



HALF YEAR REPORT 2007 | 30TH AUGUST 2007



PEGAS NONWOVENS SA | Half Year Report 2007 | 30th August 2007

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1 Introduction

1 Introduction

PEGAS NONWOVENS SA (hereafter “PEGAS” or “the Company” or “Group”) is one of the leading European producers of nonwoven textiles for use primarily in the personal hygiene products market. PEGAS supplies its customers with spunbond and meltblown (together „spunmelt“) polypropylene- and polypropylene/polyethylene- („PP“ and „PP/PE“) based textiles principally for use in disposable hygiene products and in construction, agricultural and medical applications.

PEGAS consists of a parent holding company in Luxembourg and four operating companies in the Czech Republic, PEGAS NONWOVENS s.r.o., PEGAS – DS a.s., PEGAS-NT a.s. and PEGAS – NW a.s.¹

On June 26th, 2007 PEGAS announced its intention to merge CEE Enterprise a.s. into PEGAS NONWOVENS s.r.o. in order to simplify its corporate structure. This intermediate holding company CEE Enterprise a.s. is a wholly owned, direct subsidiary of PEGAS NONWOVENS SA, Luxembourg, and owns 100% of the share capital of the main operating subsidiary, PEGAS NONWOVENS s.r.o. in Znojmo, Czech Republic.

At the end of 1H 2007 PEGAS employed 357 people.

The Company's shares are listed on the Prague Stock Exchange and on the Warsaw Stock Exchange following the IPO of the Company in December 2006.

At June 30th, 2007 the Company's largest shareholder was a private equity fund, Pamplona Capital Partners I, LP (“Pamplona”) with a 43.4% stake. The Company's senior management held 2.0% of the shares. Other institutional and retail investors held 54.6% of PEGAS's shares.

Following the sale of shares of Pamplona completed on July 16th, 2007 100% of the shares are free float held by institutional and retail investors, of which a 2% stake is held by the senior management of the Company.

¹ As of June 30th, 2007, the Group included also CEE Enterprise a.s., a holding company in the Czech Republic.

2 First Half 2007 Highlights

2 First Half 2007 Highlights

Financials (Euro thousands)	Three months to June 30 th			Six months to June 30 th		
	2006	2007	% change	2006	2007	% change
Total Revenues	30,527	29,383	(3.7%)	60,065	60,717	1.1%
EBITDA	11,561	6,816	(41.0%)	25,864	14,931	(42.3%)
FX Gains/Losses and IRS Revaluation	1,288	(3,236)	n/a	5,069	(6,006)	n/a
Adjusted EBITDA ²	10,273	10,052	(2.2%)	20,795	20,937	0.7%
Profit from Operations (EBIT)	8,473	3,802	(55.1%)	19,711	8,879	(55.0%)
Adjusted Profit from Operations (EBIT) ²	7,185	7,038	(2.0%)	14,642	14,885	1.7%
Net Profit for the Period	4,263	(231)	n/a	10,640	2,656	(75.0%)
Adjusted Net Profit for the Period ³	2,832	3,005	6.1%	5,894	8,662	47.0%
CAPEX	3,189	11,611	264.1%	4,171	15,218	264.9%
Ratios						
Adjusted EBITDA Margin ²	33.7%	34.2%	0.5%	34.6%	34.5%	(0.1%)
Adjusted Operating Profit (EBIT) Margin ²	23.5%	24.0%	0.5%	24.4%	24.5%	0.1%
Net Profit Margin	14.0%	n/a	n/a	17.7%	4.4%	(13.3%)
Adjusted Net Profit Margin ³	9.3%	10.2%	0.9%	9.8%	14.3%	4.5%
CAPEX as % of Revenues	10.4%	39.5%	29.1%	6.9%	25.1%	18.2%
Total Production Output (in tonnes net of scrap)	13,227	14,118	6.7%	26,446	27,875	5.4%
Number of Employees – End of Period (EOP)	329	357	8.5%	329	357	8.5%
Exchange Rates						
CZK/Euro average	28.384	28.266	(0.4%)	28.495	28.150	(1.2%)
CZK/Euro EOP	28.495	28.715	0.8%	28.495	28.715	0.8%
Financials (Euro thousands)						
	Dec 31 st , 2006			June 30 th , 2007		% change
Total Assets	249,025			232,288		(6.7%)
Total Equity	76,950			78,521		2.0%
Total Borrowings ⁴	136,171			121,258		(11.0%)
Net Debt/[Net Cash Balance] ⁵	114,157			120,020		5.1%

² Adjusted by Foreign Exchange (FX) gains and losses and mark-to-market revaluation of Interest Rate Swaps.

³ Adjusted net profit is calculated as reported net profit excluding the impact of FX changes and mark-to-market revaluation of interest rate swaps including the impact on income tax expense. Adjusted net profit shows the actual financial performance of the Company.

⁴ Includes total long-term financial debt and short-term financial debt.

⁵ Calculated as total borrowings minus cash and cash equivalents.

2 First Half 2007 Highlights

Main highlights of the first half 2007 to June 30th are summarized below:

Financial

Consolidated revenues (revenues from sales of products) totaled to Euro 60.7 million in the first half 2007, up by 1.1% yoy. The sales were influenced by following factors:

- Higher total sales of production, mainly in the Q1 2007
- Increase in production by 5.4% yoy in the 1H 2007
- Substitution of one-off orders from overseas generated in the 1H 2006 by other projects

Adjusted EBITDA in the first half of 2007 amounted to Euro 20.9 million, up by 0.7 % yoy, including one-off income of Euro 1.03 million of compensation from an arbitration procedure.

Adjusted profit from operations (EBIT) up by 1.7% yoy to Euro 14.9 million in the first half of 2007.

