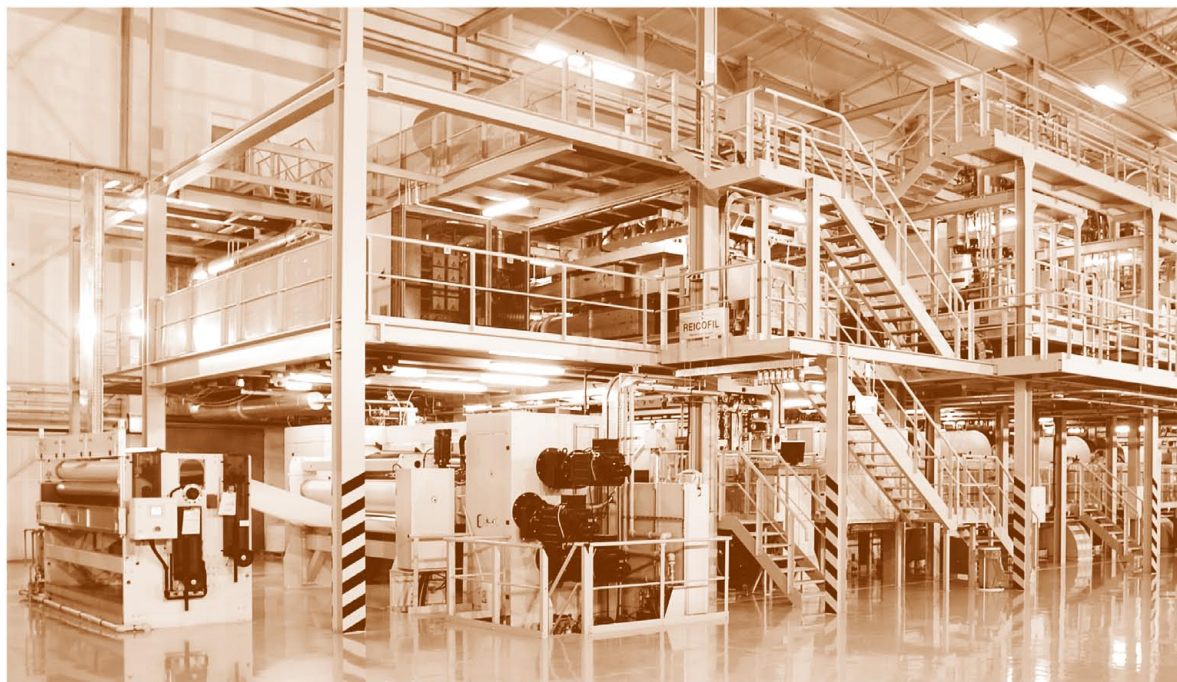




PEGAS NONWOVENS S.A. | Half Year Report 2009 | August 27, 2009

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1 Introduction

1 Introduction

PEGAS NONWOVENS S.A. (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 based („PP“ and „PP/PE“) textiles principally for use in disposable hygiene products (such as baby diapers, adult incontinence and feminine hygiene products) and, to a lesser extent, in construction, agricultural and medical applications.

Founded in 1990, the Company has constantly grown over the last 19 years to become the second largest European producer of spunmelt nonwovens (based on 2007 annual production capacity). Currently PEGAS operates two plants with a total of 8 production lines. The total production capacity of the Company is approximately 70 thousand tonnes of nonwoven fabric per annum. PEGAS consists of a parent holding company in Luxembourg and five operating companies, PEGAS NONWOVENS s.r.o., PEGAS – DS a.s., PEGAS-NT a.s., PEGAS – NW a.s. and PEGAS – NS a.s., all located in the Czech Republic. As of June 30, 2009 PEGAS employed 382 people.

Shares in PEGAS are listed on the Prague Stock Exchange and on the Warsaw Stock Exchange, following an Initial Public Offering in December 2006. 100% of the shares are free float, held by institutional and retail investors. As of June 30, 2009 the management of the Company jointly owned a 1.2% stake of the total share capital.

PEGAS is a member of the European Disposables and Nonwovens Association (EDANA).

2 First Half 2009 Highlights

2 First Half 2009 Highlights

Financials (EUR thousands)	Three months to June 30			Six months to June 30		
	2008	2009	% change	2008	2009	% change
Total Revenues	37,589	27,528	(26.8%)	75,344	63,191	(16.1%)
EBITDA	10,218	8,382	(18.0%)	20,693	22,393	8.2%
Profit from Operations (EBIT)	6,009	4,435	(26.2%)	12,415	14,637	17.9%
Net Profit for the Period	11,681	9,303	(20.4%)	23,241	16,024	(31.1%)
CAPEX	5,991	347	(94.2%)	17,124	415	(97.6%)
Ratios						
EBITDA Margin	27.2%	30.4%	3.2 pp	27.5%	35.4%	7.9 pp
Operating Profit (EBIT) Margin	16.0%	16.1%	0.1 pp	16.5%	23.2%	6.7 pp
Net Profit Margin	31.1%	33.8%	2.7 pp	30.8%	25.4%	(5.4) pp
CAPEX as % of Revenues	15.9%	1.3%	(14.6) pp	22.7%	0.7%	(22.0) pp
Total Production Output (in tonnes net of scrap)	16,371	17,256	5.4%	32,922	34,333	4.3%
Number of Employees – End of Period (EOP)	389	382	(1.8%)	389	382	(1.8%)
Exchange Rates						
CZK/EUR Average	24.826	26.677	7.5%	25.194	27.142	7.7%
CZK/EUR EOP	23.895	25.890	8.3%	23.895	25.890	8.3%
Financials (EUR thousands)						
	December 31, 2008			June 30, 2009		% change
Total Assets	248,243			247,608		(0.3%)
Total Equity	99,179			118,583		19.6%
Total Borrowings ¹	120,851			102,940		(14.8%)
Net Debt/(Net Cash) ²	120,542			102,672		(14.8%)
No. Shares EOP	9,229,400			9,229,400		0%

Main highlights of the first half of 2009 to June 30 are summarised below:

EBITDA in the first half of 2009 amounted to EUR 22.4 million, up by 8.2% yoy. The reported EBITDA in the first half of 2009 was mainly affected by its exceptional increase in the first quarter of 2009 due to low polymer prices and output pricing reflecting polymer prices at the higher level from the last quarter of 2008. This effect was amplified by the sale of finished goods stock from the end of previous year.

