PEGAS
NONWOVENS
every single detail

Annual Report 2007

02 Introduction
04 Year 2007 in Brief
05 Delivering on Targets
08 Statement from the Chief Executive Officer
10 Management Report
26 Investor Information
28 Corporate Governance
48 Consolidated Financial Statements of PEGAS NONWOVENS S.A. and Independent Auditor’s Report
85 Stand-alone Financial Statements of PEGAS NONWOVENS S.A. and Independent Auditor’s Report
93 Glossary
95 Other Information

PEGAS NONWOVENS S.A.

Is one of the leading European producers of nonwoven textiles for use primarily in the personal hygiene product market.

Annual production capacity is 70,000 tonnes.

Continuous organic growth via investments in new capacities represents one of the key pillars of Company's strategy.

The newest technology is capable of producing the most technologically advanced materials.



1 Introduction

PEGAS NONWOVENS S.A. (hereafter "PEGAS" or "the Company" or "Group") is one of the leading European producers of nonwoven textiles for use primarily in the personal hygiene products market. PEGAS supplies its customers with spunbond and meltblown (together, „spunmelt") polypropylene- and polypropylene/polyethylene - based („PP" and „PP/PE") textiles principally for use in disposable hygiene products (such as baby diapers, adult incontinence, and feminine hygiene products) and, to a lesser extent, in construction, agricultural and medical applications. At the end of 2007, PEGAS was Europe's second largest producer, in terms of tonnage output, of PP - and PP/PE-based spunmelt nonwovens, with a market share of approximately 11.4% of European production capacity and a market share of approximately 17% by volume of nonwovens destined for European manufacturers of personal hygiene products. PEGAS's production facilities comprise eight production lines.

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 2007, PEGAS employed 384 people. Shares in PEGAS are listed on the Prague Stock Exchange and on the Warsaw Stock Exchange, following an Initial Public Offering in December 2006. Shareholding structure changed in mid 2007, when the Company's largest shareholder, private equity fund Pamplona Capital Partners I, LP ("Pamplona") sold its 43.4% stake in the capital markets. The Company's senior management together held 2% of the shares as of December 31st, 2007. Other institutional and retail investors held 98% of PEGAS's shares. PEGAS is a member of the European Disposables and Nonwovens Association (EDANA).

PEGAS benefits from the most optimal location for deliveries across Europe.

2 Year 2007 in Brief

Our financial performance in 2007 confirmed the Company's unique position as a market leader in technology and a top producer of spunmelt nonwovens in Europe.

FINANCIALS (EUR THOUSANDS)	2006	2007
Total Revenues	120,941	121,971
EBITDA	41,902	38,376
Profit from Operations	29,750	26,043
Net Profit for the Period Attributable to Shareholders	20,274	22,138
No. of Shares - End of Period ("EOP")	9,229,400	9,229,400
Total Assets	249,025	263,879
Total Equity	76,950	93,885
Total Borrowings	136,171	123,058
Net Debt/(Net Cash)	114,157	122,547
CAPEX	5,265	18,878
RATIOS		
EBITDA Margin	34.6%	31.5%
Operating Profit Margin	24.6%	21.4%
Margin of Net Profit Attributable to Shareholders	16.8%	18.2%
CAPEX as % of Revenues	4.4%	15.5%
OPERATIONS		
Total Production Output (in tonnes net of scrap)	54,159	57,464
Number of Employees - EOP	331	384
EXCHANGE RATES		
CZK/EUR average	28.343	27.762
CZK/EUR EOP	27.495	26.620

3 Delivering on Targets

The global nonwovens market has grown by 7.5% CAGR since 1994 and is expected to continue this growth path as technological advances increase the material's application range and emerging markets continue to grow.

Nonwoven materials are used in a wide range of applications, including: disposable hygiene, medical, home, leisure and travel, clothing, agriculture, automotive, construction and furniture.

Approximately 18 fully loaded trucks carry the goods form the Company every day.