Net profit in the first half of 2007 amounted to Euro 2.7 million, down by 75.0% yoy, mainly due to the negative impact of FX losses resulting from depreciation of the Czech koruna against Euro in this reporting period. **Adjusted Net Profit, showing the actual financial performance of the Company, in the first half of 2007 reached Euro 8.7 million, up by 47.0% yoy.**

Refinancing

PEGAS has been continuing in de-leveraging its capital structure and reduced its total financial debt by 11.0% from Euro 136.2 million as at December 31st, 2006 to Euro 121.3 million as at June 30th, 2007. As a result of continuous de-gearing, PEGAS was able to refinance its existing outstanding bank debt at more favourable conditions and achieved an average margin over Euribor of 120 basis points compared with a margin of 247 basis points on the previous senior facility (as at December 31st, 2006). The syndicated loan agreement was signed on May 10th, 2007 and comprises of a Euro 130 million revolving facility and a Euro 20 million overdraft facility.

Production Output

Due to improved production efficiencies, better utilization and higher speed of machinery, PEGAS was able to increase its production output in the first half of 2007 by 5.4% to 27.9 thousand tonnes. This increase was observed in both Q1 and Q2 2007 and was achieved despite no addition of new production facilities.

Project of the new 9th Production Line

On May 31st, 2007 PEGAS NONWOVENS s.r.o. submitted an application for an investment incentive to the Czech government agency CzechInvest. PEGAS is planning to build its new 9th production line in Znojmo. The project is in line with the growth of the nonwoven market in Europe where PEGAS wants to keep its key position and participate further on its development.

Based on the previously obtained investment incentives for existing lines and applicable laws in the Czech Republic, the new incentives are likely to include subsidies for newly created job positions and an income tax relief for a period of up to 10 years. The total amount of the investment incentives may not exceed 30% of total expenditures in tangible and intangible assets. The utilization of the investment incentive is conditional upon the commercial launch of the new production line within 3 years after the incentives are awarded.

2 First Half 2007 Highlights

Statement of the CEO of PEGAS NONWOVENS s.r.o., Miloš Bogdan

„In the first half of 2007, we focused on the construction, launch preparation and filling of the order book for the new 8th production line which will again be the first of its kind in the world. In addition, PEGAS successfully submitted an application for investment incentives for a 9th production line to CzechInvest, Czech government investment agency. We at PEGAS are highly focused on better utilization of existing production capacities and as a result, our production output expressed in tonnage went up by 5.4% in the first half of 2007 despite the fact that no additional production capacities were added in this period.

The financial results in the period were solid, with the total consolidated revenues increasing by 1.1% compared with the same period in 2006 and EBITDA went up by 0.7%. The EBITDA margin was sustained at the same level as in the first half of 2006 which is well above our key competitors, keeping PEGAS the industry's most efficient company due to its technological leadership and favourable operating conditions.

One of the main financial objectives – reduction of outstanding debt and optimization of the capital structure which was indebted after the entry of the majority shareholder, was completed. PEGAS successfully refinanced its previous amortizing senior debt by new non-amortizing facilities, resulting in a substantial reduction of interest costs and a cash flow boost. We believe that we have satisfied our shareholders with the announcement of a dividend payment this year and we are prepared to continue with a progressive dividend policy in the upcoming years.” commented Miloš Bogdan, member of the Board of Directors of PEGAS NONWOVENS SA and CEO of PEGAS NONWOVENS s.r.o.

3 First Half 2007 Financial Results

3 First Half 2007 Financial Results

Revenues, Costs and EBITDA

Consolidated revenues (revenues from sales of products) reached Euro 60.7 million in the first half 2007, up by 1.1% yoy. The key factors affecting this growth were higher sales of production in the Q1 2007 and overall increase in the production output. Reduction of one-off orders was compensated by growth in other projects, as explained further in Section 4.

Total consolidated operating costs without depreciation and amortization and after exclusion of realized and unrealized FX changes including interest rate hedging increased in the first half 2007 by 1.3% yoy to Euro 39.8 million. The main reasons were higher energy and raw materials expenses and increased administration costs related to changes in the corporate structure after the IPO. This amount also includes a one-off income in the item Other operating income/(expense) net of Euro 1.03 million which was received by PEGAS as compensation for damages from an arbitration procedure.

Adjusted EBITDA in the first half of 2007 amounted to Euro 20.9 million, up by 0.7 % yoy. Adjusted EBITDA margin in the first half of 2007 was 34.5%, slightly down by 0.1% in comparison with the same period in 2006.

Operating Costs

Total raw materials and consumables used in the first half of 2007 amounted to Euro 37.9 million, a 2.8% yoy increase.

Total staff costs amounted to Euro 2.8 million in the first half of 2007, a 12.3% yoy increase. The AGM decided on a new remuneration policy for its executive and non-executive directors and an assignment of a phantom share option plan. This was the principal driver of increased staff costs. It is important to explain that in 2006 prior to the Company's IPO, PEGAS did not pay any remuneration to its Board members in the form of directors' fees or management bonuses. The share option plan has been effective only since 2007. As a result, the year-on-year increase in the staff costs category is related to newly established corporate governance and management schemes according to market standards of publicly listed companies and the year 2006 cannot serve as a benchmark year in this respect. In addition, the increase was driven by costs of new staff hired in connection with the upcoming launch of the 8th line and staff costs in administration related to changes in the corporate structure after the IPO.

Total staff costs, denominated in Czech korunas, went up by 10.9% yoy. Total number of employees as at June 30th, 2007 was 357, up by 8.5 % yoy, primarily in connection with recruitment and training of new employees for the new 8th production line.

Other net operating expenses amounted to Euro 5.1 million in the first half 2007 in comparison with Euro 5.1 million of an income in the first half 2006. This expense was driven by the realized and unrealized FX losses related to balance sheet re-valuations and a mark-to-market revaluation of our interest rate swaps as at June 30th, 2007 which together amounted to Euro 6.0 million. FX losses resulted mainly from realized losses from previous senior debt repayment and unrealized FX revaluation of balance sheet items following a further weakening of the Czech koruna against Euro.

