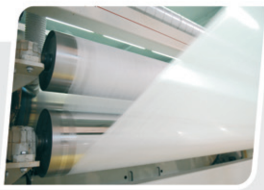
Half Year Report 2008

27 August 2008





PEGAS NONWOVENS S.A. | Half Year Report 2008 | 27th August 2008

Contents

1 Introduction

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PEGAS NONWOVENS S.A. (hereafter "PEGAS" or "the Company" or "Group") is one of the leading European producers of nonwoven textiles (i.e. textiles made from polymer filaments that are bonded together by using pressure and heat) 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 five operating companies in the Czech Republic, PEGAS NONWOVENS s.r.o., PEGAS – DS a.s., PEGAS–NT a.s., PEGAS – NW a.s. and PEGAS – NS a.s.

Founded in 1990, the Company has grown over the last 18 years to become the second largest European producer of spunmelt nonwovens, based on 2007 annual production capacity. Currently PEGAS runs two plants with a total of 8 production lines.The total production capacity of the Company is approximately 70 thousand tons of nonwoven fabric per annum. At the end of the first half of 2008, PEGAS employed 389 people.

Shares of PEGAS are listed on the Prague Stock Exchange and on the Warsaw Stock Exchange following the IPO of the Company in December 2006.

100% of the shares are free float, held by institutional and retail investors. As at June 30th, 2008 the Company's largest shareholder was Templeton Asset Management Ltd.[1] A 1.6% stake is held by the senior management of the Company.

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

[1] On March 18th, 2008 the Company received a notification that clients and funds managed by Templeton Asset Management Ltd., jointly held 971,000 shares in the Company, constituting 10.52% of the share capital and voting rights. The Company did not receive any updated information regarding holdings of Templeton Asset Management Ltd. by June 30th, 2008.

2 First Half 2008 Highlights

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Financials (Euro thousands)	Three months to June 30th			Six months to June 30th		
	2007	2008	% change	2007	2008	% change
Total Revenues	29,383	37,589	27.9%	60,717	75,344	24.1%
EBITDA	10,103	10,218	1.1%	20,885	20,693	(0.9%)
Profit from Operations (EBIT)	7,089	6,009	(15.2%)	14,833	12,415	(16.3%)
Net Profit for the Period	(231)	11,681	n/a	2,656	23,241	775.0%
CAPEX	11,611	5,991	(48.4%)	15,217	17,124	12.5%
Ratios						
EBITDA Margin	34.4%	27.2%	(7.2pp)	34.4%	27.5%	(6.9pp)
Operating Profit (EBIT) Margin	24.1%	16.0%	(8.1pp)	24.4%	16.5%	(7.9pp)
Net Profit Margin	n/a	31.1%	n/a	4.4%	30.8%	26.4pp
CAPEX as % of Revenues	39.5%	15.9%	(23.6pp)	25.1%	22.7%	(2.4pp)
Total Production Output (in tonnes net of scrap)	14,118	16,371	16.0%	27,875	32,922	18.1%
Number of Employees – End of Period (EOP)	357	389	9.0%	357	389	9.0%
Exchange Rates						
CZK/Euro average	28.266	24.826	(12.2%)	28.150	25.194	(10.5%)
CZK/Euro EOP	28.715	23.895	(16.8%)	28.715	23.895	(16.8%)

Financials (Euro thousands)	Dec 31st, 2007	June 30th, 2008	% change
Total Assets	263,879	287,100	8.8%
Total Equity	93,885	124,087	32.2%
Total Borrowings[2]	123,058	123,925	0.7%
No. of Shares EOP	9,229,400	9,229,400	–
Net Debt/(Net Cash)[3]	122,547	123,798	1.0%

Main highlights of the first half of 2008 to June 30th are summarized below:

Consolidated revenues (revenues from sales of products) totalled to Euro 75.3 million in the first half of 2008, up by 24.1% yoy. The sales were influenced by the following factors:

- Increased volumes produced through higher production capacity resulting from the additional 8th production line output
- Higher raw material prices reflected in the output prices compared with the first half of 2007

Total consolidated revenues in the second quarter of 2008 amounted to Euro 37.6 million, up by 27.9% compared with the same period last year.

[2] Includes total long-term financial debt and short-term financial debt.

[3] Calculated as total borrowings minus cash and cash equivalents.

2 First Half 2008 Highlights

EBITDA in the first half of 2008 amounted to Euro 20.7 million, down by 0.9% yoy, including one-off income of Euro 1.03 million of compensation from an arbitration procedure accounted in the first half 2007. Without the effect of this extraordinary item last year, the EBITDA increase would have represented 4.2% in the first half of 2008.

2008 EBITDA was positively influenced by higher production capacity, polymer price development reflected in a subsequent delay in the polymer pass through mechanism and by the revaluation of the phantom share option plan. On the other hand, the negative impacts on EBITDA were adverse margin development in the European market, strong level of Czech koruna which affected items primarily booked in Czech currency, higher energy prices, higher staff costs and one-off expenses connected with negotiations related to a potential acquisition of a stake in another company.

EBITDA reached Euro 10.2 million in the second quarter of 2008, up by 1.1% yoy. Without the effect of the extraordinary item last year, the EBITDA would have increased by 12.6% in the second quarter of 2008.

