2010 (unaudited)	**Q1 2009** (unaudited)
Revenue	34,399	35,662
Raw materials & consumables used	(23,987)	(20,066)
Staff costs	(1,786)	(1,614)
Other operating income/(expense) (net)	211	36
EBITDA	**8,837**	**14,018**
EBITDA margin %	***25.7%***	***39.3%***
Depreciation and amortization	(4,074)	(3,812)
Profit from operations	**4,763**	**10,206**
Operating margin in %	***13.8%***	***28.6%***
FX changes and other financial income/(expense) (net)	4,376	(2,679)
Interest expense (net)	(808)	(1,132)
Income tax (expense)/ income	(681)	374
Net profit	**7,650**	**6,769**
Other comprehensive income		
Net value loss on cash flow hedges	(1,123)	--
Changes in translation reserves	3,301	(993)
Total comprehensive income for the period	**9,828**	**5,776**

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

(in thousands of EUR)

As at March 31

	2010 (unaudited)	**2009** (unaudited)
Non-current assets		
Property, plant and equipment	114,073	115,642
Intangible assets	205	233
Goodwill	91,182	84,738
Total non-current assets	**205,460**	**200,613**
Current assets		
Inventories	12,528	12,288
Trade and other receivables	26,395	31,074
Cash and cash equivalents	217	337
Total current assets	**39,140**	**43,699**
Total assets	**244,600**	**244,312**
Share capital and reserves		
Share capital	11,444	11,444
Share premium	17,846	26,152
Legal reserves	4,396	2,433
Translation reserves	5,504	(207)
Other changes in equity	(942)	--
Retained earnings	84,852	65,133
Total share capital and reserves	**123,100**	**104,955**
Non-current liabilities		
Bank loans	95,881	91,300
Other payables	33	10
Deferred tax liabilities	11,357	10,814
Total non-current liabilities	**107,271**	**102,124**
Current liabilities		
Trade and other payables	11,248	14,314
Tax liabilities	2,004	56
Bank current liabilities	977	22,863
Total current liabilities	**14,229**	**37,233**
Total equity and liabilities	**244,600**	**244,312**

Appendix 3

Consolidated Cash Flow Statement

prepared under International Financial Reporting Standards (IFRS)

(in thousands of EUR)

	Q1 2010 (unaudited)	**Q1 2009** (unaudited)
Profit for the period before tax	**8,331**	**6,395**
Adjustment for:		
Amortization and depreciation	4,074	3,812
Foreign exchange changes	(3,532)	666
Interest expense	808	1,138
Fair value changes of interest rate swap	(1,123)	214
Other financial income/(expense)	10	241
Cash flows from operating activities		
Decrease/(increase) in inventories	1,643	232
Decrease/(increase) in receivables	(406)	(4,126)
Increase/(decrease) in payables	(1,404)	(2,206)
Income tax paid	(3)	(3)
Net cash from operating activities	**8,398**	**6,363**
Cash flows from investment activities		
Purchases of property, plant and equipment	(4,894)	(68)
Net cash used in investment activities	**(4,894)**	**(68)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	(3,142)	(4,772)
Increase/(decrease) in long term debt	6	5
Interest paid	(614)	(1,259)
Other financial income/(expense)	(10)	(241)
Net cash used in financing activities	**(3,760)**	**(6,267)**
Cash and cash equivalents at the beginning of the period	473	309
Net increase/(decrease) in cash and cash equivalents	(256)	28
Cash and cash equivalents at 31 March	**217**	**337**