Depreciation and Amortization

Consolidated depreciation and amortization reached Euro 6.1 million in the first half of 2007, a minor decline of 1.6% from Euro 6.2 million in the same period of 2006.

Profit from Operations

Adjusted profit from operations (EBIT) amounted to Euro 14.9 million in the first half of 2007, up by 1.7% compared with the same period in 2006.

3 First Half 2007 Financial Results

Finance Costs

Finance costs amounted to Euro 6.6 million in the first half of 2007, a 17.8% decrease when compared with the same period in 2006. These finance costs primarily include interest costs. In connection with the refinancing, the Company has written-off an arrangement fee in the amount of Euro 2.6 million associated with previous senior debt facilities.

Lower finance costs were primarily influenced by a substantial reduction of the total Company's indebtedness over the last 12 months due to repayments of the most expensive debt related to the initial acquisition of PEGAS a.s.

Income Tax

In the first half of 2007, income tax amounted to Euro 411 thousand of income, in comparison with Euro 723 thousand expense in the same period of 2006. This income in 2007 was caused by deferred tax.

Net Profit and Adjusted Net Profit

Net profit in the first half of 2007 amounted to Euro 2.7 million, down by 75.0% yoy. If adjusted by the impact of the FX losses and mark-to-market revaluation of the IRS including the impact on income tax expense, the adjusted net profit would total Euro 8.7 million, a 47.0% yoy increase.

CAPEX and Investments

In the first half of 2007, total consolidated capital expenditure amounted to Euro 15.2 million, compared with Euro 4.2 million in the same period in 2006. This increase was planned and the yoy comparison is highly dependent on timing and distribution of the planned investments. Capital expenditure in 1H 2007 was primarily related to the construction of the new eighth production line project. The CAPEX to Revenues ratio was 25.1% in the first half 2007 compared with 6.9% a year before.

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at June 30th, 2007 was Euro 121.3 million, an 11.0% reduction compared with December 31st, 2006. Cash and cash equivalents reached Euro 1.2 million as at June 30th 2007, down by 94.5% compared with Euro 22.0 million as at December 31st, 2006. The decrease of the cash levels is fully in line with the new cash management policy following the refinancing of the Company's debt. The cash balances are being actively used to reduce drawing of the overdraft facility and therefore reducing interest costs. Net debt as at June 30th, 2007 was Euro 120.0 million, up by 5.1% from December 31st, 2006. Net Debt/Adjusted EBITDA⁶ ratio reached 2.9x, compared with 2.7x at the end of 2006.

As at June 30th, 2007 the Company did not draw Euro 26.7 million of available credit facilities.

Refinancing

On May 10th, 2007, PEGAS signed a 5-year, Euro 150 million non-amortising syndicated loan agreement, which was used to refinance the former outstanding senior debt. The new financing arrangement comprises of an Euro 130 million revolving facility and an Euro 20 million overdraft facility. As a result of a substantial de-leveraging, PEGAS was able to raise new debt at more favourable conditions in comparison with the initial senior debt which was related to the acquisition of PEGAS a.s. in 2005.

⁶ Calculated as 12 months Adjusted EBITDA from July 1st, 2006 to June 30th, 2007

3 First Half 2007 Financial Results

Overview of Company's Bank Debt as at December 31st, 2006 (in '000 Euro)

December 31 st , 2006	Bank loan	Arr. fees	Due amount	Short-term	Long-term	Interest rate	Interest rate at 31/12/06
Revolving loan	—	(126)	(126)	—	(126)	—	—
Credit tranche A	75,485	(1,504)	73,981	13,320	60,661	1,3,6M E+2.20%	5.674%
Credit tranche B	26,781	(464)	26,317	—	26,317	1,3,6M E+2.75%	6.424%
Credit tranche C	36,648	(649)	35,999	—	35,999	1,3,6M E+3.25%	6.924%
Bank loans Total	138,914	(2,743)	136,171	13,320	122,851		

Overview of Company's Bank Debt After the Refinancing as at June 30th, 2007 (in '000 Euro)

June 30 th , 2007	Draw- down limit	Bank loan outstan- ding	Available to draw	Arr. fees and related costs	Due amount	Short- term	Long- term	Interest rate	Interest rate at 30/06/07
Revolving	130,000	119,000	11,000	(1,742)	117,258	1,765	115,493	1,2,3,6M E+1.2%	5.315%
Overdraft	20,000	4,268	15,732	(268)	4,000	4,000	—	1,2,3,6M E+1.25%	5.364%
Bank loans Total	150,000	123,268	26,732	(2,010)	121,258	5,765	115,493		

Hedging

The Company is hedging its interest rate risk through interest rate swaps which are in place from March 2006 to December 2009. As at June 30th, 2007, the outstanding notional amount of the swaps was Euro 92.5 million, hedging approximately 76% of the outstanding debt.

4 First Half 2007

Business Performance

4 First Half 2007 Business Performance

The total production output (net of scrap) reached 27.9 thousand tonnes in the first half 2007, up by 5.4% when compared with the same period in 2006. The Company managed to increase its production owing to a better utilization and higher efficiencies in the production process without the installation of new capacities in the period.

Revenues from sales of nonwoven textiles for the hygiene industry were 87.1% of total revenues in the first half 2007. This was similar to the proportion of revenues from sales to the hygiene industry in the same period in 2006 which was 87.8%.

Revenues from sales of standard nonwoven textiles for hygiene products reached Euro 40.3 million, an increase of 3.9% in comparison with the same period in 2006. The proportion of revenues from sales of commodity nonwoven textiles for the hygiene industry represented a 66.4% share on total revenues, up from 64.6% in the same period in 2006.

Revenues from sales of specialty products, where the company is focusing its effort, were Euro 12.6 million, down by 9.8% compared with the first half 2006.