Profit from operations (EBIT) represented EUR 14.6 million in the first half of 2009, an increase of 17.9% yoy. Profit from operations was in the first half 2009 driven by the same factors affecting EBITDA and in addition by lower depreciation costs in EUR as a result of depreciating CZK in the compared periods.

¹ Includes long-term financial debt and short-term financial debt.

² Calculated as Total Borrowings minus cash and cash equivalents.

2 First Half 2009 Highlights

Consolidated revenues (revenues from sales of products) totalled EUR 63.2 million in the first half of 2009, down by 16.1% yoy. The sales were primarily influenced by the rapid decline of polymer prices (PP and PE) at the end of last year, which subsequently led to lower sales prices of products. In contrast, revenues were positively impacted by the clearance of the stock of finished goods from the end of 2008.

Net profit in the first half of 2009 amounted to EUR 16.0 million, a decline of 31.1% yoy, primarily due to massive unrealized FX gains resulting from the revaluation of balance sheet items (including their impact on income tax) on the back of the appreciation of the CZK against EUR in the first half of 2008.

Update of 2009 Guidance

Given its financial and business results in the first half of 2009 and taking into account the developments in the nonwovens market in Europe, the Company confirms its initial outlook for 2009.

Statement of the CEO of PEGAS NONWOVENS s.r.o, František Řezáč

"I am pleased to say that our business in the first half of 2009 has been characterised by problem-free production and strong sales performance, once more confirming the Company's stable position in the nonwovens market. The positive outlook for the remainder of the year is for sales to continue. We regard the first half financial results as very good. In line with our expectations they were positively influenced, namely in the first quarter, by three key factors. PEGAS was successful in selling the stock of inventories remaining from the end of last year. It benefited from low input polymer material prices, while taking advantage of higher sales prices that were pegged to the level of the last quarter of 2008. We have been successful in substantially reducing our external debt, which demonstrates the strong financial position of the Company. Our main objective going forward remains to meet our planned financial results.

We are also pleased to confirm this year's expected dividend payout of EUR 8.3 million, which equates to EUR 0.9 per share. The payment conditions will be announced by the first half of September," said František Řezáč, member of the Board of PEGAS NONWOVENS SA and CEO of PEGAS NONWOVENS s.r.o.

3 Management Report for the First Half of 2009

3 Management Report for the First Half of 2009

3.1 Financial Results in the First Half of 2009

Revenues, Costs and EBITDA

In the first half of 2009 consolidated revenues (revenues from sales of products) reached EUR 63.2 million, down by 16.1% yoy. The key driver of this development was the substantial decline of polymer prices at the end of last year, which subsequently led to lower sales prices of products, especially in the second quarter of 2009. The sale of the stock of finished goods in the first quarter of 2009 had a positive impact on the revenues.

In the second quarter of 2009, the total consolidated revenues were EUR 27.5 million, a 26.8% decline compared with the same period last year. Revenues were significantly impacted by the drop in input material prices as explained above.

Total consolidated operating costs without depreciation and amortisation went down by 25.3% yoy to EUR 40.8 million. In the second quarter of 2009, the total consolidated operating costs without depreciation and amortisation reached EUR 19.1 million, which is a decline of 30.1% yoy. The main cause of the annual decline of the operating costs was the drop in polymer prices.

In the first half of 2009 EBITDA amounted to EUR 22.4 million, up by 8.2% yoy. The first half increase in EBITDA was primarily affected by the exceptional increase in EBITDA in the first quarter of 2009, which resulted from low polymer purchase prices at a time when sales prices reflected the higher level from the last quarter of 2008. This effect was further amplified by the sale of finished goods stock from the end of the previous year.

In the second quarter of 2009 EBITDA reached EUR 8.4 million, down by 18.0% yoy. The higher EBITDA in 2008 was affected by the positive effect of the pass through mechanism. The annual comparison is further negatively affected by the mark-to-market of the share option plan and by the sales price levels contracted for 2009.

In the first half of 2009 the EBITDA margin reached 35.4%, up by 7.9 percentage points in comparison with the same period in 2008. In the second quarter of 2009 the EBITDA margin reached 30.4%, an increase of 3.2 percentage points yoy.

Operating Costs

Total raw materials and consumables used in the first half of 2009 amounted to EUR 37.4 million, a 27.2% yoy decrease. In the second quarter this item reached EUR 17.3 million, 32.7% yoy lower. This development resulted from the above mentioned drop in polymer prices.

Underlying staff costs decreased by 6% yoy, however due to the effect of the share option plan, total staff costs increased in the first half of 2009 by 11.7% yoy and amounted to EUR 3.5 million. The staff costs in this period were higher due to the higher fair value of the phantom share option plan. Total staff costs denominated in Czech korunas (CZK) without the revaluation of the share option plan went up by 1.3 % yoy due to a standard increase of salaries. In the second quarter of 2009 staff costs reached EUR 1.9 million, up by 15.5% yoy due to reasons explained above.

