HALF YEAR REPORT **2010**

PEGAS
NONWOVENS
every single detail

PEGAS NONWOVENS SA

Half Year Report 2010

AUGUST 26, 2010

TABLE OF CONTENTS

CHAPTER 1

Introduction

PEGAS NONWOVENS SA (hereafter "PEGAS" or "the Company" or "Group") is one of the leading European producers of nonwoven textiles for use primarily in the personal hygiene products market. PEGAS supplies its customers with spunbond and meltblown (together, "spunmelt") polypropylene- and polypropylene/polyethylene- 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.

Since its foundation in 1990, the Company has become over the last 20 years the second largest European producer of spunmelt nonwovens based on 2009 annual production capacity. Currently PEGAS runs two plants with a total of 8 production lines and the construction of the ninth production line has recently commenced. 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. At the end of the first half of 2010, PEGAS employed 387 people.

100% of shares in PEGAS are listed on the Prague Stock Exchange and on the Warsaw Stock Exchange and are held by institutional and retail investors. As of the June 30, 2010 the management of the Company jointly owned a 0.9% stake on total share capital.

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

CHAPTER 2

First Half 2010 Key Figures

Financials (EUR Thousands)	Three Months to June 30			Six Months to June 30		
	2009	2010	% Change	2009	2010	% Change
Revenues	27,528	34,405	25.0%	63,191	68,807	8.9%
EBITDA	8,382	7,460	(11.0%)	22,393	16,302	(27.2%)
Profit from Operations (EBIT)	4,435	3,317	(25.2%)	14,637	8,085	(44.8%)
Net Profit for the Period	9,303	1,781	(80.9%)	16,024	9,443	(41.1%)
CAPEX	347	683	96.8%	415	5,577	1,243.9%
Ratios						
EBITDA Margin	30.4%	21.7%	(8.7 pp)	35.4%	23.7%	(11.7 pp)
Operating Profit (EBIT) Margin	16.1%	9.6%	(6.5 pp)	23.2%	11.8%	(11.4 pp)
Net Profit Margin	33.8%	5.2%	(28.6 pp)	25.4%	13.7%	(11.7 pp)
CAPEX as % of Revenues	1.3%	2.0%	0.7 pp	0.7%	8.1%	7.4 pp
Total Production Output (in tonnes net of scrap)	17,256	17,523	1.5%	34,333	34,374	0.1%
Number of Employees – End of Period (EOP)	382	387	1.3%	382	387	1.3%
Exchange Rates						
CZK/EUR Average	26.677	25.589	(4.1%)	27.142	25.727	(5.2%)
CZK/EUR EOP	25.890	25.695	(0.1%)	25.890	25.695	(0.1%)

Financials (EUR Thousands)	Dec 31, 2009	June 30, 2010	% Change
Total Assets	235,847	242,707	2.9%
Total Equity	113,273	123,852	9.3%
Total Borrowings[1]	96,083	94,033	(2.1%)
Net Debt/(Net Cash)[2]	95,610	93,403	(2.3%)
No. Shares EOP	9,229,400	9,229,400	0%

[1] Includes total long-term financial debt and short-term financial debt.
[2] Calculated as total borrowings minus cash and cash equivalents.

Statement of the CEO of PEGAS NONWOVENS s.r.o. and Member of the Board of Directors, Mr. František Řezáč

"Operational performance at PEGAS for the second quarter has been consistent and strong with production output remaining at a high level.

In the second quarter we saw an exceptional rise in polymer prices with prices nearly doubling compared to the lows from the previous year and despite mitigating actions including excellent production efficiency we were unable to avoid a deterioration in our financial performance. Whilst we are unable to forecast polymer prices in the future we believe that this trend of dramatic polymer price increases is unlikely to prevail in the rest of the year.

Our guidance for the full year remains unchanged as does our intention to pay a dividend of EUR 8.8m (0.95 per share) reflecting our strong cash position and progressive dividend policy."

2010 Outlook Confirmed

Since the beginning of the year polymer price indexes have significantly risen going against the assumptions on which the management of the Company based the 2010 business plan. This development adversely affected results recorded in the second quarter of 2010. The pass-through mechanism delay will also negatively influence the third quarter of this year and potential further growth of the polymer prices above the current record levels may jeopardize the initial full year guidance. However, based on the latest development of polymer prices, the Company does not expect such a scenario.

Based on the financial and business results in the first half of 2010, while taking into account the developments in the nonwovens market including the anticipated developments in the polymer market, the Company confirms its initial outlook for 2010.

CHAPTER 3

Management Report for the First Half of 2010

3.1 Financial Results in the First Half of 2010

Revenues, Costs and EBITDA

In the first half of 2010 consolidated revenues (revenues from sales of products) reached EUR 68.8 million, up by 8.9% yoy. The key driver of revenue development was the rapid increase in polymer price indexes, which to date have almost doubled since their bottom in the first quarter last year. Conversely, the lower actual sales volumes compared with the high levels achieved in the relevant period last year on the back of the clearance of accumulated inventories of finished goods in the first quarter of 2009, cut back the annual revenue growth.

In the second quarter of 2010, the total consolidated revenues were EUR 34.4 million, a 25.0% increase compared with the same period last year and were also impacted by the growth of the input material prices described above.

Total consolidated operating costs without depreciation and amortization went up by 28.7% yoy to EUR 52.5 million in the first half of 2010. In the second quarter of 2010, the total consolidated operating costs without depreciation and amortization reached EUR 26.9 million, which is 40.7% yoy more. Likewise with the revenues, the main cause of the annual jump in both semi-annual and quarterly operating costs was the above mentioned growth of polymer prices.

In the first half of 2010 EBITDA amounted to EUR 16.3 million, down by 27.2% yoy. The annual comparison was influenced by the extraordinarily high EBITDA achieved in the first quarter of 2009 when the Company benefited from a drop in polymer prices, high sales prices and from the accelerated clearance of the stock of finished goods.

EBITDA amounted to EUR 7.5 million in the second quarter of 2010, down by 11.0% yoy. After a temporary stabilisation in the last quarter of last year, polymer prices have gone up substaintially over the course of 2010. While the impact from the pass-through mechanism delay was negligible in the first quarter of this year, a further growth of the price indexes to their current historical maximum had a very negative impact on profitability in the second quarter.

EBITDA margin reached 23.7% in the first half of 2010, down by 11.7 percentage points in comparison with the same period in 2009. EBITDA margin reached 21.7% in the second quarter of 2010, down by 8.7 percentage points yoy.