The year 2007 was a very significant and successful year in many aspects. The Company achieved, despite some negative impacts, targeted financial goals.

Through the launch of the new production line – first of its kind in the world – and through application for investment incentives for the 9th production line, PEGAS created a platform for further organic growth. These achievements confirm that management delivered its commitment to the Company's shareholders and business partners to maintain the Company's leading position in the market and superior financial performance. Amid rising competition and continuous pricing pressures, the Company's focus on installation of the most modern technologies and diversification of product mix is proving to be the right way to mitigate adverse market conditions.

IMPORTANT EVENTS OF 2007

January 2007

PEGAS announced exercise of the over-allotment option for 657,750 shares on January 12th, 2007. The 657,750 shares were purchased by ING Bank N.V., London branch at the offer price which was equal to CZK 749.20 (EUR 27) per one share.

March 2007

PEGAS – NW a.s., a subsidiary of PEGAS NONWOVENS s.r.o. launched a recruitment of new employees in connection with the planned launch of the eighth production line at Přímětice near Znojmo. Around fifty new positions were created, mainly in line servicing and laboratory.

PEGAS announced its preliminary consolidated unaudited financial results for the year 2006, reporting its historically highest revenues and EBITDA.

May 2007

PEGAS NONWOVENS s.r.o. signed a 5-year syndicated loan agreement in

3 Delivering on Targets

the total amount of EUR 150 million which was used for refinancing its senior bank debt facilities. The syndicated loan facility consisted of a 5-year syndicated bank loan, consisting of a EUR 130 million revolving facility and a EUR 20 million overdraft.

June 2007
PEGAS-NT a.s., a subsidiary of PEGAS NONWOVENS s.r.o. succeeded in an arbitration procedure against one of its suppliers at the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic. Based on the Arbitration court decision, PEGAS-NT a.s. obtained a compensation for damages in the amount of CZK 28.86 million.

On June 15th, 2007 PEGAS held its Annual General Meeting of shareholders in Luxembourg. All resolutions proposed on the agenda were approved.

The Board of PEGAS NONWOVENS S.A. decided to merge CEE Enterprise a.s. into PEGAS NONWOVENS s.r.o. CEE Enterprise a.s. was a non-operating company and a direct subsidiary of PEGAS NONWOVENS S.A., Luxembourg, and owned 100% of the participation of the main operating subsidiary, PEGAS NONWOVENS s.r.o. in Znojmo, Czech Republic.

PEGAS announced that it had made an application to the CzechInvest for incentives for the construction of its ninth line.

The Board of PEGAS NONWOVENS S.A. approved its first dividend payment in the total amount of EUR 7 million payable in the third quarter of 2007.

A lock-up period of a principal shareholder Pamplona Capital Partners I, LP expired on June 18th, 2007.

July 2007
The principal shareholder of the Company Pamplona Capital Partners I, LP sold its entire 43.4% stake in PEGAS at a price of CZK 780 per share. The shares were placed on the Prague and Warsaw Stock Exchanges via an accelerated bookbuilt.

Templeton Asset Management Ltd. acquired 850,000 shares in PEGAS NONWOVENS S.A. resulting in 9.21% of voting rights in the Company and became the largest shareholder in the Company.

August 2007
The merger of CEE Enterprise a.s. and PEGAS NONWOVENS s.r.o. came into force on August 20th, 2007.

September 2007
PEGAS paid out a dividend in total amount of EUR 7,014,344 or EUR 0.76 per share. The dividend was distributed from the share premium account.

John Halsted resigned from the office of the Board member of PEGAS NONWOVENS S.A. Mr. Halsted was a representative of the previous majority shareholder Pamplona.