The achieved revenues from specialty sales fully confirm the Company's focus on the highest possible growth in this product segment. The sales of specialties of Euro 12.6 million in 1H 2007 represent a 9.8% decline over the same period last year; however, this is in line with previous statements of the Company. Approximately one third of total sales in the first half of 2006 were related to a one-off contract with an overseas customer. However in the first half of 2007 this cooperation did not continue, which was in line with the expectations of the Company's management, the missing volume of specialty products was almost completely replaced by new projects in spite of decisions of some customers to postpone some of their projects. Going forward, expansion of specialty sales still remains one of the key objectives for the Company and is of a crucial importance to the Company.

Based on explanations above, the proportion of specialty sales within total sales in the first half 2007 amounted to 20.7%, compared with 23.2% in the same period in 2006.

Revenues from sales of non-hygiene products (for construction, agriculture and medical) amounted to Euro 7.9 million in the first half 2007, an increase of 7.1% over the first half of 2006.

In terms of geographical distribution, the Company confirmed its strong and growing position in its core European market. Sales to Western Europe amounted to Euro 34.4 million in the first half 2007, up by 37.5% over the same period last year. Revenues from sales to CEE and Russia reached Euro 17.9 million, up by 3.0% yoy. The revenues from sales to other territories amounted to Euro 8.4 million, down by 52.3% yoy due to the one-off orders from last year which were not repeated and this was fully anticipated by the Company.

5 Research & Development

5 Research & Development

The Product Development and Technical Support departments provide customers with solutions by incorporating the input of the technology provider and raw material suppliers (PP/PE), as well as the final product manufacturer and final customer requirements. New technologies in nonwovens production are tailored to the parameters of raw materials, production lines, customers' specifications and demand for the final product, with a view to improving the quality and efficiency of the production especially of lightweight materials. PEGAS also works closely with a number of raw material suppliers to develop new polymer grades which offer greater efficiency when running on Reicofil systems.

In the field of totally new materials, the Company has started to develop different kinds of bi-component nonwovens, which could be composed of different shape of filaments and could bring clients improved bulkiness and other properties. In addition, PEGAS is actively working on developing special elastic nonwovens which should offer our clients significant enhancements in comfort and other benefits.

For the hygiene industry the Company successfully developed spin finishes which contain natural extracts and systems for their detection and we are working on the development of a so called permanent hydrophilic treatment.

PEGAS actively cooperates with several universities and independent research centres in the Czech Republic, Slovakia and in Germany, this collaboration allows it to prepare tailor made products in pilot scale operations, which later can be transferred to commercial lines.

Research and development costs in the first half of 2007 were approximately Euro 1.0 million.

6 Strategy & Outlook for 2007

6 Strategy and Outlook for 2007

The Company's strategic focus in 2007 as well as in the upcoming years is to 1) continue to grow in line with its core market, the personal hygiene nonwoven market in Europe, 2) retain its technology leadership in Europe and 3) maintain superior financial performance compared with its peers. PEGAS intends to achieve these objectives principally through the following strategies.

Installation of New Production Capacities

PEGAS will continue to install new advanced capacities ahead of its main European competitors. The new 8th line will be launched in October 2007 and will add an additional production capacity of 15,000 tonnes per annum starting from January 2008. The Company has already commenced a project for the next 9th production line to be built once more in Znojmo and it submitted an application for investment incentives to the Czech government agency CzechInvest on May 31st, 2007.

Investments in Technologically Advanced Machinery

The Company intends to continue investing in advanced machinery in order to maintain its competitive advantage over other manufacturers of spunmelt nonwovens.

Technical Expertise

PEGAS consistently strives to maintain the highest levels of technical and engineering capabilities through training and constant review of its production facilities.

Close Relationship with Customers and Suppliers

PEGAS intends to continue its cooperation with its clients, machinery manufacturers and raw material suppliers in order to remain at the forefront of technical developments in the industry and in order to supply its customers with the highest quality products and develop new materials.

Focus on Specialty Products

PEGAS remains the largest European manufacturer of specialty bicomponent spunmelt nonwovens and has extensive experience in the design and production of ultra lightweight materials. The Company's focus and technical capability in this field will be strengthened by the launch of the new 8th production line which will also boost the total production capacity by 28% based on the current product portfolio.

Maintain superior financial performance in its industry

In relation to its principle objective to grow in line with its core market, PEGAS will further focus on its financial performance and intends to achieve excellent results by growing volume through capital investment and close relationship with customers. A continuous focus on minimizing costs and on increasing sales of specialty products should prevent margin erosion driven by pricing pressure in the market.

7 Shares and Shareholder Structure

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Shareholders as at June 30th, 2007

Pamplona Capital Partners I, LP	43.4%
Management	2.0%
Free Float	54.6%
TOTAL	100.0%

Source: Company data

Following the IPO of the Company in December 2006, the shareholder structure remained unchanged in the first half of 2007. On April 27th, 2007, investment fund ING TFI S.A. of Poland announced that its funds managed by ING TFI S.A. jointly acquired a 5.11% of voting rights in the Company. On June 18th, 2007, six months after the Initial Public Offering of PEGAS, the lock up period (e.g. an interval during which shares cannot be sold) for Pamplona and other shareholders including the Company's top management expired.

Changes to the Shareholder Structure after June 30th, 2007

On July 4th, 2007 the principal shareholder of PEGAS NONWOVENS SA, Pamplona, announced its intention to sell part or its entire stake held in PEGAS. Following the investor roadshow held in the main European financial centres, Pamplona placed its entire 43.4% stake on July 10th, 2007 via an accelerate bookbuild on the Prague and Warsaw Stock Exchanges at the price of CZK 780 or PLN 102.49⁷. The shares were sold primarily to European institutional portfolio investors and the placement was not targeted to retail investors. ING Bank NV acted as the sole bookrunner on the transaction and Wood&Co. and Patria acted as selling agents. The placement was comfortably oversubscribed.