Operating Costs

Total raw materials and consumables used in the first half of 2010 amounted to EUR 49.3 million, a 31.9% yoy increase. In the second quarter this item reached EUR 25.3 million, 46.3% yoy more. The key driver was the previously stated increase in polymer purchase prices.

In the first half of 2010 total staff costs amounted to EUR 3.6 million, 3.4% yoy more. Total staff costs in the first half denominated in Czech korunas and without the revaluation of the share option plan slightly increased by 2.9% yoy. In the second quarter of 2010 total staff costs reached EUR 1.8 million, 3.0% yoy lower, primarily driven by the positive impact of the revaluation of the share option plan to fair value. In contrast, the appreciation of the Czech koruna against EUR impacted staff costs negatively.

Other operating gains (net) amounted to EUR 0.4 million in the first half of 2010, compared with the gain of EUR 0.1 million in the same period in 2009. In the second quarter of 2010, other operating gains (net) reached EUR 0.2 million, compared with the gain of EUR 0.1 million in the same period in 2009.

Depreciation and Amortization

Consolidated depreciation and amortization reached EUR 8.2 million in the first half of 2010, up by 5.9% yoy. In the second quarter of 2010, consolidated depreciation and amortization amounted to EUR 4.1 million, 5.0% yoy more. Higher depreciation costs resulted from the appreciation of the CZK against the EUR on an annual basis, which impacted the translation of this cost category in EUR.

Profit from Operations

In the first half of 2010 profit from operations (EBIT) amounted to EUR 8.1 million, down by 44.8% compared with the same period in 2009 primarily on the back of exceptionally high EBITDA recorded in the compared period last year and due to a stronger Czech koruna against EUR, which impacted depreciation.

In the second quarter of 2010 profit from operations (EBIT) declined by 25.2% to EUR 3.3 million.

Financial Income and Costs

In the first half of 2010 foreign exchange changes and other financial income/(expense) (net) represented a gain of EUR 3.3 million, down by 24.4% yoy. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The annual change in this item was given by the development of the Czech koruna against the EUR through unrealized FX changes related to the revaluation of balance sheet items (mainly bank debt and the inter-company loan). In the second quarter of 2010 foreign exchange changes and other financial income/(expense) (net) represented an expense of EUR 1.0 million, compared with a gain of EUR 7.2 million in the same period last year.

Interest expenses (net) related to debt servicing amounted to EUR 1.6 million in the first half of 2010, a 17.8% decrease compared with the first half of 2009. The main reasons for this decline were the gradual repayment of the external debt and the decrease in interest rates in the compared periods. In the second quarter of 2010, interest expenses (net) related to debt servicing amounted to EUR 0.8 million, a 2.0% decrease compared with the same period last year.

Income Tax

In the first half of 2010 income tax amounted to EUR 0.4 million, down by 65.3% yoy. The Company recorded income tax due to unrealized FX gains resulting from the revaluation of bank debt and the inter-company loan. The current tax payable was EUR 1.0 million while the changes in the deferred tax equalled a EUR 0.6 million gain.

In the second quarter of 2010 income tax amounted to a EUR 0.3 million gain, compared with an expense of EUR 1.5 million in the same period last year. The changes in deferred tax equalled EUR 0.3 million in the second quarter of this year, the current tax payable was negligible.

Net Profit

Net profit in the first half of 2010 amounted to EUR 9.4 million, down by 41.1% yoy, primarily as a result of the pass-through mechanism delay and its impact in the compared periods, higher depreciation and lower unrealized FX gains. In the second quarter of 2010, the Company recorded a net profit of EUR 1.8 million, down by 80.9% compared with the same period in 2009 as a result of the reasons above.

CAPEX and Investments

In the first half of 2010 total consolidated capital expenditure amounted to EUR 5.6 million, compared with EUR 0.4 million last year. Higher capital expenditure represents primarily expenditures for the new production line project.

In the second quarter of 2010 total consolidated capital expenditure amounted to EUR 0.7 million, up by 96.8% yoy. The CAPEX guidance for this year remains unchanged.

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at June 30, 2010 was EUR 94.0 million, a 2.1% reduction when compared with December 31, 2009. Net debt as at June 30, 2010 was EUR 93.4 million, down by 2.3% when compared with December 31, 2009. This was equivalent to a Net Debt/EBITDA ratio of 2.9 as at June 30, 2010.

3.2 Business Overview of the First Half 2010

In the first half of 2010 the total production output (net of scrap) reached 34,374 tonnes, up by 0.1% compared with the first six months of 2009. In the second quarter of 2010, the Company produced 17,523 tonnes, which is 1.5% more than in the same period last year.

In the first half of 2010 the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 87.3% share of total revenues, a modest drop compared with an 89.1% share in the same period in 2009, which confirms a continuing focus of the Company on the hygiene market. In the second quarter of 2010 the share of revenues from sales of nonwoven textiles for the hygiene industry on total revenues was 87.5%, down by 0.6 percentage points compared with the same period last year.

Revenues from sales of standard (commodity) textiles for hygiene products reached EUR 45.9 million, an increase of 4.7% yoy in comparison with the first half of 2009. The proportion of revenues from sales of commodity textiles for the hygiene industry represented in the first half of 2010 a 66.7% share of total revenues, an annual decrease from the 69.4% share in the first half of 2009. In the second quarter of 2010 this share fell slightly to 64.6%. In the hygiene segment, the revenues from sales of light weight and bi-component materials in the first half of 2010 reached EUR 14.2 million, a 14.1% yoy increase over the first half of 2009. The proportion of this product category of total sales in the first half of 2010 amounted to 20.6% and in the second quarter of 2010, this share went up to 22.9%.

Revenues from sales of non-hygiene products (for construction, agriculture and medical) amounted to EUR 8.7 million in the first half 2010, a decrease of 26.4% over the first half of 2009. The share of sales of non-hygiene products on total revenues was 12.7% in the first half of 2010 and 12.5% in the second quarter of 2010 respectively.

The geographical distribution[3] of sales confirms the steady focus of the Company on the broader European area. Sales to Western Europe amounted to EUR 41.1 million in the first half of 2010 and represented a 59.8% share on total revenues compared with the 58.0% share in the same period in 2009. Revenues from sales to CEE and Russia reached EUR 24.7 million and represented a 35.8% share of total revenues. Revenues from sales to other territories amounted to EUR 3.0 million, and represented a 4.4% share on total revenues.

3.3 Decision to Commence Construction of New Production Facility

On March 4, 2010, the Company announced its decision to commence with the construction of a new production facility. In connection with this decision the Company also announced that it has entered into a contract with the general supplier of the production technology Reifenhäuser REICOFIL GmbH & Co. KG (Germany).