Profit from operations (EBIT) represented Euro 12.4 million in the first half of 2008, down by 16.3% yoy. Profit from operations was in the first half 2008 driven by factors affecting EBITDA and in addition, by higher depreciation in connection with the commissioning of the 8^{th} production line and the strong appreciation of the Czech currency in the first half of 2008.

In the second quarter of 2008 Profit from Operations (EBIT) declined by 15.2% to Euro 6.0 million.

Net profit in the first half of 2008 amounted to Euro 23.2 million, up by 775% yoy, due to unrealized FX gains resulting from a strong appreciation of the Czech koruna against the Euro (including the impact on the income tax) and lower interest expenses in this reporting period. Net profit in the second quarter of 2008 went up to Euro 11.7 million from a net loss of 0.2 million in the second quarter of 2007.

Comments on 2008 Guidance

In March the Company announced its guidance on key indicators for 2008. This guidance was based on the expected structure of the product mix, polymer prices and foreign exchange rates.

The current exchange rate levels indicate that the expected yearly exchange rate of CZK/Euro 26 might not be realistic.

The financial performance of the Company is also influenced by other factors such as the current situation in the nonwovens market and the markets associated with their production.

In the second quarter the Company detected a significant decline in the sales of technical materials for the construction industry compared to the Company's 2008 sales projections. The Company entered 2008 with some level of unsold capacity. This level was reduced by new orders gained since the beginning of 2008. The decline in the orders from the construction industry partially eliminated the effect of these newly gained orders. The Company tackles this issue by putting greater emphasis on sales into the non-cyclical hygiene segment through intensive negotiations with customers and the acceleration of technical qualifications of new products. Increasing sales during the course of the year above the level of already negotiated yearly volumes usually requires some time and in the short term can result in temporary increases in the inventories of finished products. Nevertheless, several major projects are nearing commercialization and current talks with customers are providing confidence in sales levels for 2009 in the required quantity.

The Company has registered an increase in the prices of polypropylene and polyethylene, but they will be passed through to the final prices with some delay.

The results in the first half of 2008 confirm the Company's solid operational performance. In the second half of the year, management will be focused on maintaining operational performance by attempting to mitigate the challenges in the market caused in part by factors over which the Company has limited control.

2 First Half 2008 Highlights

Expansion and Strategy

PEGAS is constantly monitoring various investment opportunities that could lead to the fulfilment of its strategy, namely further expansion not excluding regions outside the Czech Republic through a strategic acquisition or the building of production facilities. With the objective to allow for the Company's further market growth, increase of its market share and production capacity, the management of the Company is closely following and evaluating opportunities for consolidation in the industry.

In the period from February 2008 to June 2008, the Company was engaged in initial negotiations with respect to a potential acquisition of a stake in another company undertaking business in the nonwovens industry. Since the disclosure of the details of the intended acquisition could have had an adverse effect on the negotiation process, PEGAS requested delaying the publication of the information with the regulators of the organized securities markets. The above information has ceased to constitute inside information, since the parties abandoned the negotiation process.

The Company's excellent financial performance among its peer competitors; its ability to generate cash and its unique position in the industry allows PEGAS to pursue various strategic directions such as organic growth, a strategic acquisition and also to continue in its progressive dividend policy.

Research and Development

Apart from other R&D projects (own or joint with customers), PEGAS NONWOVENS s.r.o., a subsidiary of PEGAS NONWOVENS S.A., in cooperation with the Institute of the Physical Electronics associated with the Faculty of Natural Sciences of the Masaryk University in Brno and with the company INOTEX s.r.o., commenced an R&D project focused on a new generation treatment of nonwoven textiles using atmospheric plasma. For this project with a total budget of up to CZK 70 million planned for the period 2008 – 2011 the Company obtained a grant from a programme called "Trvalá Prosperita" (Sustainable Prosperity) under the research and development support programmes tendered by the Czech Ministry of Industry and Trade in May 2007. The total amount of the grant may reach up to CZK 25 million.

The treatment of nonwovens textiles using plasma should ensure an effective fixation of active particles on the fibre surface which may increase and / or improve the utilization of nonwoven textiles in hygiene and technical applications. A highly positive benefit of the project is a reduction of the additives used in the nonwovens which should lead to more environment friendly products.

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

„In the first half of 2008, we focused on the best utilization of both new and existing production capacities, production efficiencies, cost control and new R&D projects in order to stay at the forefront and retain a steady performance despite challenging market conditions. In line with our strategy of long term growth and expansion, the Company entered into negotiations with an entity operating in the nonwovens business about a potential acquisition of a substantial stake. Though the discussions ended, we will continue monitoring acquisition opportunities going forward with the ultimate objective of growing outside our core European market.

Compared with the same period last year, the total consolidated revenues of the Company increased by 24.1% to Euro 75.3 million in the first half of 2008 and we recorded a high level of net profit of Euro 23.2 million, which was the result of FX gains and lower interest expenses.

We are pleased to confirm that the Board of Directors of the Company approved a dividend payment of Euro 7.8 million which is Euro 0.85 per one share. The Board further decided that the dividend will be paid on September 30th 2008", commented Mr. Miloš Bogdan, member of the Board of Directors of PEGAS NONWOVENS S.A. and CEO of PEGAS NONWOVENS s.r.o.