Following the sale of the shares in July, two institutional investors announced an accumulation of more than a 5% stake in the Company representing the voting rights. These were Templeton Asset Management with a 9.21% stake and Opera TFI of Poland with a 5.20% stake.

Secondary Offering Overview

Date of Pricing	July 10 th , 2007
Date of Settlement	July 16 th , 2007
No. of shares offered by selling shareholder	4,001,165
Selling price (in CZK)	780
Market capitalization of the offered shares (in CZK billion) as at July 10 th , 2007	3.12
Total market capitalization as at July 10 th , 2007 (in CZK billion) ⁸	7.32

Source: Company data

Current Shareholder Structure after July 16th, 2007

Institutional and Retail investors (together Free float)	100.0%
of which Company's Management	2.0%

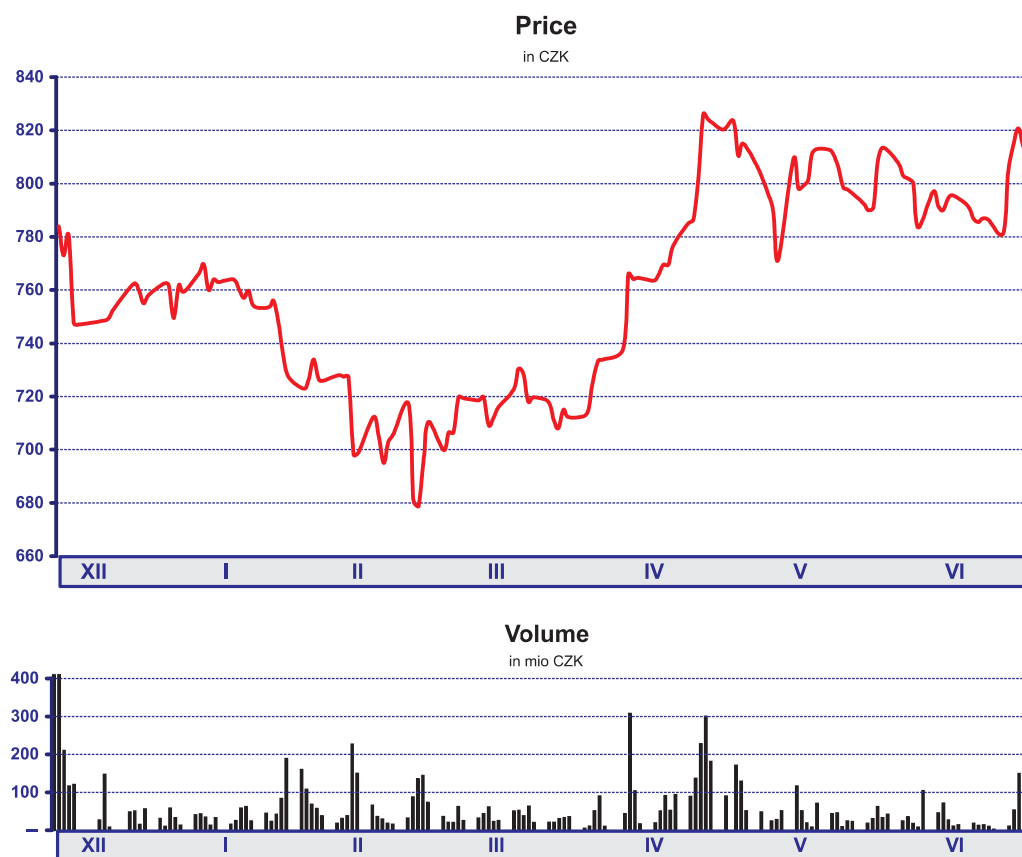
Source: Company data

⁷ Due to the execution of the placement on the stock exchanges in Prague and Warsaw, there is not an official price in Euro. The CZK/Euro FX rate from July 10th, 2007 was 28.601.

⁸ Based on the closing price of shares of PEGAS on the PSE at July 10th, 2007 at CZK 793

7 Shares and Shareholder Structure

Share Price Development on the Prague Stock Exchange (December 18th, 2006 – June 29th, 2007)



Source: Akcie.cz

8 Dividend Policy and Declaration of Dividend

8 Dividend Policy and Declaration of Dividend

On June 26th, 2007, the Board of Directors of PEGAS NONWOVENS SA announced a dividend payment of Euro 7 million, i.e. Euro 0.76 per share (based on a total number of shares being 9,229,400). The dividend payment is expected in the third quarter of 2007.

This dividend payment will be made approximately 12 months earlier than had been expected at the time of the IPO in December 2006. The Board of Directors further decided that subject to maintaining satisfactory financial performance the Company is expected to continue with a progressive dividend policy, no specific pay-out ratio in terms of Net Profit or an anticipated dividend yield for future years have been stated.

The payment of the dividend is subject to the successful merger of CEE Enterprise a.s. and PEGAS NONWOVENS s.r.o.

9 Corporate Governance

9 Corporate Governance

Annual General Meeting of June 15th, 2007

At PEGAS's AGM which was held in Luxembourg on June 15th, 2007, all of the resolutions that were subject to shareholder approval were adopted. The adopted resolutions were the following:

- (1) Discussion and adoption of the stand-alone accounts and the consolidated accounts for the financial year ended December 31st, 2006.
- (2) Allocation of the results of the financial year ended December 31st, 2006.
- (3) Discharge of the liability of the members of the Board of Directors, the former auditor of PEGAS and the réviseur d'entreprises (independent auditor) for, and in connection with, the financial year ended December 31st, 2006.
- (4) Appointment of the réviseur d'entreprises (independent auditor).
- (5) Adoption of a remuneration policy for the members of the Board of Directors (executive and non-executive directors) for 2006.
- (6) Adoption of a remuneration policy for the members of the Board of Directors (executive and non-executive directors) for 2007.
- (7) Approval of the bonus scheme and share price bonus plan for various members of the senior management and the members of the Board of Directors.
- (8) Distribution of the share premium account and grant of authority to the Board of Directors to distribute the share premium.