Other operating income (net) amounted to EUR 90 thousand in the first half of 2009, compared with the expense of EUR 127 thousand in the same period in 2008. In the second quarter of 2009, the other operating income (net) was EUR 55 thousand.

Depreciation and Amortization

Consolidated depreciation and amortization reached EUR 7.8 million in the first half of 2009, down by 6.3% yoy. This decrease resulted from the depreciation of the CZK against the EUR between the compared periods. In the second quarter of 2009, consolidated depreciation and amortization amounted to EUR 3.9 million, down by 6.2% yoy.

3 Management Report for the First Half of 2009

Profit from Operations

In the first half of 2009 profit from operations (EBIT) amounted to EUR 14.6 million, up by 17.9% compared with the same period in 2008 primarily on the back of the exceptionally high EBITDA recorded in the first quarter this year. In addition, it was affected by lower depreciation due to the weaker CZK compared with the same period last year.

In the second quarter of 2009 profit from operations (EBIT) declined by 26.2% yoy to EUR 4.4 million.

Financial Income and Costs

In the first half of 2009 foreign exchange gains and other financial income (net) reached EUR 4.4 million, down by 74.8% yoy. This item includes realized and unrealized FX gains/losses, changes in fair value of interest rate swaps and other financial income and expenses. The annual decline resulted from the exceptionally high FX gains recorded in the first half of 2008. In the second quarter of 2009 foreign exchange gains and other financial income (net) reached EUR 7.2 million, down by 23.7% yoy.

Interest expenses (net) related to debt servicing amounted to EUR 2.0 million in the first half of 2009, a 38.3% decrease compared with the same period in 2008. The main reasons for this decline were lower interest rates and the gradual repayment of the external debt. In the second quarter of 2009 interest expenses (net) related to debt servicing reached EUR 0.8 million, 51.0% yoy lower than in the same period last year.

Income Tax

In the first half of 2009 income tax amounted to EUR 1.1 million, down by 69.7% yoy. The Company recorded income tax in this period mainly due to unrealized FX gains resulting from the revaluation of the bank debt and the inter-company loan, despite including the income tax loss from 2008. The current income tax in the first half of 2009 reached EUR 1.0 million and deferred tax EUR 0.1 million.

In the second quarter of 2009 income tax reached EUR 1.5 million, down by 28.1 % yoy. Changes in deferred tax amounted to EUR 0.5 million.

Net Profit

In the first half of 2009 net profit amounted to EUR 16.0 million, down by 31.1% yoy, primarily due to higher unrealized FX gains in the same period last year (including their impact on income tax). In the second quarter of 2009, the Company recorded a net profit of EUR 9.3 million, 20.4% lower than in the same period in 2008.

CAPEX and Investments

In the first half of 2009 total consolidated capital expenditure amounted to EUR 0.4 million, a 97.6% yoy decrease. The capital expenditure was related solely to maintenance capital expenditure.

In the second quarter of 2009 total consolidated capital expenditure amounted to EUR 0.3 million, a 94.2% decrease compared with the same period last year. CAPEX outlook for the full year remains unchanged.

3 Management Report for the First Half of 2009

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at June 30, 2009 was EUR 102.9 million, a 14.8% decrease compared with December 31, 2008. Net debt as at June 30, 2009 was EUR 102.7 million, down by 14.8% yoy. This is equivalent to a Net Debt/EBITDA ratio of 2.5x.

3.2 First Half 2009 – Business Performance

In the first half of 2009 the total production output (net of scrap) reached 34,333 tonnes, up by 4.3% compared with the first six months in 2008. In the second quarter of 2009, the Company produced 17,256 tonnes, which is 5.4% more than in the same period last year.

The share of revenues from sales of nonwoven textiles for the hygiene industry represented in the first half of 2009 an 89.1% share of total revenues, an increase compared with an 86.7% share in the same period in 2008. In the second quarter of 2009 the share of revenues from sales of nonwoven textiles for the hygiene industry of total revenues was 88.1%, 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 43.9 million, a slight decrease of 2.4% yoy in comparison with the same period in 2008. The proportion of revenues from sales of commodity textiles for the hygiene industry represented in the first half of 2009 a 69.4% share of total revenues, an increase from a 59.7% share in the same period in 2008. In the second quarter of 2009 this share declined to 65.2%. In the hygiene segment, the revenues from sales of light-weight and bi-component materials in the first half of 2009 reached EUR 12.4 million, a 38.9% yoy decrease over the first half of 2008. The proportion of this product category of total sales in the first half of 2009 amounted to 19.7% and in the second quarter of 2009, this share went up to 22.8%.

Revenues from sales of non-hygiene products (for construction, agriculture and medical) amounted to EUR 6.9 million in the first half 2009, a decrease of 31.2% over the first half of 2008. The share of the sales of non-hygiene products of total revenues was 10.9% in the first half of 2009 and slightly increased to 11.9% in the second quarter of this year.

In terms of geographical distribution³, the Company confirmed its steady focus on the European area. Sales to Western Europe amounted to EUR 36.7 million in the first half of 2009 and represented a 58.0% share of total revenues compared with a 54.3% share in the same period last year. Revenues from sales to CEE and Russia reached EUR 24.5 million and represented a 38.9% share of total revenues, a decrease from a 42.1% share in the corresponding period of 2008. Revenues from sales to other territories amounted to EUR 2.0 million, and represented a 3.1% share of total revenues compared with a 3.6% share in the same period last year.

3.3 Research & Development

Currently R&D activities at PEGAS are carried out by two departments focused on customer support of the existing business as well as on new product development (primarily for the hygiene segment and also for medical and industrial applications). Their main objective is to determine the future direction of technological activities and to ensure a long term sustainable development of the Company, which is one of the key strategic goals of PEGAS.