The investment in the new 9th production line will be carried out through the subsidiary PEGAS – NS a.s. and the facility will be located in Znojmo – Přímětice, Czech Republic. The REICOFIL 4 type production line will produce materials mainly for the hygiene segment with the option of production for other applications. The total invested amount in the new facility will not exceed EUR 50 million. The new production line will enable the expansion of the Company's annual production capacity by up to 20 thousand tonnes (depending on the product portfolio). The Company expects to launch production on the line in the second half of 2011.

At the beginning of August 2010, construction works related with this project started in line with the project timeline. The general supplier of the construction works is PSG – International a.s., a leading construction company with business activities in the Czech Republic and abroad.

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

3.4 Research & Development

One of the most important parts of PEGAS's current and future strategic focus is the development of new applications and products. The development base is supported by a team of technical specialists, who are dedicated to product development, customer and technology support. This team has been built over a period of more than 10 years and specialises in several different areas, which are principally divided into industrial and hygiene applications, with the main focus on the hygiene field as the key area for the most important projects at the Company.

From the technological point of view, the department has two main goals to a) improve quality and production efficiency of the standard products and b) develop products with added value using both current and new technologies.

These objectives are being achieved in cooperation with the raw material suppliers, using standard and special new polymers, and/or with machinery suppliers, allowing the Company to produce added value products for its customers. In order to better utilise its production lines and accelerate the development of its projects, PEGAS takes advantage of several pilot lines, which are made available under special agreements at the suppliers' sites.

In the field of technologies, PEGAS is continuing in the commercialisation of ultra lightweight materials produced on the latest production line which has confirmed the anticipated parameters of the produced material and its overall efficiency. PEGAS will continue in this trend also with the new line, which should be launched in the second half of 2011. Furthermore, this new line will have the capacity to bring new designs to the market, allowing PEGAS again to maintain its position among the technology leaders and producers of value added products. These include for example the development of elastomeric and extensible nonwovens and also nonwovens, which after further treatment should become soft with excellent touch and drapeability properties.

PEGAS cooperates with many different institutes, which very well complete the Company's research resources, especially in the areas of plasma textile treatment or special polymers. There are several universities and R&D centres, mainly in the Czech Republic and Slovakia, and also in Western Europe. They offer the Company special support in specialised and sophisticated lab resources.

3.5 Strategy

The Company's strategy for the future is mainly to:

1) develop and take advantage of growth opportunities to strengthen its market position,

2) maintain and extend its technological leadership in spunmelt nonwoven textiles for disposable hygiene products in Europe, and

3) provide solid returns to shareholders.

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

Continue Investing into Technologically Advanced Production Capacity: PEGAS will strive to install state-of-the-art production capacities ahead of its European competitors. The Company has commenced work on its 9th production line in Znojmo-Přímětice with the production launch planned for late 2011.

Maintain Close Relationships with Customers and Suppliers: PEGAS will continue to work together with its clients, machinery manufacturers and raw material suppliers to research, develop and implement new products ahead of the competition. PEGAS will endeavour to remain at the forefront of technical developments in the industry and supply its customers with the highest quality products and continually develop new materials.

Focus on Technologically Advanced Products: PEGAS is Europe's largest producer of bicomponent spunmelt nonwovens with extensive experience in the design and production of ultra lightweight materials.

Maintain industry leading financial performance: PEGAS will continue to strive to improve its operational efficiency, which together with the primary objective of growing the Company is a prerequisite for maintaining outstanding financial performance. PEGAS is effective at generating significant levels of cash, which is subsequently used to support expansion, reduce outstanding debt and pay out dividends.

Monitoring investment opportunities: PEGAS will continue to monitor investment opportunities outside the Czech Republic, whether acquisitions or the construction of new capacities abroad.

3.6 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.

The loss of one or more customers with significant percentage of the total Company's sales could significantly affect the Company's revenues and profitability.

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

Production

Any disruption to PEGAS production facilities would have a material adverse effect on the Company's business. PEGAS is dependent on one manufacturer for the 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 modernise and expand their operations more quickly, 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 customer 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 is facing 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.

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

Adverse outcomes in litigation to which PEGAS might be 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 bank debt could be reassessed by the banks and increased on the back of macro-economic developments and therefore increased interest costs could affect the Company's profitability.

The current level of indebtedness and conditions imposed 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.

Most of 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 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.

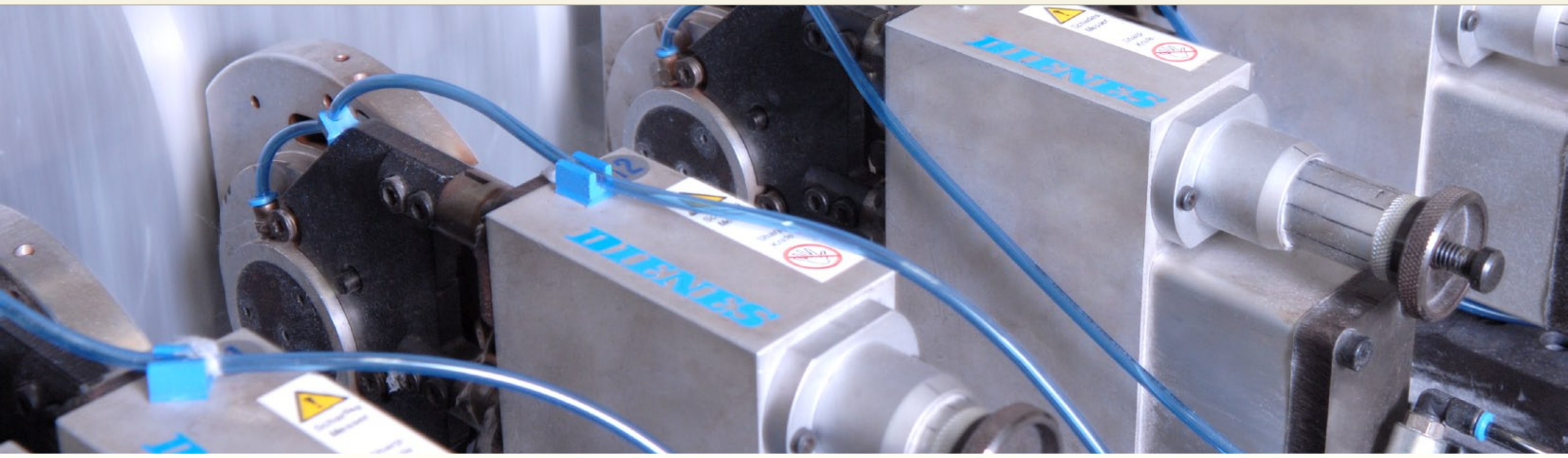
Key Personnel and Technical Expertise

The loss of the services of 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 people are limited in number and are in high demand.