The number of shares registered and present for voting or duly voted by correspondence at the AGM was 4,655,593, representing 50.4% (rounded up) out of the 9,229,400 ordinary shares of PEGAS having a nominal value of Euro 1.24 each.

At the meeting, shareholders were also provided with information concerning PEGAS NONWOVENS SA's financial performance, Board of Director's report on business activity on the stand-alone accounts and the consolidated accounts for the financial year end December 31st, 2006, information on the management bonus scheme and management share option plan.

Management Bonus Scheme

The AGM approved the principles of the bonus scheme for 2007 targeted to the senior management of PEGAS, namely executive directors of PEGAS NONWOVENS SA and to two members of the senior management of PEGAS NONWOVENS s.r.o.

The key elements of the bonus scheme are as follows:

- The scheme is designed to ensure that senior management is focused on delivering the Company's budgeted economic results represented by the Budgeted EBITDA and is valid for the accounting year of 2007.
- Basis for the bonus calculation is EBITDA calculated in accordance with Czech/Luxembourg GAAP as the consolidated profit for the Group adjusted for certain extraordinary items, gains or losses specified further in the document which was available at the AGM.
- If the achieved EBITDA is equal to the Budgeted EBITDA, the paid bonus will be the Target bonus. If the achieved EBITDA is below or above the Budgeted EBITDA, the amount of the target bonus will be decreased or increased up to the amount of a maximum bonus in accordance with criteria set for each year by the Board of Directors.

9 Corporate Governance

Share Option Plan

The AGM approved a new phantom share option scheme targeted to directors of PEGAS NONWOVENS SA and to two members of the senior management of the Company. The scheme is designed to provide incentives to the senior management of PEGAS to deliver the Company's targets and align their interests with the interests of Company's shareholders and is effective in the four year period ending on December 18th, 2010.

The key elements of the phantom share option scheme are as follows:

- An aggregate amount of 173,755 phantom options was granted to the directors of PEGAS, against no consideration.
- An aggregate amount of 56,980 phantom options was granted to two members of the senior management of PEGAS NONWOVENS s.r.o., against no consideration.
- Each phantom option, when exercised, will grant the person the right to receive a phantom share. i.e. the right to receive in cash an amount equal to the difference between CZK 749.20 representing the offer price for which one share of PEGAS was sold to investors in the IPO of the shares of PEGAS and the closing price of one Company share on the day preceding the day of exercise of the phantom option on the Prague stock exchange (or other market if the PSE trading is discontinued). 25% phantom options will vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on December 18th, 2007 and the last options vesting on the 4th anniversary of the IPO.
- The AGM further authorized the Board of Directors to allocate the above mentioned phantom options between the directors and the respective members of the senior management in accordance with criteria determined by the Board of Directors.

Board of Directors Structure as at June 30th, 2007

Board of Directors of PEGAS NONWOVENS SA

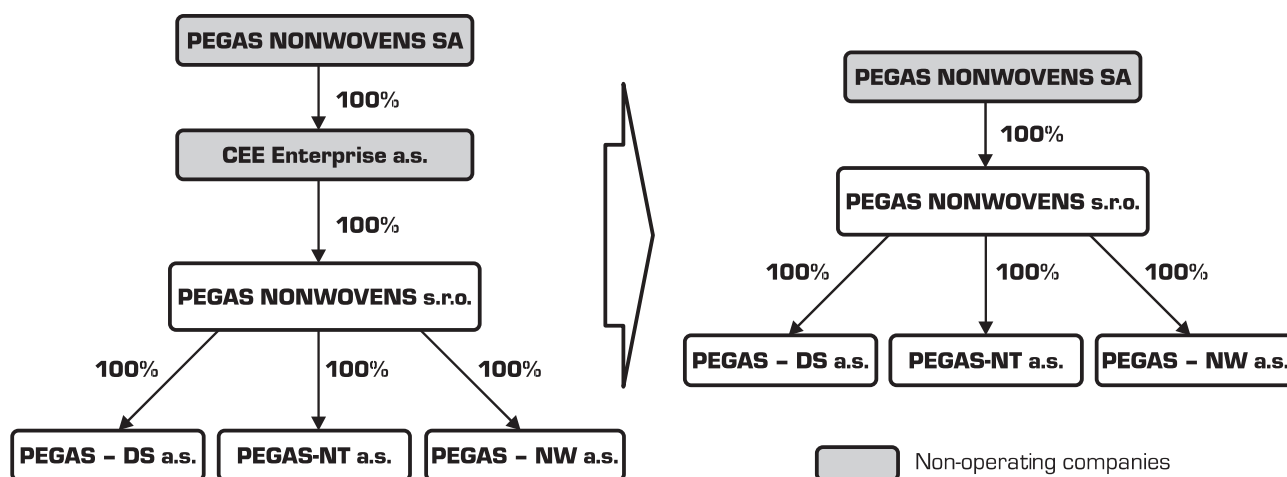
Name	Position
Miloš Bogdan	Executive Director
Aleš Gerža	Executive Director
František Klačka	Executive Director
František Řezáč	Executive Director
Henry Gregson	Non-Executive Director
John Halsted	Non-Executive Director
Bernhard Lipinski	Non-Executive Director
David Ring	Non-Executive Director

9 Corporate Governance

Changes to the Corporate Structure

On June 26th, 2007 PEGAS announced its intention to merge CEE Enterprise a.s. into PEGAS NONWOVENS s.r.o. in order to simplify its corporate structure. This intermediate holding company CEE Enterprise a.s. is a wholly owned, direct subsidiary of PEGAS NONWOVENS SA, Luxembourg, having owned 100% of the share capital of the main operating subsidiary, PEGAS NONWOVENS s.r.o. in Znojmo, Czech Republic.