Given its primary target, the R&D department is focused on innovations of existing products and on the development of brand new products for the main segment of the Company – the hygiene segment. The aim is not only to offer brand new products to the market but in cooperation with key partners to prepare and potentially introduce a completely new technological platform to the market which could bring higher production efficiency and be able to commercialise and efficiently produce some of the new advanced products.

³ Geographical breakdown is based on the location of delivery.

3 Management Report for the First Half of 2009

With this intention, PEGAS actively develops a close cooperation with its key business partners both suppliers and customers. The joint cooperation provides mutual R&D support also for special pilot production equipment. This equipment enables in many cases the development and modification of technologies required for new products, which can be launched and commercialised promptly. These pilot production lines located either in the Czech Republic or abroad are actively utilised and represent a significant support of the existing R&D at PEGAS.

It is also important to mention that PEGAS cooperates with academics on various project grants. These projects deal with many significant research tasks that lead to the development and commercialisation of new technologies and products.

3.4 Strategy and Outlook for 2009

The Company's strategic focus remains unchanged for 2009 and for the upcoming years as it has proven to be successful:

1. continue to strengthen its market position through further growth opportunities,
2. retain its technological leadership in the market for spunmelt nonwoven textiles for disposable hygiene products in Europe, and
3. continue to create shareholders' value.

PEGAS intends to achieve its objectives principally through the following strategies:

Growing Production Capacities through Investments in Technologically Advanced Machinery: PEGAS will continue to install new advanced capacities ahead of its main European competitors. The Company has already commenced a project for the next, 9th production line to be built in Znojmo and has received a commitment for investment incentives from the Czech Government.

Close Relationship with Customers and Suppliers: PEGAS intends to continue its cooperation with its clients, machinery manufacturers and raw material suppliers in the development of new R&D projects ahead of the market. PEGAS strives to remain at the forefront of technical developments in the industry and supply its customers with the highest quality products and develop new materials.

Focus on Technologically Advanced Products: PEGAS remains the largest European manufacturer of bi-component spunmelt nonwovens and has extensive experience in the design and production of ultra lightweight materials. The project for the treatment of nonwovens using atmospheric plasma is currently in its testing phase.

Maintain Superior Financial Performance in the Industry: In relation to its principle objective to grow in line with its core market, PEGAS strives to deliver revenues in line with growth and high operating margins compared with its core competitors. PEGAS generates a high level of cash, which is used to support expansion, reduce outstanding debt and to pay out dividends.

Monitoring Investment Opportunities: With respect to expansion outside the Czech Republic, the Company will continue to monitor investment opportunities, which may lead to an acquisition or the opening of production capacity in other territories.

3 Management Report for the First Half of 2009

3.5 Risk Factors

The Company's business, results of operations and financial condition may be adversely affected by the following risks:

Marketing and Sales

PEGAS operates in a highly competitive market and the emergence of new competitors or introduction of new capacities by one of the existing competitors in the hygiene segment could adversely affect sales and margins.

A high concentration of customers accounts for a significant percentage of the total sales, and the loss of one or more of them could significantly affect the Company's revenues and profitability.

A change in the demand of end-users of hygiene products and a shift of their preferences to cheaper products could lead to a change in the product mix at PEGAS and affect the Company's revenues and profitability.

Due to the slowing demand for nonwovens materials mainly from construction and other technical fields, there is a risk that PEGAS will not be fully able to utilize its production capacities, which could adversely affect the Company's revenues and profitability.

Production

Any disruption to our production facilities would have a material adverse effect on the Company's business. PEGAS is dependent on one manufacturer for its equipment and technical support for its production lines. There is a risk that PEGAS may not be able to reconfigure production lines on a timely basis in order to respond to changing demand for particular kinds of spunmelt nonwovens. Machinery from other producers may prove more efficient and develop faster than the machinery supplier of PEGAS.

The Company's competitors may have access to more and cheaper sources of capital allowing them to modernize and expand their operations more quickly and giving them a substantial competitive advantage over PEGAS.

The steady supply and transportation of products from PEGAS's plants to the customers are subject to various uncertainties and risks.

PEGAS depends on external suppliers for key raw materials, therefore increases in the cost of raw materials, electricity and other consumables could have a material adverse impact on the Company's financial condition and results of operations, although a polymer price increase is by large transferred to sales prices.

Research and Development

The Company's competitors may develop new materials demanded by customers and gain a competitive advantage, which could adversely affect the Company's sales and margins.

Potential Expansion

PEGAS faces risks associated with potential acquisitions, investments, strategic partnerships or other ventures, including opportunities identification, risk of the completion of the transaction and the integration of the other parties into PEGAS's business.

Legal and Intellectual Property

PEGAS's operations are exposed to financial and operating uncertainty and are subject to government laws and regulations that may adversely affect results of operations and financial conditions.

3 Management Report for the First Half of 2009

PEGAS may be in breach of intellectual property rights of others.

Adverse outcomes in litigation to which PEGAS is a party could harm the business and its prospects.

Finance

The indebtedness of PEGAS could adversely affect the financial condition and results of operations. There is a risk that interest rates on outstanding external debt could be reassessed by the banks and increased on the back of the financial sector crisis and therefore increased interest costs could affect the Company's profitability.

High level of indebtedness and conditions on external debt (covenants) may potentially lead to a modification of the current progressive dividend policy of the Company.

There is a risk that the fluctuations in the value of the Czech koruna against the EUR could adversely affect the Company's profitability. PEGAS's operating subsidiaries avail themselves of tax benefits offered by the Czech Government. Hence, the Company's profitability could decrease owing to any adverse change in general tax policies or if the tax benefits were reduced or withdrawn.

The fluctuation of the polymer prices, which are passed on to the customers with some delay may on a short-term basis affect the Company's revenues and profitability.