3 First Half 2008 Financial Results

3 First Half 2008 Financial Results

Revenues, Costs and EBITDA

In the first half of 2008 consolidated revenues (revenues from sales of products) reached Euro 75.3 million, up by 24.1% yoy. The key drivers of this growth were increased volumes produced through higher production capacity and higher raw material prices reflected in the output prices.

Total consolidated operating costs without depreciation and amortization went up by 37.2% yoy to Euro 54.7 million. The main reason was a higher consumed volume of raw materials due to higher production, increased price level of raw materials, other consumables, electricity and staff costs. Excluding the compensation from an arbitration procedure in 2007, the total consolidated operating costs would have increased by 33.7% yoy.

EBITDA amounted to Euro 20.7 million, down by 0.9% yoy. Without the effect of Euro 1.03 million one-off compensation from an arbitration procedure last year, the EBITDA increase in the first half 2008 would have represented 4.2%. The increase in EBITDA (excluding the one-off item above) was primarily the result of higher production capacity. In addition, the Company's profitability was positively influenced by polymer price development reflected in a subsequent delay in the polymer pass through mechanism and revaluation of the phantom share option plan. On the other hand, the negative impacts on EBITDA were adverse margin development in the European market, strong level of the Czech koruna which affected items primarily booked in Czech currency, higher energy prices and one-off expenses connected with negotiations relating to a potential acquisition of a stake in another company.

EBITDA margin reached 27.5%, down by 6.9 percentage points in comparison with the same period in 2007, excluding the one-off item above the EBITDA margin would have been down by 5.2% yoy.

Operating Costs

Total raw materials and consumables used in the first half of 2008 amounted to Euro 51.4 million, a 35.6% yoy increase. The key drivers of this growth were increased volumes produced through higher production capacity and higher raw material prices, higher electricity and staff costs.

Total staff costs amounted to Euro 3.1 million in the first six months of 2008, a 12.9% yoy increase. The staff costs were positively impacted by the lower fair value of the phantom share option plan by Euro 478 thousand. On the other hand these were negatively impacted by the strong appreciation of the CZK against the Euro. Total staff costs denominated in Czech korunas (CZK) without the revaluation of the share option plan went up by 19.0% yoy due to a higher number of employees and a general increase of the salary level.

Other operating expenses (net) amounted to Euro 127 thousand in the first half of 2008, compared with a positive amount of Euro 844 thousand in the same period in 2007. The result in 2007 was impacted by one-off income of Euro 1.03 million of compensation from an arbitration procedure.

Depreciation and Amortization

Consolidated depreciation and amortization reached Euro 8.3 million in the first half of 2008, up by 36.8% yoy. This increase resulted from an increase in the value of the Company's depreciated non-current assets (production hall and machinery for the 8^{th} production line) and partially from the appreciation of the CZK against the Euro.

Profit from Operations

In the first six months of 2008 profit from operations (EBIT) amounted to Euro 12.4 million, down by 16.3% compared with the same period in 2007 on the back of higher depreciation.

3 First Half 2008 Financial Results

Financial Income and Costs

In the first half of 2008 foreign exchange gains and other financial income (net) reached Euro 17.5 million. This item includes realized and unrealized FX gains/losses, changes in fair value of interest rate swaps and other financial income and expenses.

Interest expenses (net) related to debt servicing amounted to Euro 3.2 million in the first half of 2008, a 50.8% decrease compared with the same period in 2007. The main reason for the decrease was the Euro 2.6 million arrangement fee write-off associated with the previous senior debt facilities in May 2007. In addition, the Company was able to raise new debt at more favourable conditions and therefore with the exclusion of the one-off arrangement fee write-off the interest expenses (net) would have declined by 18.4%.

Income Tax

In the first half of 2008 income tax expense amounted to Euro 3.5 million compared with a Euro 0.4 million positive item in the same period in 2007. The higher income tax resulted from unrealized FX gains mainly from a revaluation of the bank debt and the inter-company loan.

Net Profit

Due to FX gains (including their impact on income tax) and lower interest expenses the Net profit amounted to Euro 23.2 million, up by 775.0% yoy.

CAPEX and Investments

In the first half of 2008 total consolidated capital expenditure amounted to Euro 17.1 million, a 12.5% yoy increase. The capital expenditure was primarily related to the remaining payment for the 8th production line project. CAPEX guidance for the full year 2008 remains Euro 18 million.

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at June 30th, 2008 was Euro 123.9 million, a 0.7% increase compared with December 31st, 2007. Net debt as at June 30th, 2008 was Euro 123.8 million, up by 1.0% compared with the end of the last year. This was equivalent to a Net Debt/EBITDA ratio of 3.2x.

Impact of a strong Czech koruna on Financial Results in the First Half 2008

The financial results of the first half of 2008 were affected by the CZK/Euro FX rate development. The majority of the Company's revenues and expenses are recognized in Euro, which results in a natural hedging against currency risk. Despite this natural hedging, some operating costs (mainly electricity and staff costs) are recognized in Czech korunas and this fact represents an exposure to currency risk.