CEE Enterprise a.s. is not an operating company and does not own any assets other than a software licence and its shareholding in PEGAS NONWOVENS s.r.o. This merger should reduce the administrative cost burden to the Group by approximately Euro 200,000 per annum.



Source: Company Data

**10 Consolidated Financial Statements
for six months ended
June 30th, 2007 and 2006**

10 Consolidated Financial Statement for six months ended June 30th, 2007 and 2006

10.1 Method of Consolidation

The consolidated financial statements incorporate the financial statements of PEGAS NONWOVENS S.A. and entities controlled by the Company (its subsidiaries). Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Assets, liabilities and off-balance sheet liabilities, which fulfill the criteria for the accounting recognition pursuant to IFRS 3, are measured to fair value at the date of acquisition, except for non-current assets classified as held for sale pursuant to IFRS 5. Non-current assets held for sale and discontinued operations are measured at fair value less costs to sell.

Any excess of the cost of acquisition over the fair value of the net identifiable assets acquired is accounted for as goodwill. Any excess of the fair value of the net identifiable assets acquired over the cost of acquisition is accounted for in the income statement in the accounting period in which the acquisition takes place.

Minority interests and ownership interests of minority investors of the consolidated subsidiaries are valued at the minority shareholder's proportionate interest in the net fair value of assets and liabilities recognized in the accounting.

As and when necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income, expenses and dividends are eliminated on consolidation.

10 Consolidated Financial Statement for six months ended June 30th, 2007 and 2006

10.2 Consolidated Statement of Income for six months ended June 30th, 2007 and 2006

Unaudited financial statements prepared under International Financial Reporting Standards [in thousands of Euro]

	Six month period ending		
	30 June 2006 (Unaudited)	30 June 2007 (Unaudited)	% change
Revenue	60,065	60,717	1.1%
Raw materials and consumables used	(36,865)	(37,912)	2.8%
Staff costs	(2,462)	(2,764)	12.3%
Other operating income/(expense) (net)	5,126	(5,110)	n/a
Of which FX gains and MtM revaluation IRS	5,069	(6,006)	n/a
EBITDA	25,864	14,931	(42.3%)
Adj. EBITDA	20,795	20,937	0.7%
Depreciation and amortisation expense	(6,153)	(6,052)	(1.6%)
Profit (loss) from operations	19,711	8,879	(55.0%)
Adj. Profit (loss) from operations	14,642	14,885	1.7%
Finance costs	(8,075)	(6,634)	(17.8%)
Profit (loss) before income tax	11,636	2,245	(80.7%)
Adj. Profit (loss) before income tax	6,567	8,251	25.6%
Income tax expense	(723)	411	n/a
Profit (loss) for the year/period	10,913	2,656	(75.7%)
Attributable to:			
Equity holders of the Company	10,640	2,656	(75.0%)
Minority interest	273	0	n/a
Net profit (loss) for the year/period	10,913	2,656	(75.7%)
Adj. Net profit (loss) for the year/period	5,894	8,662	47.0%

10 Consolidated Financial Statement for six months ended June 30th, 2007 and 2006

10.3 Consolidated Statement of Income for three months ended June 30th, 2007 and 2006

Unaudited financial statements prepared under International Financial Reporting Standards (in thousands of Euro)

	Three month period ending		
	30 June 2006 (Unaudited)	30 June 2007 (Unaudited)	% change
Revenue	30,527	29,383	(3.7%)
Raw materials and consumables used	(18,859)	(18,774)	(0.5%)
Staff cost	(1,251)	(1,431)	14.4%
Other operating income/(expense) (net)	1,144	(2,362)	n/a
Of which FX gains and MtM revaluation IRS	1,288	(3,236)	n/a
EBITDA	11,561	6,816	(41.0%)
Adj. EBITDA	10,273	10,052	(2.2%)
Depreciation and amortisation expense	(3,088)	(3,014)	(2.4%)
Profit (loss) from operations	8,473	3,802	(55.1%)
Adj. Profit (loss) from operations	7,185	7,038	(2.0%)
Finance costs	(4,120)	(4,429)	7.5%
Profit (loss) before income tax	4,353	(627)	n/a
Adj. Profit (loss) before income tax	3,065	2,609	(14.9%)
Income tax expense	36	396	n/a
Profit (loss) for the year/period	4,389	(231)	n/a
Attributable to:			
Equity holders of the Company	4,263	(231)	n/a
Minority interest	126	0	n/a
Net profit (loss) for the year/period	4,389	(231)	n/a
Adj. Net profit (loss) for the year/period	2,832	3,005	6.1%

10 Consolidated Financial Statement for six months ended June 30th, 2007 and 2006

10.4 Consolidated Balance Sheet as at June 30th, 2007 and Dec. 31st, 2006 and June 30th, 2006

Unaudited financial statements prepared under International Financial Reporting Standards (in thousands of Euro)

	30 June 2006 (Unaudited)	31 December 2006 (Audited)	30 June 2007 (Unaudited)
Assets			
Non-current assets			
Property, plant and equipment	111,133	110,522	116,437
Intangible assets	73	102	74
Goodwill	81,422	84,384	80,798
Total non-current assets	192,628	195,008	197,309
Current assets			
Inventories	7,379	8,363	7,595
Trade and other receivables	24,777	23,640	26,146
Cash and cash equivalents	28,292	22,014	1,238
Total current assets	60,448	54,017	34,979
Total assets	253,076	249,025	232,288
Equity and Liabilities			
Share Capital and reserves			
Share capital	125	11,444	11,444
Share premium	0	41,011	41,011
Other reserves	4,432	0	0
Translation reserves	(22)	725	(360)
Retained Earnings	9,201	23,770	26,426
Minority interest	345	0	0
Total share capital and reserves	14,081	76,950	78,521
Non-current liabilities			
Bank loans	152,958	122,851	115,493
Other payables	37,611	275	0
Deferred tax liabilities	15,184	15,225	14,171
Total non-current liabilities	205,753	138,351	129,664
Current liabilities			
Trade and other payables	18,992	20,212	18,338
Tax liabilities	0	192	0
Bank current liabilities	14,250	13,320	5,765
Total current liabilities	33,242	33,724	24,103
Total liabilities	238,995	172,075	153,767
Total equity and liabilities	253,076	249,025	232,288