The insurance coverage may not adequately protect PEGAS against possible risk of loss.

Security, Environment and Safety

Compliance with, and changes in, safety, health and environmental laws and regulations may adversely affect the Company's results of operations and financial conditions.

Key Personnel and Technical Expertise

The loss of the services of our key management personnel could adversely affect the Company's business.

PEGAS may not be able to hire and retain sufficient numbers of qualified professional personnel because these personnel are limited in number and are in high demand.

Ownership Changes

PEGAS is 100% free float and its ownership structure is very fragmented and divided among many shareholders. A potential entry of a majority investor into the Company could result in a sudden change of the long-term strategy and impact value of the shares.

4 Shares and Shareholder Structure

4 Shares and Shareholder Structure

Shareholders as at June 30, 2009

Free Float	100%
Of which Management of the Company	1.2%

Source: Company data

The total stake held by the management of the Company as of June 30, 2009 was 1.2% and declined from the 1.3% stake as of December 31, 2008.

During the first six months ending June 30, 2009 there was no change of a major holding in the share capital and the total voting rights attached to the shares issued by the Company.

Share Price Development and Trading Activity in the first half 2009⁴

The Company's shares are traded on the Prague Stock Exchange under ISIN LU0275164910 BAAPEGAS and on the Warsaw Stock Exchange under PGS. The shares of PEGAS NONWOVENS S.A. are as of March 19, 2007 part of the PX index, which covers the shares of all major issuers on the Prague Stock Exchange. In the third quarter of 2007 shares were also accepted for trading into RM-System, an organized market in the Czech Republic.

During the first half of 2009 PEGAS shares were traded for a total value of CZK 1.2 billion on the Prague Stock Exchange and for a total value of PLN 11.9 million on the Warsaw Stock Exchange. The lowest trading price during the 6 months was CZK 223 and PLN 34.15 and the highest CZK 383 and PLN 65 on the Prague and Warsaw Stock Exchanges respectively.

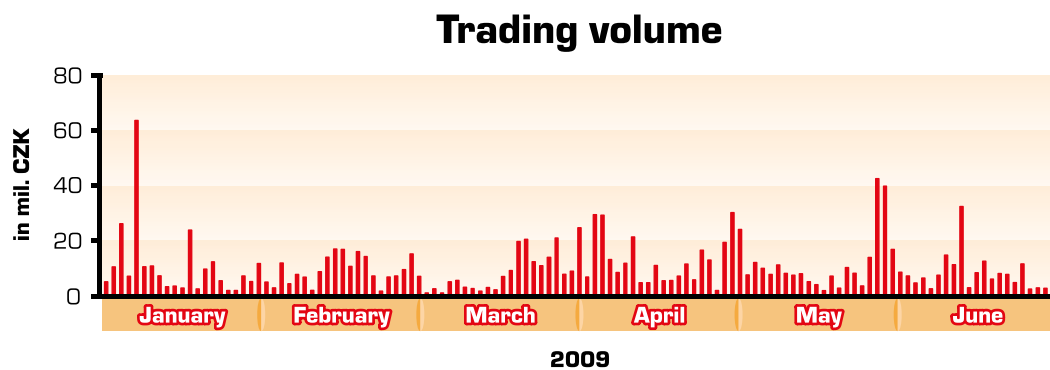
The closing price on June 30, 2009 was CZK 359 on the Prague Stock Exchange and PLN 61.35 on the Warsaw Stock Exchange and market capitalization reached CZK 3.3 billion or EUR 128 million⁵ (based on the Prague Stock Exchange quote).

⁴ Sources: PSE and WSE websites

⁵ Czech National Bank FX rate as of June 30, 2009 (25.89 CZK/EUR) used for calculation

4 Shares and Shareholder Structure

Share Price Development of PEGAS on the Prague Stock Exchange (January 1, 2009 – June 30, 2009)



Source: PSE

5 Dividend Policy and Expected Dividend

5 Dividend Policy and Expected Dividend

In 2009 the Company intends to pay out a dividend of EUR 8,306,460, i.e. EUR 0.9 per share (based on the total number of shares being 9,229,400). The record date and the dividend payment date are expected to be announced in early September 2009. This dividend will be paid from the share premium account of PEGAS NONWOVENS S.A. and its payment doesn't require the approval of the General Meeting of Shareholders.

Subject to maintaining satisfactory financial performance and the absence of other attractive opportunities, PEGAS will endeavour to continue with a progressive dividend policy, no specific payout ratio in terms of net profit or an anticipated dividend yield for future years have been stated.

6 Related Parties Transactions

6 Related Parties Transactions

Remuneration of Executive Managers and Non-executive Directors

The Company concluded Service agreements with its executive managers and non-executive directors for their services for consideration of the emoluments. In addition, the payment of annual bonuses by the Company for executive managers, calculated based on operating performance of the Company, is subject to approval at the General Meeting.

Executive managers (including Czech Board members) may use the Company's cars for private purposes. Executive managers do not receive any other benefits in addition to this.

Cash-settled Share-based Payment

In 2007, the Company entered into a Share price bonus scheme for its Senior Management and Board Members. The scheme is a cash-settled payment transaction, in which the Company acquires services of key personnel by incurring liabilities to the supplier of those services for amounts that are based on the price of the Company's shares. The scheme is realized through Phantom options. The service period equals the vesting period and the services are correspondingly accounted for as they are rendered by the counterparty during the vesting period.