The average CZK/Euro FX rate for the first half 2008 appreciated by more than 10% compared with the same period in 2007. This appreciation of the Czech koruna negatively impacted the yoy EBITDA comparison by approximately Euro 1.4 million.

The CZK/Euro FX rate also impacts the item FX gains and other financial income (net) through the unrealized FX changes connected with the revaluation of balance sheet items. In the first half of 2008 the CZK/Euro FX rate appreciated by almost 17% resulting in a recognition of net FX gains in the amount of Euro 17.5 million. The related impact on the tax position of the Company was Euro 3.7 million.

4 First Half 2008 Business Performance

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Overview of the Nonwovens Market

The primary and relevant market segment for PEGAS is the European spunmelt market, which geographically encompasses Western Europe, Central and Eastern Europe and Russia. In 2007 the production volume in this market segment represented 1.65 million tonnes of product. In 2007, the market share in Europe held by PEGAS was 8.8%.

Based on currently known and planned production capacity installations, in the period from 2007 – 2012, the European spunmelt production capacity is expected to grow 3.5% per annum. European capacities which are now becoming or will soon be obsolete and underutilized are expected to be gradually retired. The decision to replace the retired assets will depend on the excess capacities in the region at that time. In terms of tonnes produced, demand in Europe is expected to grow at 5% annually.

The Company's core product market is the European personal hygiene sector, which reached 538 thousand tonnes in 2007 and which represented approximately 32% in tonnage of the total European nonwovens market. This sector consists of three major product categories: disposable baby diapers, adult incontinence products and feminine hygiene. PEGAS's market share in the European personal hygiene market represented 14.3% in 2007.

Demand for nonwovens output for the hygiene market is non-cyclical and is not seasonal and is influenced by basic macroeconomic factors, such as birth rates, disposable income and economic development in the relevant market. In the period from 2008 to 2012 the demand for hygiene applications represented in square metres is estimated to grow at 1.5% per year. The greatest driver of the demand growth is expected to come from Central and Eastern European countries, while Western Europe will remain stable and in line with its population growth. European growth is expected to be further influenced by better income per capita than forecast and by the accelerated substitution of carded products by spunmelt products and the substitution of reusable medical apparel by disposable medical garments.

Half Year Business Overview

In the first half of 2008 the total production output (net of scrap) reached 32,922 tonnes, up by 18.1% compared with the first six months in 2007.

The majority of the total revenues in the first half of 2008 came from sales of nonwoven textiles for the hygiene industry, which represented an 86.7% share of total revenues, a decrease compared with an 87.1% share in the same period in 2007.

Revenues from sales of standard (commodity) textiles for hygiene products reached Euro 44.95 million, an increase of 11.5% yoy in comparison with the same period in 2007. The proportion of revenues from sales of commodity textiles for the hygiene industry represented a 59.7% share of total revenues, a decrease from 66.4% in the same period in 2007.

Revenues from technologically advanced products, such as soft, lightweight and bi-component materials, confirm the Company's focus on this segment. In the first half of 2008 the sales in this segment reached Euro 20.37 million, a 62.2% yoy increase over the first half of 2007. Going forward, sales expansion of technologically advanced materials remains one of the key objectives for the Company. The proportion of technologically advanced sales of total sales in the first half 2008 amounted to 27.0%, compared with 20.7% in the same period in 2007.

Revenues from sales of non-hygiene products (for construction, agriculture and medicine) amounted to Euro 10.02 million in the first half 2008, an increase of 27.6% over the first half of 2007.

4 First Half 2008 Business Performance

In terms of geographical distribution[4], the Company confirmed its strong and growing position in its core European market. Sales to Western Europe amounted to Euro 40.93 million in the first half of 2008, up by 8.9% over the same period last year. Due to increased sales in the Czech Republic and Poland revenues from sales to CEE and Russia reached Euro 31.69 million, up by 59.3% yoy. Revenues from sales to other territories amounted to Euro 2.72 million, down by 15.9% yoy.

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

5 Research & Development

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The Product Development and Customer Support department provide solutions to customers by incorporating the inputs of the technology provider and raw material suppliers, as well as the final product manufacturer and final customer requirements. The team works in several different directions, which are mainly focused in the hygiene field, as the key driver for most important projects at the Company.

The department works on the implementation of new sophisticated production lines which are adjusted to the parameters of raw materials, production processes, customers' specifications and demands for the finished product with a view of improving quality and efficiency of the production, especially of lightweight materials. In order to better utilize its production lines PEGAS benefits from several pilot lines, which are located at the facilities of the technology supplier or at the facilities of contractual parties.

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. Another activity of the department is cooperation with several universities and independent research centres in the Czech Republic, Slovakia and Germany, this collaboration allows it to prepare tailor-made products in pilot scale operations, which can later be transferred to commercial lines. Research and development costs in the first half of 2008 were approximately Euro 0.9 million.

One of the latest achievements is a new R&D project conducted in cooperation with the Masaryk University in Brno and with the company INOTEX s.r.o. based in Dvůr Králové nad Labem, Czech Republic.

6 Strategy for 2008

6 Strategy for 2008

The Company's strategic focus in 2008 as well as in the upcoming years is to:

1. continue to grow its market position,
2. retain its technology leadership in the market for spunmelt nonwovens for disposable hygiene products in Europe and
3. maintain superior financial performance compared to its peers.