Ownership Changes

PEGAS is a 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 in the long term strategy and impact value of the shares.



CHAPTER 4

Shares and Shareholder Structure

Shareholder Structure as of June 30, 2010

Institutional and Retail Investors (together free float)	100%
Of which Management of the Company	0.9%

Source: Company Data

The total total stake held by the management of the Company as of June 30, 2010 was 0.9% and declined from the 1.2% stake as of December 31, 2009.

On June 14, 2010 the Company received a notification that Genesis Smaller Companies SICAV held as of June 12, 2010 472,700 shares of PEGAS (managed by custodian Brown Brothers Harriman /Luxembourg/), constituting 5.12% of the share capital and of the total voting rights attached to the shares issued by the Company.

During the first six months ending June 30, 2010 the Company did not receive any other notification from shareholders about an acquisition or change of a major holding in the share capital and the total voting rights connected to the shares issued by the Company.

Share Price Development and Trading Activity in the First Half of 2010[4]

The 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 SA 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 in the RM-System, an organized market in the Czech Republic.

During the first half of 2010 PEGAS shares were traded for a total value of CZK 851 million on the Prague Stock Exchange and for a total value of PLN 12.3 million on the Warsaw Stock Exchange. The lowest trading price during the 6 months was CZK 413 and PLN 64.1 and the highest CZK 477 and PLN 73 on the Prague and Warsaw Stock Exchanges respectively.

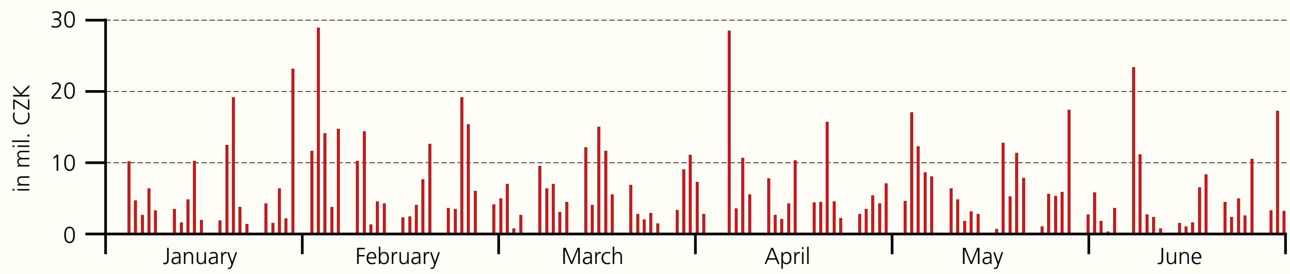
The closing price on June 30, 2010 was CZK 419 on the Prague Stock Exchange and PLN 67.1 on the Warsaw Stock Exchange and market capitalization reached CZK 3.9 billion (based on the Prague Stock Exchange quote).

[4] Sources: PSE and WSE websites

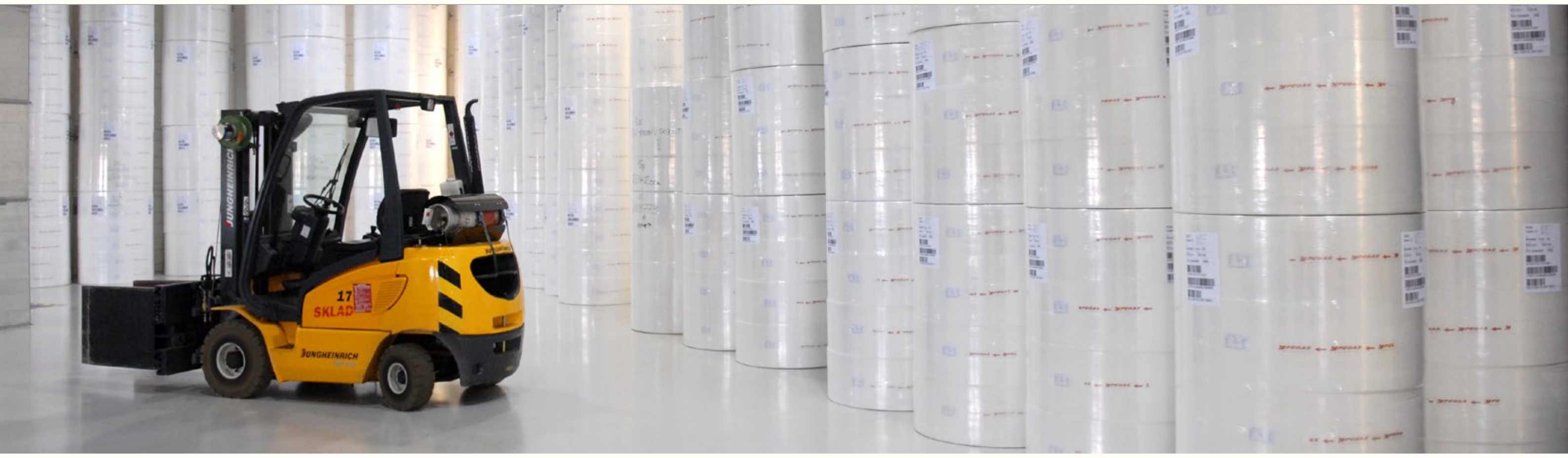
Share Price Development of PEGAS on the Prague Stock Exchange (January 1, 2010 – June 30, 2010)

Share Price

Trading Volume



Source: PSE



CHAPTER 5

Dividend Policy and Declaration of Dividend

On July 7, 2010 the Company's Board of Directors announced its intention to pay the shareholders a dividend in the amount of 8,767,930 EUR, i.e. 0.95 EUR per share, where the source of the dividend payment will, as in previous years, be the Company's share premium account. Its payment doesn't require the approval of the General Meeting of Shareholders.

The Company's Board of Directors has thoroughly evaluated future capital expenditures and working capital requirements, namely in relation to the construction of the new production facility. The prudent plan model indicates there to be sufficient reserves to meet bank conditions (covenants) not only in respect to this planned investment but also for the Company's announced progressive dividend policy.

If no unforeseeable exceptional circumstances occur, the dividend will be paid out at the end of the third quarter of this year. The final confirmation of the dividend amount including the record date for the right to the dividend and the dividend payment date will be announced at the beginning of September.