10 Consolidated Financial Statement for six months ended June 30th, 2007 and 2006

10.5 Consolidated Statement of Cash Flows for six months ended June 30th, 2007 and 2006

Unaudited financial statements prepared under International Financial Reporting Standards (in thousands of Euro)

	Six month period ending	
	30 June 2006 (Unaudited)	30 June 2007 (Unaudited)
Profit (loss) for the year/period before tax	11,636	2,245
<i>Adjustment for:</i>		
Amortization and depreciation	6,153	6,052
Foreign exchange gains	(3,482)	7,426
Interest expense	8,075	6,634
Fair value changes of interest rate swaps	1,775	809
Cash flows from operating activities		
Decrease (increase) in inventories	1,243	768
Decrease (increase) in receivables	(2,767)	(3,315)
Increase (decrease) in payables	(5,050)	(4,745)
Income tax paid	(528)	(4)
Net cash from operating activities	17,055	15,870
Cash flows from investment activities		
Purchases of property, plant and equipment	(4,171)	(15,218)
Net cash used in investing activities	(4,171)	(15,218)
Cash flows from financing activities		
Increase (decrease) in bank loans	(7,825)	(15,645)
Increase (decrease) in long term debt	0	(275)
Interest paid	(3,801)	(5,508)
Net cash from (used in) financing activities	(11,626)	(21,428)
Cash and cash equivalents at the beginning of the period	27,034	22,014
Net increase (decrease) in cash and cash equivalents	1,258	(20,776)
Cash and cash equivalents as at 31 December	28,292	1,238

11 **Contacts**

11 **Contacts**

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12 Glossary

12 Glossary

Adjusted EBIT – Adjusted for the impact of FX changes and revaluation of IRS to show actual operating performance of the Company.

Adjusted EBITDA – Adjusted for the impact of FX changes and revaluation of IRS to show actual operating performance of the Company.

Adjusted Net Profit – Adjusted for the impact of FX changes and revaluation of IRS to show actual financial performance of the Company, taking into account a hypothetically different income tax treatment without the FX and IRS impact.

AGM – Annual General Meeting

Bi-Component Fibre (Bi-Co) – Man made textile fibre consisting of two or more basic components (polymers). Typical cross sections of fibres are for example side by side, core and sheath (produced by PEGAS), islands in the sea, etc.

EBIT – Earnings Before Interest, Taxes, Depreciation – A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses and depreciation and amortization.

EBITDA – Earnings Before Interest, Taxes, Depreciation, and Amortization – A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses.

IFRS – International Financial Reporting Standards.

EBIT Margin – Percentage margin calculated as EBIT/Revenues.

EBITDA Margin – Percentage margin calculated as EBITDA/Revenues.

IPO – Initial Public Offering.

IRS – Interest Rate Swap. Financial instrument hedging interest rate risk.

Lock-up Period – An interval during which an investment may not be sold. In the case of an IPO, management and employees may not sell their shares for a period time determined by the underwriter; usually lasting 180 days.

Meltblown Process – Technological process of producing nonwoven. Polymer is extruded into air gap nozzles and then blown in the form of very thin fibres (0.1 – 10 microns) on to a belt.

Meltblown Fabric – Textile produced using the meltblown process.

Net Profit Margin – Net Earnings after income tax and before distribution to shareholders divided by total revenues.

Nonwoven Textiles – a manufactured sheet, web or bat of directionally or randomly oriented fibres, bonded by friction, and/or cohesion and/or adhesion, excluding papers and products which are woven, knitted, tufted, stitch bonded incorporating binding yarns or filaments, or felted by wet milling, whether or not additionally needled.

PEC – Preferred Equity Certificate, a certificate that carries a right to convert for a stock at a certain date.

Polymer – Substance composed of molecules with large molecular mass composed of repeating structural units, or monomers, connected by covalent chemical bonds. i.e. a plastic.

Polypropylene/Polyethylene – Thermoplastic polymers consisting of long chains of monomers (propylene, ethylene), naturally hydrophobic, resistant to many chemical solvents, bases and acids. Produced mainly from oil by the chemical industry and used in a wide variety of applications.

12 Glossary

PSE – Prague Stock Exchange, a regulated market for securities trading in the Czech Republic.

PX – Official index of blue chip stocks of the Prague Stock Exchange.

Regranulation – Method for recycling scrap textile into granulate which can then be fully reused in the manufacturing process.

SAP – Information System Software.

Spunmelt/Spunmelt Process – Technological process of producing nonwoven. Hot molten polymer is forced through spinnerets to produce continuous filaments drawn by air to reach the demanded fibre diameter.

Spunbond Textile – Textile produced by spunbond/spunmelt process.

WSE – Warsaw Stock Exchange, a regulated market for securities trading in Poland.

Basic Information on the Company

Basic Information on the Company

Name

PEGAS NONWOVENS SA

Address

68–70, boulevard de la Pétrusse
L-2320 Luxembourg
Luxembourg

Registry and registration number

Registered with the Luxembourg trade and companies register under number B 112.044

Incorporated

November 18th, 2005 under the name Pamplona PE Holdco 2 S.A.

The registered office and principal place of business of the main operating and trading company, PEGAS NONWOVENS s.r.o., is at Přímětická 86, 669 04 Znojmo, Czech Republic.