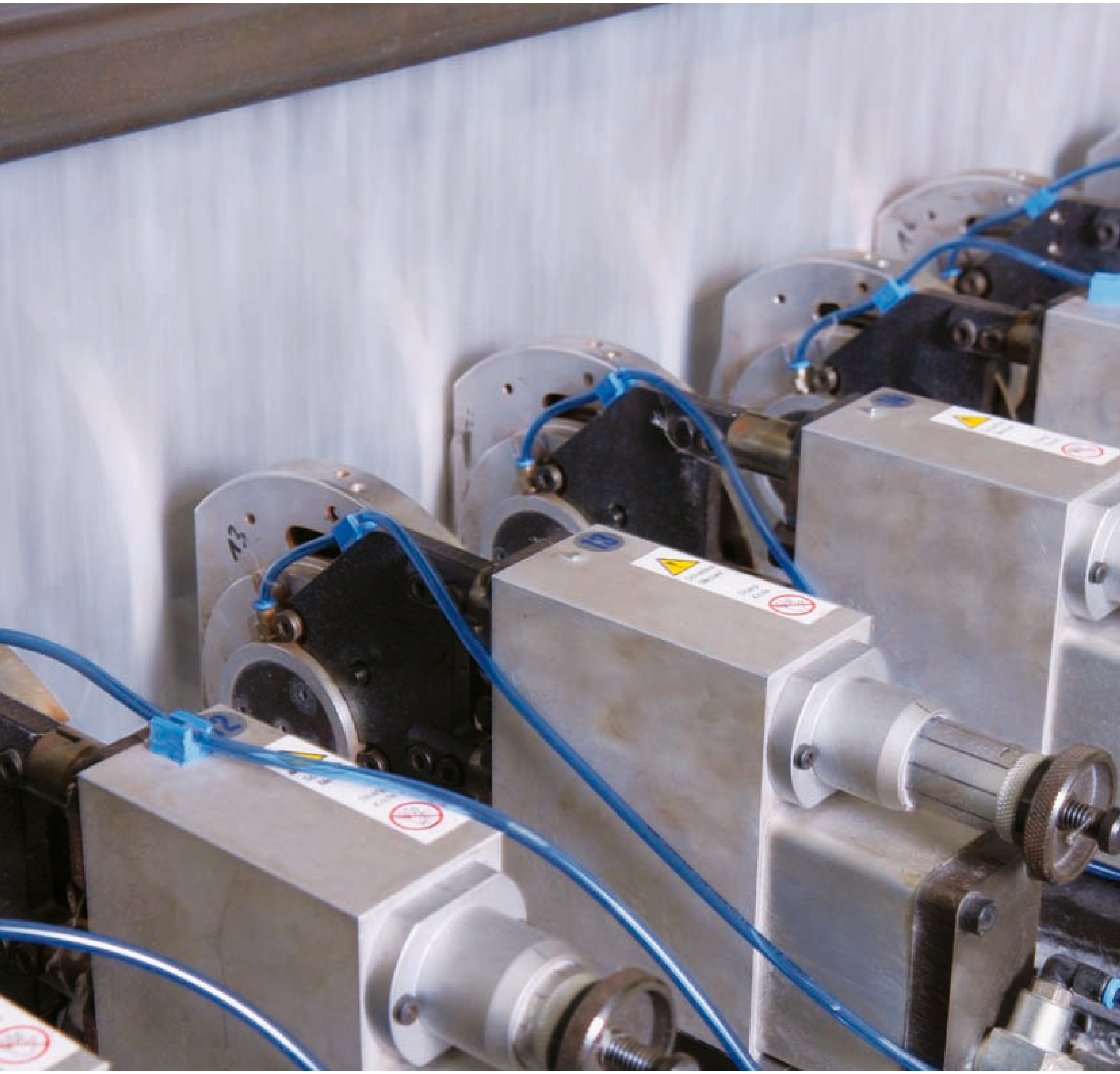
October 2007
Templeton Asset Management Ltd., increased its stake in the Company to 976,000 shares representing 10.57% of voting rights.

November 2007
PEGAS officially opened its eighth production line in Přímětice near Znojmo, again first of its kind in the world capable of producing ultra light materials. The new line increased the annual capacity of the Company by 13 to 15 thousand tonnes.