CHAPTER 6

Related Parties Transactions

Remuneration of Executive and Non-executive Directors

The Company signed service agreements with its executive and non-executive directors.

Executive directors, i.e. Board Members and Executive Heads in the Czech Republic, may use the Company's cars for private purposes. Executive directors 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 realized through Phantom options.

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, granted the manager the right to receive cash calculated as the 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 the 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 SA (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.

On June 15, 2010 the AGM approved new principles of the share price bonus plan for members of the senior management and the members of the Board of Directors. The goal of the new programme was to enhance its motivation function and to extend it to the new members of the senior management and the Board of Directors. Therefore, the AGM Meeting resolved to issue an aggregate amount of 230,735 phantom options (representing 2.5% of share capital of PEGAS NONWOVENS SA) to the directors and senior management of PEGAS and/or its affiliates, against no consideration. Each phantom option, when exercised, will grant the director the right to receive a phantom share, i.e. the right to receive in cash an amount equal to the difference between CZK 473.00 representing the PEGAS's share price on the Prague Stock Exchange (the "PSE") as of December 15, 2009 increased by 10%, and the closing price of one PEGAS share on the day preceding the day of exercise of the phantom option on the PSE (or other market if the PSE trading is discontinued). 25% of phantom options (i.e. 57,684 options) will vest yearly, with the first options vesting on December 18, 2010 and the last options vesting on December 18, 2013, whereas the first options vesting on December 18, 2010 will fully replace the last options of the current share price bonus plan, approved at the AGM in 2007, vesting at the same date.

The AGM authorised and empowered the Board of Directors to allocate the above mentioned phantom options between the directors and senior management in accordance with criteria determined by, and at the discretion of, the Board of Directors.

Total number of issued phantom shares was 356,839 as of June 30, 2010.

No phantom shares were exercised in the first half of 2010. The fair value of the phantom options as at June 30, 2010 was EUR 206 thousand.

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

CHAPTER 7

Corporate Governance

Annual General Meeting of June 15, 2010

At PEGAS's AGM which was held in Luxembourg on June 15, 2010, 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, 2009 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 2009.

3) Approval of the statutory accounts and the consolidated accounts for the financial year ended December 31, 2009.

4) Allocation of the net results of the financial year ended December 31, 2009.

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, 2009.

6) Appointment of a Luxembourg independent auditor *("réviseur d'entreprises")* to review the statutory accounts and the consolidated accounts as at December 31, 2010.

7) Ratification of the decision of the Board of Directors to co-opt Mr. František Řezáč as an executive director of PEGAS for a period ending on November 30, 2012.

8) Ratification of the decision of the Board of Directors to co-opt Mr. František Klaška as an executive director of PEGAS for a period ending on November 30, 2012.

9) Ratification of the decision of the Board of Directors to co-opt Mr. Marian Rašík as an executive director of PEGAS for a period ending on February 28, 2013.

10) Ratification of the decision of the Board of Directors to co-opt Mr. Neil J. Everitt as a non-executive director of PEGAS for a period ending on March 29, 2012.

11) Prolongation of appointment of Mr. Marek Modecki as a non-executive director of PEGAS for a period ending at the annual general meeting of shareholders to be held in 2012.

12) Approval of a remuneration policy for non-executive directors for the financial year 2010.

13) Approval of a remuneration policy for executive directors for the financial year 2010.

14) Approval of new principles of share price bonus plan for various members of the senior management and the members of the Board of Directors.

15) Miscellaneous.

Out of the 9,229,400 ordinary shares of PEGAS, 2,264,284 ordinary shares, representing 24.5% (rounded up) of all issued shares of PEGAS in nominal value 1.24 EUR per share, were present or duly represented or had duly voted by correspondence at the AGM.

Decision to Co-opt and Nominate Executive and Non-executive Directors by the AGM Held on June 15, 2010

The AGM resolved to ratify the co-optation dated December 1, 2009 of Mr. František Řezáč as an executive director of the Company and thereby confirmed his appointment for the period ending November 30, 2012.

The AGM resolved to ratify the co-optation dated December 1, 2009 of Mr. František Klaška as an executive director of the Company and thereby confirmed his appointment for the period ending November 30, 2012.

The AGM resolved to ratify the co-optation dated February 26, 2010 of Mr. Marian Rašík as an executive director of the Company and thereby confirmed his appointment for the period ending February 28, 2013.

The AGM resolved to ratify the co-optation dated March 29, 2010 of Mr. Neil J. Everitt as a non-executive director of the Company and thereby confirmed his appointment for the period ending March 29, 2012.

The AGM resolved to appoint Mr. Marek Modecki as a non-executive director of PEGAS, prolonging thus his appointment for the period ending the date of AGM held in 2012.

Board of Directors Structure as at June 30, 2010

Name	Age	Position/Function	Business Address	Function Period in H1 2010
František Řezáč	36	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	Jan 1, 2010 – Jun 30, 2010
František Klaška	53	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	Jan 1, 2010 – Jun 30, 2010
Bernhard W. Lipinski	63	Non-Executive Director, Chairman of the Board	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	Jan 1, 2010 – Jun 30, 2010
David Ring	48	Non-Executive Director	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	Jan 1, 2010 – Jun 30, 2010
Marek Modecki	51	Non-Executive Director	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	Jan 1, 2010 – Jun 30, 2010
Marian Rašík	39	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	Mar 1, 2010 – Jun 30, 2010
Neil J. Everitt	49	Non-Executive Director	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	Mar 30, 2010 – Jun 30, 2010

Group Entities

To translate the registered capital of Czech subsidiaries, the CZK/EUR 25.695 rate of exchange issued by Czech National Bank effective on June 30, 2010 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]	Dec 5, 2005	100%	3,633	141	100% participation of CZK 3,633 thous.
PEGAS – DS a. s.	Dec 14, 2005	100%	800,000	31,134	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	21,405	54 shares at CZK 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	25,297	64 shares at CZK 10,000 thous. per share and 10 shares at CZK 1,000 thous. per share
PEGAS – NS a. s.[6]	Dec 3, 2007	100%	5,000	195	5 shares at CZK 1,000 thous. per share

[5] PEGAS NONWOVENS s. r. o. was registered on November 14, 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 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.