PEGAS intends to achieve these 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 is currently in the final stage of the investment incentives application process. PEGAS will continue to optimize its production processes with an emphasis on cost control and production output increases by improving efficiency on its existing lines.

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 to develop new materials.

Focus on Technologically Advanced Products

PEGAS remains the largest European manufacturer of bi-component spunmelt nonwovens and with extensive experience in design and production of ultra-light materials. The 8th production line, which is fully capable of producing technological advanced products, should gradually adjust its product mix during 2008 and increase the proportion of sales of technological advanced materials.

Maintain Superior Financial Performance in the Industry

In relation to its principle objective to grow in line with its core market, PEGAS strives to achieve excellent financial performance and superior margins compared with its competitors. Despite continuous market pressure on margins in the hygiene segment in Europe, PEGAS will continue to focus on minimizing costs and the optimization of the product mix in order to retain key customer relationships and mitigate margin pressure.

Taking Advantage of Favourable Investment Opportunities

With respect to expansion outside the Czech Republic, the Company will continue to monitor various investment opportunities and strategies which may lead to an acquisition or opening of production capacity in other territories with the objective of further growth of the Company's production capacities and market share.

7 Risk Factors

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The Company's business, operational and financial conditions and results may be adversely affected by following factors:

Markets

The nonwovens market is highly competitive and the entrance of new competitors is resulting in an oversupply in the market, which could adversely affect sales and margins. An increase of imports to the Company's core market from other regions could materially impact the supply and demand balance in the market and could have an adverse effect on sales and margins. The development and commercialization of new production technologies by the competition which would be more advanced or less costly than the existing technology used by the Company could have an adverse effect on Company's market position.

Marketing and Sales

A high concentration of a few customers account 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. The dependence on a small number of customers can put PEGAS under negotiation and price pressure.

Production

Any disruption to Company production facilities would have a materially adverse effect on the Company's business. PEGAS is dependent on a single manufacturer for the equipment and technical support of the production lines. There is a risk that PEGAS may not be able to reconfigure production lines in a timely manner in order to respond to changing demand for particular kinds of spunmelt nonwovens. The steady supply and transportation of products from PEGAS' plants to the customers are subject to various uncertainties and risks, which can affect the ability to deliver on time and in the desired quality.

Potential Expansion

PEGAS is facing risk associated with potential acquisitions, investments, strategic partnerships or other ventures, including opportunity identification, due diligence, 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. 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 and Exchange Rates

There is a risk that the Company may be unable to raise additional capital to fund the growth of its operations or that its competitors may have access to more and cheaper sources of capital allowing them to expand their operations quickly and thereby would obtain a competitive advantage. The indebtedness of PEGAS and the lack of liquidity could adversely affect financial condition and results of operations. There is a risk that the fluctuations in the value of the Czech koruna against 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 insurance coverage may not adequately protect PEGAS against possible risk of loss.

7 Risk Factors

Raw Materials and Electricity Prices

PEGAS is dependent on a few external suppliers for key raw materials. Although the polymer price increase is by large passed on to the price of the final products with some delay, on a short term basis it may affect the Company's revenues and profitability. Increase in the cost of electricity, which presents 5 – 6% of operating costs, could have a materially adverse impact on the Company's financial condition and results.

Security, Environment and Safety

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

Key Personnel and Technical Expertise

The loss of the services of key management personnel could adversely affect the Company's business. PEGAS may not be able to hire on time and retain sufficient number of qualified professional personnel since these personnel are limited in numbers and are in high demand.

8 Shares and Shareholder Structure

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Shareholders as at June 30th, 2008

Free Float	100.0%
Of which Management of the Company	1.6%

Source: Company data

In the first half of 2008, the stake held by the top management of the Company declined from 2.0% to 1.6% in total. In February 2008, the total stake held by the top management of the Company reduced from 2% to 1.95% as a result of a disposal of 5,000 shares by one individual member of the management. At the end of April 2008, Mr. Lukáš Trávníček, HR Director and Legal Counsel of PEGAS NONWOVENS s.r.o. (one of the key executive managers) resigned from his position and ceased his employment in the Company. As a result of his resignation, the total stake held by the top management declined to 1.6%. His entitled rights under the share option plan expired and may no longer be exercised.

On March 18th, 2008 the Company received a notification that clients and funds managed by Templeton Asset Management Ltd., an indirect subsidiary of Franklin Resources Inc., jointly held 971,000 shares in the Company, constituting 10.52% of the share capital and representing 10.52% of the total voting rights attached to the shares issued by the Company. Templeton Asset Management Ltd. is entitled to vote with the Company's shares on behalf of its clients and funds managed by it.

Share Price Development and Trading Activity in the First Half 2008[5]

The shares are traded on the Prague Stock Exchange with ISIN LU0275164910 BAAPEGAS and on the Warsaw Stock Exchange under PGS. The shares of PEGAS NONWOVENS S.A. are as of March 19th, 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 used primarily by retail investors.