December 2007
PEGAS founded a new subsidiary PEGAS – NS a.s. in connection with its ninth production line project.

Henry Gregson resigned from the office of the Board member of PEGAS NONWOVENS S.A. Mr. Gregson was a representative of the previous majority shareholder Pamplona.

PEGAS closely cooperates with its customers and suppliers to identify and develop new products.



4 Statement from the Chief Executive Officer

DEAR SHAREHOLDERS

I would like to thank you for your trust and commitment that you have shown in the Company after the change of ownership at the end of the previous principal shareholder exit in July 2007. 2007 was a very demanding but successful year in many aspects. Our achievements confirm that management delivered the planned objectives to our shareholders and business partners to maintain the Company's leading position in the market, growth via organic investment, technological leadership via the highest quality and unique diversified materials and superior financial performance.

Changes in our shareholder structure represented an excellent opportunity for the Company and its management to focus on implementation of consistent long term strategy and particularly on growth via organic investments and strengthening our position in the growing core markets. In September 2007 we distributed to our shareholders EUR 7 million of dividend, a year earlier than we initially anticipated. We also decided to commit to a progressive dividend policy every year assuming that economic results of the Company will be satisfactory. Commitment of our shareholders was further demonstrated by strong support in the secondary offering conducted by former majority shareholder Pamplona that fully exited from the Company in July 2007 and its entire majority stake of 43.4% was successfully sold in the capital markets.

I am very pleased with our achievements in both operational and financial terms. Our financial performance in 2007 confirmed our unique position as a market leader in technology and as a leading producer of spunmelt nonwovens in Europe. Our sales grew steadily at the back of good demand for our product in our core market in Western Europe where our total sales grew in 2007 by more than 37%. We have also retained a strong share of technologically advanced materials on total revenues which remains a key priority going forward.

Margin development in 2007 reflected our sales mix and overall competitiveness of trading environment and pricing pressures in the European hygiene market. Our margins were tested by increases in raw material prices, energy prices in the Czech Republic and staff costs related to the introduction of a new corporate governance structure. Despite a number of factors affecting our margins, our production capacity was fully sold, we remained the most profitable producer in the industry due to our highly efficient production processes, favorable geographical location and unique technological advantages.

Financial Results

Consolidated revenues (revenues from sales of products) reached EUR 122 million in 2007, up by 0.9% yoy. EBITDA amounted to EUR 38.4 million, down by 8.4% yoy. Decrease in EBITDA was a result of a different product mix, rising polymer prices together with a subsequent delay in the polymer pass-through mechanism and introduction of a share option plan for Board members and key executive managers. Net profit attributable to shareholders amounted to EUR 22.1 million, up by 9.2% yoy, due to lower finance costs and income tax. Total amount of the consolidated financial debt (both short- and long-term) as at December 31st, 2007 was EUR 123.1 million, a 9.6% reduction compared with December 31st, 2006.

The proceeds from the IPO were primarily used to repay our external debt related to the previous acquisition and this allowed us to decrease our debt and to focus on best utilization of our own generated cash for organic growth investments. We further optimized our debt position by successful refinancing in May 2007 and lowered the spread on our new debt almost by double. Our net profit generated in 2007 was positively affected by favorable non-cash foreign exchange gains.

Investments and Growth

The major investment project in 2007 – the new 8th production line – was successfully launched in November 2007 in line with the investment budget. The new Reicofil line will enable rapid increase in production capacity of up to 15 thousand tonnes in 2008 and represents the most advanced technology available in the world. Production of ultra lightweight materials for the hygiene market and subsequently

Miloš Bogdan
Member of the Board of
PEGAS NONWOVENS S.A.

for the medical market on the new line is expected to ramp up throughout 2008 to allow our customers to adapt their production processes to new advanced materials. The configuration and design of the new production line continues our track record of installing and commissioning world-leading technology at regular two to three year intervals.