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

CHAPTER 8

Interim Consolidated Financial Statements of PEGAS NONWOVENS SA For the Six Months Ended June 30, 2010

8.1 Condensed Consolidated Statement of Comprehensive Income for the Six Months Ended June 30, 2010 and June 30, 2009

Unaudited financial statements prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union (in thousands of EUR)

	Six Month Period Ending		
	June 30, 2009 (Unaudited)	June 30, 2010 (Unaudited)	% Change
Revenue	63,191	68,807	8.9%
Raw materials and consumables used	(37,403)	(49,326)	31.9%
Staff cost	(3,485)	(3,604)	3.4%
Other operating income/(expense) net	90	425	372.2%
EBITDA	**22,393**	**16,302**	**(27.2%)**
Depreciation and amortization expense	(7,756)	(8,217)	5.9%
Profit from operations	**14,637**	**8,085**	**(44.8%)**
Foreign exchange gains and other financial income	8,193	6,106	(25.5%)
Foreign exchange losses and other financial expense	(3,779)	(2,769)	(26.7%)
Interest income	6	1	(83.3%)
Interest expense	(1,961)	(1,608)	(18.0%)
Profit before income tax	**17,096**	**9,815**	**(42.6%)**
Income tax (expense)/income net	(1,072)	(372)	(65.3%)
Net profit after tax	**16,024**	**9,443**	**(41.1%)**
Other comprehensive income			
Net value loss on cash flow hedges	––	(1,245)	n/a
Changes in translation reserves	3,380	2,381	(29.6%)
Total comprehensive income for the period	**19,404**	**10,579**	**(45.5%)**
Earnings per share			
Basic earnings per share (EUR)	1.74	1.02	
Diluted earnings per share (EUR)	1.74	1.02	

8.2 Condensed Consolidated Statement of Comprehensive Income for the Three Months Ended June 30, 2010 and June 30, 2009

Unaudited financial statements prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union (in thousands of EUR)

	Three Month Period Ending		
	June 30, 2009 (Unaudited)	June 30, 2010 (Unaudited)	% Change
Revenue	27,528	34,405	25.0%
Raw materials and consumables used	(17,326)	(25,342)	46.3%
Staff cost	(1,875)	(1,818)	(3.0%)
Other operating income/(expense) net	55	215	290.9%
EBITDA	**8,382**	**7,460**	**(11.0%)**
Depreciation and amortization expense	(3,947)	(4,143)	5.0%
Profit from operations	**4,435**	**3,317**	**(25.2%)**
Foreign exchange gains and other financial income	6,694	(685)	n/a
Foreign exchange losses and other financial expense	468	(364)	n/a
Interest income	1	––	n/a
Interest expense	(817)	(800)	(2.1%)
Profit before income tax	**10,781**	**1,468**	**(86,4%)**
Income tax (expense)/income net	(1,478)	313	n/a
Net profit after tax	**9,303**	**1,781**	**(80.9%)**
Other comprehensive income			
Net value loss on cash flow hedges	––	(122)	n/a
Changes in translation reserves	4,373	(920)	n/a
Total comprehensive income for the period	**13,676**	**739**	**(94.6%)**
Earnings per share			
Basic earnings per share (EUR)	1.01	0.19	
Diluted earnings per share (EUR)	1.01	0.19	

8.3 Condensed Consolidated Statement of Financial Position as of June 30, 2010, December 31, 2009 and June 30, 2009

Unaudited financial statements prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union (in thousands of EUR)

	June 30, 2009 (Unaudited)	December 31, 2009 (Audited)	June 30, 2010 (Unaudited)
ASSETS			
Non-current assets			
Property, plant and equipment	118,683	108,865	109,537
Intangible assets	233	206	198
Goodwill	89,615	87,668	90,295
Total non-current assets	**208,531**	**196,739**	**200,030**
Current assets			
Inventories	14,909	13,652	13,328
Trade and other receivables	23,900	24,983	28,719
Cash and other equivalents	268	473	630
Total current assets	**39,077**	**39,108**	**42,677**
Total assets	**247,608**	**235,847**	**242,707**
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	11,444	11,444	11,444
Share premium	26,152	17,846	17,846
Legal reserves	4,396	4,396	6,034
Translation reserves	4,166	2,203	4,584
Other changes in equity	––	181	(1,064)
Retained earnings	72,425	77,203	85,008
Total share capital and reserves	**118,583**	**113,273**	**123,852**
Non-current liabilities			
Bank loans	83,480	82,614	94,033
Other payables	50	27	40
Deferred tax liabilities	11,938	11,471	10,895
Total non-current liabilities	**95,468**	**94,112**	**104,968**
Current liabilities			
Trade and other payables	13,597	13,879	12,845
Tax liabilities	400	1,016	1,042
Bank current liabilities	19,460	13,469	––
Provisions	100	98	––
Total current liabilities	**33,557**	**28,462**	**13,887**
Total liabilities	**129,025**	**122,574**	**118,855**
Total equity and liabilities	**247,608**	**235,847**	**242,707**

8.4 Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2010 and June 30, 2009

Unaudited financial statements prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union (in thousands of EUR)

	Six Month Period Ending	
	June 30, 2009 (Unaudited)	June 30, 2010 (Unaudited)
Profit before tax	**17,096**	**9,815**
Adjustment for:		
Amortization and depreciation	7,756	8,217
Foreign exchange gains	(1,213)	(1,121)
Interest expense	1,961	1,608
Fair value of interest rate swap	244	(1,245)
Other financial (expense)/income	256	34
Cash flows from operating activities		
Decrease/(increase) in inventories	(1,589)	733
Decrease/(increase) in receivables	4,345	(2,899)
Increase/(decrease) in payables	(4,158)	(1,995)
Income tax paid	(7)	(889)
Net cash from operating activities	**24,691**	**12,258**
Cash flows from investment activities		
Purchases of property, plant and equipment	(415)	(5,577)
Net cash used in investing activities	**(415)**	**(5,577)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	(21,935)	(5,155)
Increase/(decrease) in long term debt	45	13
Interest paid	(2,171)	(1,348)
Other financial income/(expense)	(256)	(34)
Net cash used in financing activities	**(24,317)**	**(6,524)**
Cash and cash equivalents at the beginning of the period	**309**	**473**
Net increase (decrease) in cash and cash equivalents	**(41)**	**157**
Cash and cash equivalents at June 30	**268**	**630**

8.5 Condensed Consolidated Statement of Changes in Equity as at June 30, 2010 and as at June 30, 2009

Unaudited financial statements prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union (in thousands of EUR)