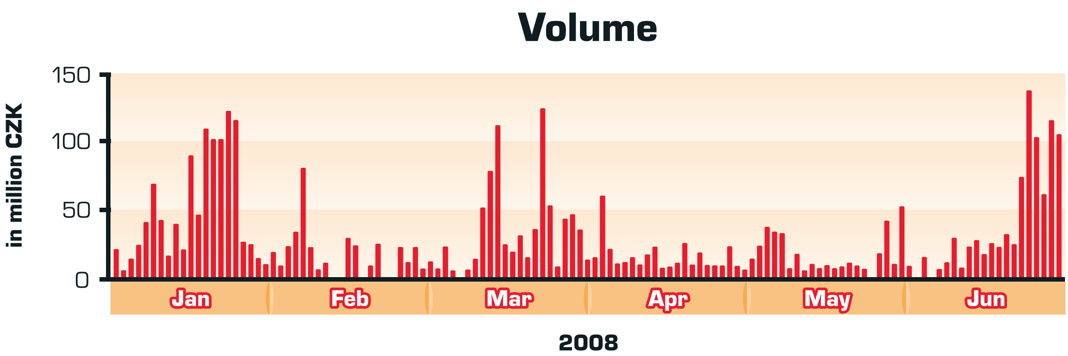
During the first half of 2008 PEGAS' shares were traded for a total value of CZK 3.67 billion on the Prague Stock Exchange and for a total value of PLN 68.7 million on the Warsaw Stock Exchange. The lowest trading price during the six months was CZK 333 and PLN 47 and the highest CZK 748 and PLN 102.8 on the Prague and Warsaw Stock Exchanges respectively.

The closing price on June 30th, 2008 was CZK 354.10 on the Prague Stock Exchange and PLN 53 on the Warsaw Stock Exchange and market capitalization reached CZK 3.27 billion (based on the Prague Stock Exchange quote).

[5] Sources: PSE and WSE websites

8 Shares and Shareholder Structure

Share Price Development of PEGAS on the Prague Stock Exchange (January 1st, 2008 – June 30th, 2008)



Source: PSE

8 Dividend Policy and Declaration of Dividend

9 Dividend Policy and Declaration of Dividend

On August 25th, 2008, the Board of Directors of PEGAS NONWOVENS S.A. decided on a dividend payment of Euro 7.8 million, i.e. Euro 0.85 per share (based on the total number of shares being 9,229,400). The dividend payment is expected on September 30th, 2008. This interim 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.

The Company further confirms that subject to maintaining satisfactory financial performance, it expects 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.

10 Related Parties Transactions

10 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 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 15th June 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 24th May 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 18th December 2007 and the last options vesting on the 4th anniversary of the IPO.

As a result of Mr. Trávníček's (executive manager) resignation in February 2008, his entitled rights under the share option plan, representing 28,088 phantom options, expired and may no longer be exercised.

No phantom shares were exercised neither in 2007 or 2008. The fair value of the phantom options as at 30th June 2008 was Euro 16 thousand.

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

11 Corporate Governance

11 Corporate Governance

Annual General Meeting of June 16th, 2008

At PEGAS's AGM which was held in Luxembourg on June 16th, 2008, all of the resolutions that were subject to shareholder approval were adopted. The adopted resolutions were the following:

1. Presentation and discussion of the report of the auditors regarding the stand-alone accounts and the consolidated accounts for the financial year ended December 31st, 2007 and of the reports of the Board of Directors of PEGAS on the stand-alone accounts and the consolidated accounts for the financial year ended December 31st, 2007.

2. Approval of the stand-alone accounts and the consolidated accounts for the financial year ended December 31st, 2007.

3. Allocation of the net results of the financial year ended December 31st, 2007.

4. Discharge of the liability of the members of the Board of Directors and KPMG AUDIT S.á r.l., the independent auditor ("réviseur d'entreprises") of PEGAS for, and in connection with, the financial year ended December 31st, 2007.

5. Appointment of Deloitte S.A. as the independent auditor ("réviseur d'entreprises") to review the stand-alone accounts and the consolidated accounts as at December 31st, 2008.

6. Approval of the appointment by the Board of Directors of Mr. Marek Modecki as a non-executive director of the company for a period ending at the annual general meeting of shareholders to be held in 2010.

7. Approval of a change of remuneration policy for non-executive directors for the financial year 2008.

8. Approval of a change of remuneration policy for executive directors for the financial year 2008.

9. Approval of the total bonus paid to the executive directors for the financial year 2007 in accordance with the bonus scheme approved by the annual general meeting of shareholders held in 2007.

10. Approval of the bonus scheme for the executive directors.

The number of shares registered and present for voting or duly voted by correspondence at the AGM was 2,098,606, representing 22.7% out of the 9,229,400 ordinary shares of PEGAS having a nominal value of Euro 1.24 each.

Appointment of New Non-executive Director

The AGM approved the appointment of Mr. Marek Modecki, born 27th December 1958, as a non-executive director of PEGAS, for a period ending at the annual general meeting of shareholders to be held in 2010. Mr. Modecki was appointed as non-executive director and member of the Board of Directors of PEGAS as at April 8th, 2008.

Bonus Scheme for Executive Directors

The AGM approved the principles of the bonus scheme for 2008 targeted to the senior management of PEGAS, namely executive directors of PEGAS NONWOVENS S.A.

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 2008.

11 Corporate Governance

- Basis for the bonus calculation is EBITDA calculated in accordance with Czech 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 achieved EBITDA is equal to 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.