The continuous organic growth via investments in new capacities ahead of our competition and via potential strategic acquisitions remains one of the pillars of our long term strategy and a key to sustain our competitiveness in the upcoming years. While launching the 8th production line, we have also commenced preparation of the 9th production line project and submitted our application for investment incentives to the Czech government. This new line is expected to be placed in our main production site in Znojmo and similarly to the previous line, it will be designed and configured to be capable to produce the most technologically advanced materials available in the market.

The Board and Management

Following the changes in the ownership structure, the Board of Directors changed accordingly with departures of two representatives of former principal shareholder Pamplona, John Halsted and Henry Gregson, in September and December 2007 respectively. PEGAS now has in place a strong executive team with in depth expertise in nonwovens area and independent non-executive directors in place. An appointment of a new non-executive director with international financial expertise is anticipated during the first half of 2008.

The expertise of our personnel and management team in combination with strong commitment and professional attitude represents one of the most valuable assets of our Company.
The technical know-how of our managers and employees has been crucial in retaining our competitive edge in technology, our competitive advantage over our global market rivals, our production efficiencies, top quality of our production in 2007 and contributed significantly to the successful implementation of the new production capacity.

Looking Ahead

Looking ahead, our future success and opportunities will be based on a strategy of (1) growing our market share primarily through organic investments into new capacities and a continuous evaluation of potential acquisition opportunities outside the region, (2) maintaining technological leadership and delivering advanced products ahead of the market, and (3) delivering financial targets and using cash for expansion and attractive dividend payouts.

PEGAS is one of the few companies in the Prague Stock Exchange that are practically 100% free float and therefore is well positioned to focus entirely on key targets and strategies with the aim to increase shareholder's value.

I would like to thank you, our customers, shareholders, employees, suppliers and other stakeholders, for your contribution to our performance in 2007. I welcome your participation in the next periods towards becoming the prime spunmelt nonwovens source in Europe.

5 Management Report

DESCRIPTION OF THE COMPANY BUSINESS AND MARKET

Overview of the Nonwovens Market

The global nonwovens market has grown by 7.5% CAGR since 1994 and the production reached 5.12 million tonnes at the end of 2006. The market is expected to continue this growth path as technological advances increase the material's application range and emerging markets continue to grow.

The relevant market for PEGAS is the European market (including Western Europe, Central and Eastern Europe and Russia) and this market reached 1.49 million tonnes of production or EUR 5.12 billion of value and represented approximately 29% of the global nonwovens market in 2006. Market share of PEGAS in Europe was 9.9% in 2006.

The Company's core product market is the European personal hygiene sector, which was valued at EUR 1.5 billion per annum in 2006 and which represented approximately 33% in tonnage of the total European nonwoven market. This sector consists of three major products: disposable baby diapers, adult incontinence products and feminine hygiene. PEGAS's market share in the European personal hygiene market represented 17.1% in 2006.

Demand for nonwovens output for the hygiene market is non-cyclical and not seasonal and is influenced by basic macroeconomic factors, such as birth rates, disposable income and economic development in the relevant market. Targeted core market of PEGAS is the broader European area, consisting of traditional Western European countries, Central and Eastern Europe, including Russia. Developing countries within CEE and Russia have a high infant population and rising disposable income per capita, which, together with fast GDP growth rates, contribute to accelerated growth in the personal hygiene market. Central and Eastern Europe has just 27% of disposable diapers consumption per capita than Western Europe. Western Europe has constant birth rates and already high and stable disposable income per head. The demand for adult incontinence products is expected to increase in Europe owing to the aging of the population, increasing life expectancy and acceptance of incontinence, also thanks to lighter and softer nonwovens available through manufacturing.

Competition

The following table illustrates the main competitors of PEGAS and their estimated gross capacity levels of spunmelt PP-and PP/PE-based nonwovens in Europe at the end of 2007.