	Share Capital	Share Premium	Legal Reserves	Other Changes in Equity	Translation Reserves	Retained Earnings	Total Equity Attributable to Equity Holders of the Company	Minority Interests	Total Equity
As at January 1, 2009	**11,444**	**26,152**	**2,433**	––	**786**	**58,364**	**99,179**	––	**99,179**
Distribution	––	––	––	––	––	––	––	––	––
Other comprehensive income for the year	––	––	––	––	3,380	––	3,380	––	3,380
Net profit for the period	––	––	––	––	––	16,024	16,024	––	16,024
Reserves created from retained earnings	––	––	1,963	––	––	(1,963)	––	––	––
As at June 30, 2009	**11,444**	**26,152**	**4,396**	––	**4,166**	**72,425**	**118,583**	––	**118,583**
As at January 1, 2010	**11,444**	**17,846**	**4,396**	**181**	**2,203**	**77,203**	**113,273**	––	**113,273**
Distribution	––	––	––	––	––	––	––	––	––
Other comprehensive income for the year	––	––	––	(1,245)	2,381	––	1,136	––	1,136
Net profit for the period	––	––	––	––	––	9,443	9,443	––	9,443
Reserves created from retained earnings	––	––	1,638	––	––	(1,638)	––	––	––
As at June 30, 2010	**11,444**	**17,846**	**6,034**	**(1,064)**	**4,584**	**85,008**	**123,852**	––	**123,852**

8.6 Selected Explanatory Notes to the Interim Consolidated Financial Statements for the Period Ending June 30, 2010

Prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 as adopted by the European Union

a) Basis of Preparation

These consolidated financial statements ware prepared in accordance with International Financial Reporting Standards (IFRS), and are in compliance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. The condensed interim financial statements do not include all the information and disclosures required in the annual financial statements. The interim report was not audited by the Company´s external auditors.

b) Summary of Significant Accounting Policies

The same basis of preparation, accounting policies, presentation and methods of computation have been followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended December 31, 2009.

c) Disclosures on Seasonal and Economic Influences

The business of PEGAS NONWOVENS SA is not typically subject to seasonal and economic influences other than the general economic cycle, althought the hygiene markes is to a large extent non-cyclical.

d) Unusual Items Given Their Size, Nature or Frequency

In the first half of 2010 consolidated revenues reached EUR 68,807 thousand, up by 8.9% yoy. Total raw materials and consumables used in the same period amounted to EUR 49,326 thousand, a 31.9% yoy increase. The key driver of revenue and raw materials and consumables development was the rapid increase of the polymer prices indexes, which to date have almost doubled since their bottom in the first quarter last year. Conversely, the lower actual sales volumes compared with the high levels in achieved the relevant period last year on the back of the clearance of accumulated inventories of finished goods in the first quarter of 2009, cut back the annual revenue growth.

In the first half of 2010 EBITDA amounted to EUR 16,302 thousand, down by 27.2% yoy. The annual comparison was influenced by the extraordinarily high EBITDA achieved in the first quarter of 2009 when the Company benefited from a drop in polymer prices, high sales prices and from the accelerated clearance of the stock of finished goods.

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

In the first half of 2010 foreign exchange gains and other financial income represented a gain of EUR 6,106 thousand and foreign exchange losses and other financial expense amounted to EUR 2,769 thousand. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The annual change of this item was given by the development of the Czech koruna against the EUR through unrealized FX changes related to the revaluation of balance sheet items (mainly bank debt and the inter-company loan).

PEGAS spent EUR 5,577 thousand as capital expenditure in the first half of 2010, mainly due to planned expenditures for the new production facility.

e) Estimates

The preparation of interim financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

There were no material changes in nature or amount of changes in estimates of amounts reported in the previous financial statements.

f) Repurchases and Repayments of Debt and Equity Securities

The bank facilities used by PEGAS Group consist of a revolving credit facility of up to EUR 130 million and of a non-syndicated overdraft facility of up to EUR 20 million. The facilities are non-amortizing, which removes the Company from its obligations to make mandatory repayments. During the first six month of 2010 Company decreased bank indebtedness from EUR 96,083 thousand to EUR 94,033 thousand (from EUR 120,851 thousand to EUR 102,940 thousand in the first half of 2009). The Company did not conclude any new bank facilities in the first half of 2010.

No repurchases and repayments of equity securities occured in first half of 2010 or in 2009.

g) Dividend

During the interim period, no dividend was paid to the shareholders. Information related to the intention of the Board of Directors to pay dividend in 2010 is described in note i).

h) Segment Information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Based on analysis of IFRS 8, the Group identified one operating segment, the production of nonwoven textiles.

i) Material Events Subsequent to the End of the Interim Period

On July 7, 2010, the Company's Board of Directors announced its intention to pay the shareholders a dividend in the amount of 8,767,930 EUR, i.e. 0.95 EUR per share, where the source of the dividend payment will be the Company's share premium account. If no unforeseeable exceptional circumstances occur, the dividend will be paid out at the end of the third quarter of this year. The final confirmation of the dividend amount including the record date for the right to the dividend and the dividend payment date will be announced at the beginning of September.

At the end of July, PEGAS signed a contract with the prime supplier of the construction works in relation to the announced new production facility, which is expected to be launched in the 2nd half of 2011.

The management of the Group is not aware of any other events that have occurred since the reporting date that would have any material impact on the consolidated financial statements as at June 30, 2010.

j) Disclosures on Changes in the Composition of the Entity/Changes in Consolidation

There were no changes in this field during the reporting period ended relative to the comparative period.

k) Earnings per Share

Earnings per Share (EPS) is calculated as net profit for the period attributable to equity holders of the Company divided by the weighted average of the number of shares existing each day in the given period.

Diluted earnings per share are calculated based on a weighted average number of shares in circulation (determined similarly as in the case of basic earnings per share) adjusted by the effect of the expected issue of all potential diluted securities, i.e. the effect of convertible loan notes in the case of the Group. Convertible bonds are the bonds with a right to convert to ordinary shares.

The basic and diluted earnings per share for all periods are equal due to the fact, that the Group does not have any agreement at the balance sheet date which will cause a potential future issue of securities. No changes to the number of shares occurred during either first half of 2010 or first half of 2009.