Board of Directors Structure as at June 30th, 2008

Board of Directors of PEGAS NONWOVENS S.A.

Name	Age	Position/Function	Business Address	Function Period in H1 2008
Miloš Bogdan	44	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2008 – 30. 6. 2008
Aleš Gerža	35	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2008 – 30. 6. 2008
František Klaška	51	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2008 – 30. 6. 2008
František Řezáč	34	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2008 – 30. 6. 2008
Bernhard Lipinski	61	Non-Executive Director	Steinertsweg 44b, 64753, Brombachtal, Germany	1. 1. 2008 – 30. 6. 2008
David Ring	46	Non-Executive Director	Western Avenue, Western Docks, Southampton SO15 0HH, United Kingdom	1. 1. 2008 – 30. 6. 2008
Marek Modecki	49	Non-Executive Director	265, av. Moliére B-1050, Bruxelles, Belgium	8. 4. 2008 – 30. 6. 2008

Changes to the Board of Directors in the First Half 2008

Mr. Marek Modecki was appointed as non-executive director and member of the Board of Directors of PEGAS as of April 8th, 2008. Mr. Modecki is a senior banker and member of the Supervisory Board of Concordia Espirito Santo Investment Ltd. in Poland, responsible for mergers & acquisitions and private banking. He graduated from Warsaw University with a Master's degree in law and also studied International Law at the Max Planck Institute in Hamburg and law at the University in Hamburg.

Corporate Structure of PEGAS NONWOVENS S.A.

PEGAS NONWOVENS S.A., Luxembourg, parent holding company, owning 100% of the share capital of the main operating subsidiary PEGAS NONWOVENS s.r.o. in Znojmo, Czech Republic, which owns 100% of the share capital of its four subsidiaries which are integrated in the Czech Republic.

On April 18th, 2008 PEGAS – NW a.s. increased its registered capital from CZK 550,000,000 to CZK 650,000,000. PEGAS – NW a.s. was established in 2005 as the legal entity for the latest 8th production line.

11 Corporate Governance

Group Entities

To translate the registered capital of Czech subsidiaries, the CZK/EUR 23.895 rate of exchange effective on 30 June 2008 was used.

Company	Acquisition Date	Share in the Subsidiary	Registered Capital (CZK 000')	Registered Capital (EUR 000')	Number and Nominal Value of Shares
PEGAS NONWOVENS s.r.o.*	5. 12. 2005	100%	3,633	152	100% participation of CZK 3,633 thous.
PEGAS – DS a.s.	14. 12. 2005	100%	800,000	33,480	64 shares at CZK 10,000 thous. per share and 64 shares at CZK 2,500 thous. per share
PEGAS–NT a.s.	14. 12. 2005	100%	550,000	23,017	54 shares at CZK 10,000 thous. per share and 10 shares at CZK 1,000 thous. per share
PEGAS – NW a.s.	14. 12. 2005	100%	650,000	27,202	54 shares at CZK 10,000 thous. per share and 10 shares at CZK 1,000 thous. per share
PEGAS – NS a.s.**	3. 12. 2007	100%	5,000	209	5 shares at CZK 1,000 thous. per share

* PEGAS NONWOVENS s.r.o. was registered on 14th November 2003 as ELK INVESTMENTS s.r.o. in 2006. 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 1st January 2006 and was deleted from the Commercial Register on 12th May 2006. CEE Enterprise a.s. merged with PEGAS NONWOVENS s.r.o. with effect from 1st January 2007 and was deleted from the Commercial Register on 20th August 2007.

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

12 Consolidated Financial Statements for the Six Months Ended June 30th, 2008 and 2007

12 Consolidated Financial Statements for the Six Months Ended June 30th, 2008 and 2007

12.1 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.

12 Consolidated Financial Statements for the Six Months Ended June 30th, 2008 and 2007

12.2 Consolidated Statement of Income for the Six Months Ended June 30th, 2008 and 2007

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

	Six month period ending		
	30 June 2007 (Unaudited)	**30 June 2008 (Unaudited)**	**% change**
Revenue	60,717	75,344	24.1%
Raw materials and consumables used	(37,912)	(51,404)	35.6%
Staff costs	(2,764)	(3,120)	12.9%
Other operating income/(expense) net	844	(127)	n/a
EBITDA	**20,885**	**20,693**	**(0.9%)**
Depreciation and amortisation expense	(6,052)	(8,278)	36.8%
Profit from operations	**14,833**	**12,415**	**(16.3%)**
Foreign exchange changes and other financial income/(expense) net	(6,147)	17,538	n/a
Interest (expense)/income net	(6,441)	(3,171)	(50.8%)
Profit before income tax	**2,245**	**26,782**	**1,093.0%**
Income tax (expense)/income net	411	(3,541)	n/a
Net profit for the period	**2,656**	**23,241**	**775.0%**