The Annual General Meeting held on June 15, 2007 approved the grant of an aggregate amount of 230,735 phantom options to six senior executive managers and two non-executive directors, for no consideration. The Grant date of the phantom options was May 24, 2007. Each phantom option, when exercised, will grant the manager the right to receive cash calculated as closing price of one Company share on the Prague stock exchange (the PSE) (or other market if the PSE trading is discontinued) on the day preceding the day of exercise of the phantom option less CZK 749.20 representing the offer price at the time of the initial public offering of the shares of PEGAS NONWOVENS S.A. (the IPO price). 25% of the phantom options vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on December 18, 2007 and the last options vesting on the 4th anniversary of the IPO.

As a result of personnel changes in 2008 the aggregate number of phantom options granted was reduced to 174,960 as at June 30, 2009.

No phantom shares were exercised in the first half of 2009. The fair value of the phantom options as at 30 June, 2009 was EUR 102 thousand. The non-executive director's benefit is EUR 26 thousand of the total amount.

Except for the information above there were no other transactions between the Company and the executive managers or the non-executive directors.

7 Corporate Governance

7 Corporate Governance

Annual General Meeting of June 15, 2009

At PEGAS's AGM, which was held in Luxembourg on June 15, 2009, all of the resolutions that were subject to shareholder approval were adopted. The adopted resolutions were the following:

1. Election of the Bureau of the Meeting.
2. Presentation and discussion of the report of the auditors regarding the statutory accounts and the consolidated accounts for the financial year ended December 31, 2008 and of the reports of the Board of Directors of PEGAS on the statutory accounts and the consolidated accounts for the financial year ended December 31, 2008.
3. Approval of the statutory accounts and the consolidated accounts for the financial year ended December 31, 2008.
4. Allocation of the net results of the financial year ended December 31, 2008.
5. Discharge of the liability of the members of the Board of Directors and the auditors of PEGAS for, and in connection with, the financial year ended December 31, 2008.
6. Appointment of a Luxembourg independent auditor ("réviseur d'entreprises") to review the statutory accounts and the consolidated accounts as at December 31, 2009.
7. Ratification of the decision of the Board of Directors to co-opt Mr Bernhard Lipinski, residing at Steinertsweg 44b, postal code 64753, Brombachtal, Germany, and Mr David Ring, residing at Cedar House, Kenfield, Winchester, postal code SO22 EX, United Kingdom, as non-executive directors of the Company both for a period ending on November 30, 2010.
8. Approval of a remuneration policy for non-executive directors for the financial year 2009.
9. Approval of a remuneration policy for executive directors for the financial year 2009.
10. Approval of the total bonus paid to the executive directors for the financial year 2008 in accordance with the bonus scheme approved by the annual general meeting of shareholders held in 2008.
11. Miscellaneous.

The number of shares registered and present for voting or duly voted by correspondence at the AGM was 2,242,954, representing 24.3% (rounded up) out of the 9,229,400 ordinary shares of PEGAS having a nominal value of EUR 1.24 each.

Decision to Co-opt Non-executive Directors

The AGM resolved to ratify the co-optation dated December 1, 2008 of Mr. Bernhard Lipinski, residing at Steinertsweg 44b, postal code 64753, Brombachtal, Germany, and Mr. David Ring, residing at Cedar House, Kenfield, Winchester, postal code SO22 EX, United Kingdom, as non-executive directors of the Company and to proceed with their ultimate appointment. Both were appointed for a period ending on November 30, 2010.

7 Corporate Governance

Board of Directors Structure as at June 30, 2009

Board of Directors of PEGAS NONWOVENS S.A.

Name	Age	Position/Function	Business Address	Function Period in H1 2009
František Řezáč	35	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	Jan 1, 2009 – Jun 30, 2009
Aleš Gerža	36	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	Jan 1, 2009 – Jun 30, 2009
František Kláška	52	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	Jan 1, 2009 – Jun 30, 2009
Bernhard Lipinski	62	Non-Executive Director, Chairman of the Board	Steinertsweg 44b, 64753, Brombachtal, Germany	Jan 1, 2009 – Jun 30, 2009
David Ring	46	Non-Executive Director	Cedar House, Kenfield, Winchester, SO22 EX, UK	Jan 1, 2009 – Jun 30, 2009
Marek Modecki	50	Non-Executive Director	Centrum LIM , Aleje Jerozolimskie 65/79 , 00-697 Warsaw, Poland	Jan 1, 2009 – Jun 30, 2009

Group Entities

To translate the registered capital of Czech subsidiaries, the CZK/EUR 25.890 rate of exchange effective on June 30, 2009 was used.

Company	Acquisition Date	Share in the Subsidiary	Registered Capital (CZK 000')	Registered Capital (EUR 000')	Number and Nominal Value of Shares
PEGAS NON-WOVENS s.r.o.*	Dec 5, 2005	100%	3,633	140	100% participation of CZK 3,633 thous.
PEGAS – DS a.s.	Dec 14, 2005	100%	800,000	30,900	64 shares at CZK 10,000 thous. per share and 64 shares at CZK 2,500 thous. per share
PEGAS-NT a.s.	Dec 14, 2005	100%	550,000	21,244	54 shares at CZ 10,000 thous. per share and 10 shares at CZK 1,000 thous. per share
PEGAS – NW a.s.	Dec 14, 2005	100%	650,000	25,106	64 shares at CZK 10,000 thous. per share and 10 shares at CZK 1,000 thous. per share
PEGAS – NS a.s.**	Dec 3, 2007	100%	5,000	193	5 shares at CZK 1,000 thous. per share

* PEGAS NONWOVENS s.r.o. was registered on November 14, 2003 as ELK INVESTMENTS s.r.o. In 2006, the company name was changed to PEGAS NONWOVENS s.r.o. PEGAS a.s., the subsidiary of PEGAS NONWOVENS s.r.o., was established in 1990. It merged with PEGAS NONWOVENS s.r.o. with effect from January 1, 2006 and was deleted from the Commercial Register on May 12, 2006. CEE Enterprise a.s. merged with PEGAS NONWOVENS s.r.o. with effect from January 1, 2007 and was deleted from the Commercial Register on August 20, 2007.