Weighted Average Number of Ordinary Shares

2009

	Number of Outstanding	Weighted Average
January – June	9,229,400	9,229,400

2010

	Number of Outstanding	Weighted Average
January – June	9,229,400	9,229,400

Basic Earnings per Share

		Three Months Ended		Six Months Ended	
		Jun 30, 2009	Jun 30, 2010	Jun 30, 2009	Jun 30, 2010
Net profit attributable to equity holders	TEUR	9,303	1,781	16,024	9,443
Weighted average number of ordinary shares	Number	9,229,400	9,229,400	9,229,400	9,229,400
Basic earnings per share	**EUR**	**1.01**	**0.19**	**1.74**	**1.02**

Diluted Earnings per Share

		Three Months Ended		Six Months Ended	
		Jun 30, 2009	Jun 30, 2010	Jun 30, 2009	Jun 30, 2010
Net profit attributable to equity holders	TEUR	9,303	1,781	16,024	9,443
Weighted average number of ordinary shares	Number	9,229,400	9,229,400	9,229,400	9,229,400
Diluted earnings per share	**EUR**	**1.01**	**0.19**	**1.74**	**1.02**

l) Related Party Transactions

On June 15, 2010 the AGM approved new principles of a share price bonus plan for members of the senior management and the members of the Board of Directors. The goal of the new programme is to enhance its motivation function and to extend it to the new members of the senior management and the Board of Directors. Therefore, the AGM Meeting resolved to approve the grant of an aggregate amount of 230,735 phantom options (representing 2.5% of the PEGAS's share capital) to the directors and senior management of PEGAS and/or its affiliates, against no consideration. Each phantom option, when exercised, will grant the director the right to receive a phantom share, i.e. the right to receive in cash an amount equal to the difference between CZK 473.00 representing the PEGAS's share price on the Prague Stock Exchange (the "PSE") as of December 15, 2009 increased by 10%, and the closing price of one PEGAS's share on the day preceding the day of exercise of the phantom option on the PSE (or other market if the PSE trading is discontinued). 25% of phantom options (i.e. 57,684 options) will vest yearly, with the first options vesting on December 18, 2010 and the last options vesting on December 18, 2013, whereas the first options vesting on December 18, 2010 will fully replace the last options of current share price bonus plan, approved at the AGM in 2007, vesting at the same date.

The AGM authorised and empowered the Board of Directors to allocate the above mentioned phantom options between the directors and senior management in accordance with criteria determined by, and at the discretion of, the Board of Directors.

This programme increased the total number of issued phantom shares to 356,839 as of June 30, 2010.

No phantom shares were exercised in the first half of 2010. The fair value of the phantom options as at June 30, 2010 was EUR 206 thousand.

Except for the information above there were no other new transactions between the Group and the executive managers or the non-executive directors concluded in the first half of 2010.

m) Approval of Interim Financial Statements

The interim financial statements were approved by the Board of Directors on August 22, 2010.

Bernhard W. Lipinski
Chairman of the Board of
PEGAS NONWOVENS SA

František Řezáč
Member of the Board of
PEGAS NONWOVENS SA

CHAPTER 9

Statement of Responsible Persons

Bernhard W. Lipinski, Chairman of the Board of PEGAS NONWOVENS SA

František Řezáč, Member of the Board of PEGAS NONWOVENS SA,

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.

Bernhard W. Lipinski	František Řezáč
Chairman of the Board of	*Member of the Board of*
PEGAS NONWOVENS SA	*PEGAS NONWOVENS SA*

CHAPTER 10

Contacts

PR/IR Officer

PEGAS NONWOVENS
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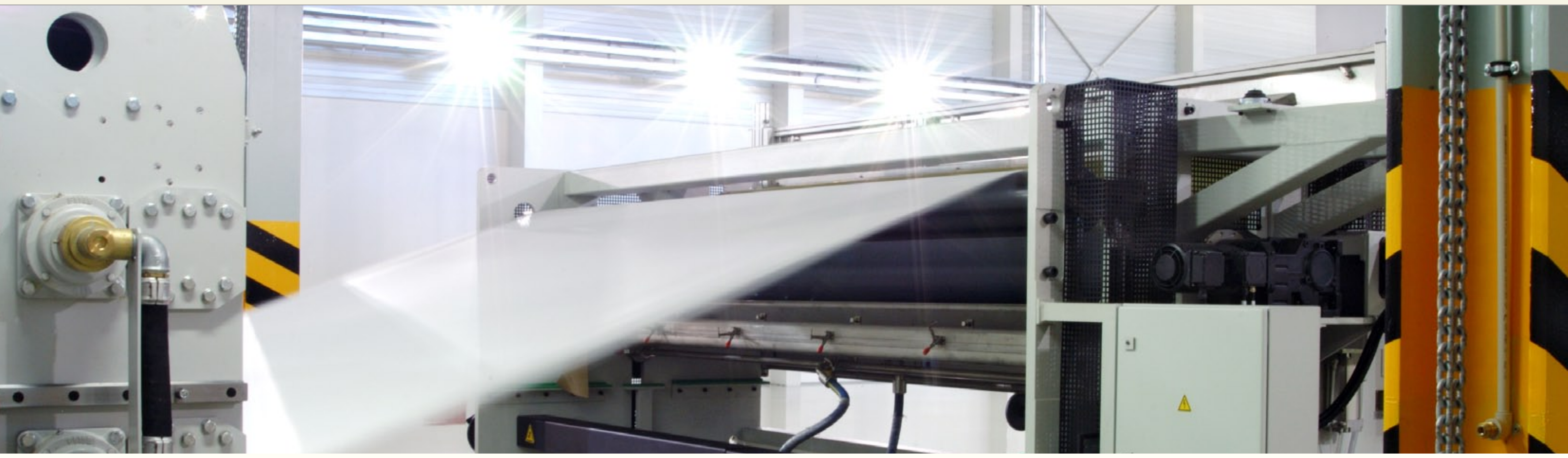
GSM: +420 724 311 544
iro@pegas.cz



CHAPTER 11

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.

Budgeted EBITDA – A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses set in the Company's business plan and used, and benchmark number for performance evaluation in the management bonus scheme.

Custodian – A financial institution responsible for managing assets on behalf of a beneficial owner.

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.

IAS 34 – International Accounting Standard, prescribing the minimum content of an interim financial report and the principles for recognition and measurement in complete or condensed financial statements for an interim period.

IFRS – International Financial Reporting Standards.

IPO – Initial Public Offering.

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.

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 stitchbonded 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 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.

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

Spunmelt Process – Technological process of 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/spunmelt process.

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

CHAPTER 12

Other Information

Basic Information on the Company

Name

PEGAS NONWOVENS SA

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 18, 2005 under the name Pamplona PE Holdco 2 SA

Jurisdiction

Luxembourg

The holding company of PEGAS, PEGAS NONWOVENS SA, was incorporated in Luxembourg as a public limited liability company *(société anonyme)* for an unlimited duration on November 18, 2005 under the name Pamplona PE Holdco 2 SA 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 86, 669 04 Znojmo, Czech Republic.

Scope of Business (According to Article 3 of the Articles 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 licences, 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 subsidiary, 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; and

f) to perform any operation which is directly or indirectly related to this purpose.

Principal Subsidiaries

Subsidiaries in which PEGAS NONWOVENS SA 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	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