12 Consolidated Financial Statements for the Six Months Ended June 30th, 2008 and 2007

12.3 Consolidated Statement of Income for the Three Months Ended June 30th, 2008 and 2007

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

	Three month period ending		
	30 June 2007 (Unaudited)	**30 June 2008 (Unaudited)**	**% change**
Revenue	29,383	37,589	27.9%
Raw materials and consumables used	(18,774)	(25,749)	37.2%
Staff cost	(1,431)	(1,624)	13.5%
Other operating income/(expense) net	925	2	(99.8%)
EBITDA	**10,103**	**10,218**	**1.1%**
Depreciation and amortisation expense	(3,014)	(4,209)	39.6%
Profit from operations	**7,089**	**6,009**	**(15.2%)**
Foreign exchange changes and other financial income/(expanse) net	(3,343)	9,391	n/a
Interest (expense)/income net	(4,373)	(1,664)	(61.9%)
Profit before income tax	**(627)**	**13,736**	**n/a**
Income tax (expense)/income net	396	(2,055)	n/a
Net profit for the period	**(231)**	**11,681**	n/a

12 Consolidated Financial Statements for the Six Months Ended June 30th, 2008 and 2007

12.4 Consolidated Balance Sheet for the Six Months Ended June 30th, 2008, June 30th, 2007 and December 31st, 2007

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

	30 June 2007 (Unaudited)	31 December 2007 (Audited)	30 June 2008 (Unaudited)
Assets			
Non-current assets			
Property, plant and equipment	116,437	137,355	145,187
Intangible assets	74	196	186
Goodwill	80,798	87,157	97,096
Total non-current assets	**197,309**	**224,708**	**242,469**
Current assets			
Inventories	7,595	12,416	13,362
Trade and other receivables	26,146	26,244	31,142
Cash and cash equivalents	1,238	511	127
Total current assets	**34,979**	**39,171**	**44,631**
Total assets	**232,288**	**263,879**	**287,100**
Equity and Liabilities			
Share Capital and reserves			
Share capital	11,444	11,444	11,444
Share premium	41,011	33,997	33,997
Other reserves	—	1,120	3,295
Translation reserves	(360)	2,536	9,497
Retained Earnings	26,426	44,788	65,854
Total share capital and reserves	**78,521**	**93,885**	**124,087**
Non-current liabilities			
Bank loans	115,493	116,508	103,204
Other payables	—	101	3
Deferred tax liabilities	14,171	12,190	13,432
Total non-current liabilities	**129,664**	**128,799**	**116,639**
Current liabilities			
Trade and other payables	18,338	33,218	21,682
Tax liabilities	—	1,427	3,971
Bank current liabilities	5,765	6,550	20,721
Total current liabilities	**24,103**	**41,195**	**46,374**
Total liabilities	**153,767**	**169,994**	**163,013**
Total equity and liabilities	**232,288**	**263,879**	**287,100**

12 Consolidated Financial Statements for the Six Months Ended June 30th, 2008 and 2007

12.5 Consolidated Statement of Cash Flows for the Six Months Ended June 30th, 2008 and 2007

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

	Six month period ending	
	30 June 2007 (Unaudited)	**30 June 2008 (Unaudited)**
Profit before tax	**2,245**	**26,782**
Adjustment for:		
Depreciation and amortization	6,052	8,278
Foreign exchange gains/losses	7,426	(5,544)
Interest expense	6,634	3,179
Fair value changes of interest rate swaps	809	(90)
Other financial (expense)/income	(162)	24
Cash flows from operating activities		
Decrease/(increase) in inventories	768	445
Decrease/(increase) in receivables	(3,315)	(1,294)
Increase/(decrease) in payables	(4,745)	2,263
Income tax paid	(4)	(1,396)
Net cash from operating activities	**15,708**	**32,647**
Cash flows from investment activities		
Purchases of property, plant and equipment	(15,218)	(17,124)
Net cash used in investing activities	**(15,218)**	**(17,124)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	(15,645)	(12,591)
Increase/(decrease) in long term debt	(275)	(98)
Interest paid	(5,508)	(3,194)
Other financial income/(expense)	162	(24)
Net cash used in financing activities	**(21,266)**	**(15,907)**
Cash and cash equivalents at the beginning of the period	**22,014**	**511**
Net decrease in cash and cash equivalents	**(20,776)**	**(384)**
Cash and cash equivalents at 30 June	**1,238**	**127**

13 Statements of Responsible Persons

13 Statements of Responsible Persons

Miloš Bogdan, 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.

Miloš Bogdan

Member of the Board of PEGAS NONWOVENS S.A.

Aleš Gerža

Member of the Board of PEGAS NONWOVENS S.A.

14 Contacts

14 Contacts

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15 Glossary

15 Glossary

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 and Taxes – A financial measure defined as revenues less cost of goods sold and selling, general, administrative expenses, 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.

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.

Nonwoven Textiles – A manufactured sheet, web or bat of directionally or randomly oriented fibers, 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.

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.

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.

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.

Other Information

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.

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 nonwovens textiles
PEGAS – DS a.s.	Znojmo, Přímětická 3623/86, PSČ 669 04	25554247	Production of nonwovens textiles
PEGAS–NT a.s.	Znojmo, Přímětická 3623/86, PSČ 669 04	26287153	Production of nonwovens textiles
PEGAS – NW a.s.	Znojmo, Přímětická 3623/86, PSČ 669 04	26961377	Production of nonwovens textiles
PEGAS – NS a.s.	Znojmo, Přímětická 3623/86, PSČ 669 04	27757951	Production of nonwovens textiles