** PEGAS – NS a.s. was established by PEGAS NONWOVENS s.r.o. in December 2007 for the purpose of a new production line project.

**8 Consolidated Financial
Statements for the six months
ended June 30, 2009 and 2008**

8 Consolidated Financial Statements for the six months ended June 30, 2009 and 2008

8.1 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 contingent liabilities, which fulfil the criteria for accounting recognition pursuant to IFRS 3, are measured at fair value at the date of acquisition. 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.

8 Consolidated Financial Statements for the six months ended June 30, 2009 and 2008

8.2 Consolidated Statement of Income for the six months ended June 30, 2009 and 2008

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

	Six month period ending		
	June 30, 2008 (Unaudited)	June 30, 2009 (Unaudited)	% change
Revenue	75,344	63,191	(16.1%)
Raw materials and consumables used	(51,404)	(37,403)	(27.2%)
Staff cost	(3,120)	(3,485)	11.7%
Other operating income/(expense) net	(127)	90	n/a
EBITDA	20,693	22,393	8.2%
Depreciation and amortization expense	(8,278)	(7,756)	(6.3%)
Profit from operations	12,415	14,637	17.9%
Foreign exchange changes and other financial income/ (expense) net	17,538	4,414	(74.8%)
Interest (expense)/income net	(3,171)	(1,955)	(38.3%)
Profit before income tax	26,782	17,096	(36.2%)
Income tax (expense)/income net	(3,541)	(1,072)	(69.7%)
Net profit for the year	23,241	16,024	(31.1%)

8 Consolidated Financial Statements for the six months ended June 30, 2009 and 2008

8.3 Consolidated Statement of Income for the three months ended June 30, 2009 and 2008

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

	Three month period ending		
	June 30, 2008 (Unaudited)	June 30, 2009 (Unaudited)	% change
Revenue	37,589	27,528	(26.8%)
Raw materials and consumables used	(25,749)	(17,326)	(32.7%)
Staff cost	(1,624)	(1,875)	15.5%
Other operating income/(expense) net	2	55	n/a
EBITDA	10,218	8,382	(18.0%)
Depreciation and amortization expense	(4,209)	(3,947)	(6.2%)
Profit from operations	6,009	4,435	(26.2%)
Foreign exchange changes and other financial income/ (expense) net	9,391	7,162	(23.7%)
Interest (expense)/income net	(1,664)	(816)	(51.0%)
Profit before income tax	13,736	10,781	(21.5%)
Income tax (expense)/income net	(2,055)	(1,478)	(28.1%)
Net profit for the year	11,681	9,303	(20.4%)

8 Consolidated Financial Statements for the six months ended June 30, 2009 and 2008

8.4 Consolidated Balance Sheet for the six months ended June 30, 2009, June 30, 2008 and December 31, 2008

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

	June 30, 2008 (Unaudited)	December 31, 2008 (Audited)	June 30, 2009 (Unaudited)
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	145,187	121,440	118,683
Intangible assets	186	249	233
Goodwill	97,096	86,154	89,615
Total non-current assets	242,469	207,843	208,531
<i>Current assets</i>			
Inventories	13,362	12,731	14,909
Trade and other receivables	31,142	27,360	23,900
Cash and cash equivalents	127	309	268
Total current assets	44,631	40,400	39,077
Total assets	287,100	248,243	247,608
Equity and Liabilities			
<i>Share capital and reserves</i>			
Share capital	11,444	11,444	11,444
Share premium	33,997	26,152	26,152
Other reserves	3,295	2,433	4,396
Translation reserves	9,497	786	4,166
Retained earnings	65,854	58,364	72,425
Total share capital and reserves	124,087	99,179	118,583
<i>Non-current liabilities</i>			
Bank loans	103,204	96,131	83,480
Other payables	3	5	50
Deferred tax liabilities	13,432	11,378	11,938
Total non-current liabilities	116,639	107,514	95,468
<i>Current liabilities</i>			
Trade and other payables	21,682	16,751	13,597
Tax liabilities	3,971	79	400
Bank current liabilities	20,721	24,720	19,460
Provisions	—	—	100
Total current liabilities	46,374	41,550	33,557
Total liabilities	163,013	149,064	129,025
Total equity and liabilities	287,100	248,243	247,608

8 Consolidated Financial Statements for the six months ended June 30, 2009 and 2008

8.5 Consolidated Statement of Cash Flows for the six months ended June 30, 2009 and 2008

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

	Six month period ending	
	June 30, 2008 (Unaudited)	June 30, 2009 (Unaudited)
Profit before tax	26,782	17,096
<i>Adjustment for:</i>		
Amortization and depreciation	8,278	7,756
Foreign exchange gains	(5,544)	(1,213)
Interest expense	3,179	1,961
Fair value of interest rate swap	(90)	244
Other financial (expense)/income	24	256
Cash flows from operating activities		
Decrease/(increase) in inventories	445	(1,589)
Decrease/(increase) in receivables	(1,294)	4,345
Increase/(decrease) in payables	2,263	(4,158)
Income tax paid	(1,396)	(7)
Net cash from operating activities	32,647	24,691
Cash flows from investment activities		
Purchase of property, plant and equipment	(17,124)	(415)
Net cash used in investing activities	(17,124)	(415)
Cash flows from financing activities		
Increase/(decrease) in bank loans	(12,591)	(21,935)
Increase/(decrease) in long term debt	(98)	45
Interest paid	(3,194)	(2,171)
Other financial income/(expense)	(24)	(256)
Net cash used in financing activities	(15,907)	(24,317)
Cash and cash equivalents at the beginning of the period	511	309
Net increase (decrease) in cash and cash equivalents	(384)	(41)
Cash and cash equivalents at June 30	127	268

9 Statements of Responsible Persons

9 Statements of Responsible Persons

František Řezáč, Member of the Board of PEGAS NONWOVENS S.A.,

Aleš Gerža, Member of the Board of PEGAS NONWOVENS S.A.,

hereby declare that, to the best of their knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true view of assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole and that the management report includes a fair view of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.



František Řezáč

Member of the Board of PEGAS NONWOVENS S.A.



Aleš Gerža

Member of the Board of PEGAS NONWOVENS S.A.

10 **Contacts**

10 Contacts

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11 Glossary

11 Glossary

Bi-Component Fibre (Bi-Co) – Synthetic 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.

Bučovice – A town in Moravia in the Vyškov district with approximately 6,500 inhabitants. PEGAS operates three of its production lines here.

Clearstream Bank – Clearstream is a leading European supplier of post-trading services, a subsidiary of Deutsche Börse. Clearstream International was formed in January 2000 through the merger of Cedel International and Deutsche Börse Clearing.

CzechInvest – CzechInvest is the investment and business development agency of the Czech Republic whose services and development programmes contribute to attracting foreign investment and to developing Czech companies.

EBIT – Earnings Before Interest and Taxes - 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. Calculated as Net profit before income tax, interest expense, interest income, foreign exchange changes, other financial income/expense and depreciation and amortization.

EBIT Margin – Percentage margin calculated as EBIT/Revenues.

EBITDA Margin – Percentage margin calculated as EBITDA/Revenues.

EDANA – European Disposables and Nonwovens Association is the European Trade Association for the nonwovens and hygiene products converters industries, with around 200 member companies in 28 countries.

IFRS – International Financial Reporting Standards.

IPO – Initial Public Offering.

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

Meltblown Process – Technological process of producing nonwovens. 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.

National Depository for Securities (NDS) – The National Depository for Securities is the central institution responsible for the management and supervision of the depository-settlement system in relation to trading in financial instruments in Poland.

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

Nonwoven Textile – 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 or stitch-bonded incorporating binding yarns or filaments, or felted by wet milling, whether or not additionally needled.

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.

11 Glossary

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 crude oil by the chemical industry and used in a wide variety of applications.

Přímětice – Formerly an independent village, currently a suburb of Znojmo. PEGAS operates its main production facilities here.

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

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

Reicofil – Leading nonwoven machinery producer.

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

Spunbond Textile – Textile produced by spunbond process.

Univyc – a company which takes care of a settlement of trades in securities on the Czech capital market. Univyc is a 100% subsidiary of the Prague Stock Exchange.

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

12 Other Information

12 Other Information

Basic Information on the Company

Name

PEGAS NONWOVENS S.A.

Address

68–70, boulevard de la Pétrusse
L-2320 Luxembourg
Luxembourg
Tel.: (+352) 26 49 65 27
Fax: (+352) 26 49 65 64

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.

Jurisdiction

Luxembourg

The holding Company PEGAS NONWOVENS S.A., was incorporated in Luxembourg as a public limited liability Company (société anonyme) for an unlimited duration on November 18th, 2005 under the name Pamplona PE Holdco 2 S.A. and is registered with the Luxembourg trade and companies register under number B 112.044. The articles of incorporation of the Company have been published in the Mémorial, Recueil des Sociétés et Associations number C 440 of March 1, 2006. The Company's registered office is at 68–70, boulevard de la Pétrusse, L-2320 Luxembourg, Luxembourg. The registered office and principal place of business of the main operating and trading Company, PEGAS NONWOVENS s.r.o., is at Přímětická 3623/86, 669 04 Znojmo, Czech Republic.

12 Other Information

Scope of Business (according to Article 3 of the Articles of Association)

The object of the Company is:

- a) to take participation and interests, in any form whatsoever, in any commercial, industrial, financial or other, Luxembourg or foreign entities;
- b) to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or in any other way and namely to acquire patents and licenses, and other property, rights and interest in property as the Company shall deem fit, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as the Company may think fit, and in particular for shares or securities of any Company purchasing the same;
- c) to enter into, assist or participate in financial, commercial and other transactions, and to grant to any holding Company, subsidiary, or fellow subsidiary, or any other Company associated in any way with the Company, or the said holding Company, subsidiary of follow in which the Company has a direct or indirect financial interest, any assistance as, e.g., pledges, loans, advances or guarantees;
- d) to borrow and raise money in any manner and to secure the repayment of any money borrowed;
- e) to borrow funds and issue bonds and other securities éwand;
- f) to perform any operation which is directly or indirectly related to this purpose.

Principal Subsidiaries

Subsidiaries in which PEGAS NONWOVENS S.A. has a direct or an indirect interest amounting to at least 10% of the consolidated equity or 10% of the consolidated net profit:

Name	Registered Office	Identification Number	Main Activity
PEGAS NONWOVENS s.r.o.	Znojmo, Přímětická 3623/86, PSČ 669 04	25478478	Production of nonwoven textiles
PEGAS – DS a.s.	Znojmo, Přímětická 3623/86, PSČ 669 04	25554247	Production of nonwoven textiles
PEGAS-NT a.s.	Znojmo, Přímětická 3623/86, PSČ 669 04	26287153	Production of nonwoven textiles
PEGAS – NW a.s.	Znojmo, Přímětická 3623/86, PSČ 669 04	26961377	Production of nonwoven textiles
PEGAS – NS a.s.	Znojmo, Přímětická 3623/86, PSČ 669 04	27757951	Production of nonwoven textiles