PRODUCER	COUNTRY	ANNUAL CAPACITY ('000 TONNES)	SHARE (%)
BBA	United Kingdom	107	18.2
PEGAS	Czech Republic	70	11.9
Union	Italy	48	8.1
Tesalca/Texnovo	Spain	46	7.8
Fibertex	Denmark	43	7.3
Avgol	Israel	41	7.0
Dounor	France	33	5.6
Albis	Italy	29	4.9
Radici	Italy	26	4.4
Gülsan	Turkey	24	4.1
Other		120	20.4
Total		587	100.0

Source: Company's Estimates, EDANA

OVERVIEW OF THE COMPANY'S PRODUCTS

Hygiene

PEGAS is offering a broad range of nonwovens technologies which can be effectively used in a wide spectrum of hygiene applications (Pegatex® S, SMS, BICO, MICRO). These technologies are tailored to meet specific needs of each and every customer and are further used for production of:

- Disposable baby diapers;
- Adult incontinence products;
- Feminine hygiene products.

In order to meet the highest requirements of customers in hygiene applications, PEGAS developed nonwovens technology Pegatex® BICO, which brings new qualities to final products. Pegatex® BICO is significantly softer, lighter, has a better feel, is more comfortable, bulkier and airier while maintaining the same surface density.

Medical and Protective Clothing

Pegatex® S, Pegatex® SM, Pegatex® SMS nonwoven fabrics, as textile semi-finished products for the production of single-use protective clothes, meet and exceed the technical requirements for high standards of protection in dangerous workplaces for which they are intended and developed specifically. It's characteristic with high barrier qualities protecting people from the leak of aggressive liquid and it prevents the leakage of dust particles and micro-organisms. Due to these qualities it is used as a textile semi-finished product for the following production:

Medical protective clothing:

- Surgical masks;
- Surgical gowns and drapes;
- Head covers;
- Shoe covers.

Industrial protective clothing:

- Protective overalls and masks;
- Chemical suits.

Agriculture

The trend of increasing quality and productivity in gardening and vegetable production requires new approaches and methods. In recent years nonwoven polypropylene fabric is being applied more, and more mainly in vegetable growing and gardening. For this segment, PEGAS offers nonwoven fabric with the trading name of PEGAS-AGRO®. By means of continuous development the Company managed to improve the utility properties of materials as regards evenness and increased extensibility. As for the utility properties for plant protection, PEGAS-AGRO® is one of the highest quality materials in the market.

PEGAS-AGRO® is offered in the widths and packaging suitable for large-scale production and mechanisation.

In the area of agriculture it is possible to use nonwoven covering textile (crop cover) that is permeable for water, air and light and during vegetation it creates an optimal for the plant development and growth. Plants are protected against weather changes (short-term frost), strong wind, hail and pests.

In alternative agriculture, black mulching fabric is often used. The fabric is laid directly on the soil and prevents the growth and spread of weeds, which significantly decreases or eliminates the need for herbicides. This fabric is water permeable, it allows the soil to get warm, minimises non-productive evaporation and prevents creation of soil crust.

Furniture and construction industries

In the construction industry Pegatex®S and Pegatex® SMS nonwoven fabric is used in a number of final products, often in combination with other types of materials (laminations), especially for the following production:

- Vapour permeable sheets for roof constructions (so-called under roofing cover);
- Heat and sound insulation;
- Protective material for performance of outdoor work (wind barriers).

5 Management Report

In the furniture-making industry Pegatex® nonwoven fabric is used to a great extent, particularly as:

- Neatening fabric, either on back or bottom parts of upholstered furniture;
- For seam reinforcement in production of mattresses;
- Low weight variants are used as a separating and at the same time sliding layer between the upholstery cloth and the shaping material;
- Part of mattress construction;
- Disposable hygienic bedclothes.

Filtration, Wipes and Absorbents

Nonwoven fabric used for filtration products is based mainly on Pegatex® SMS fabric when very fine (micro-denier) fibres give the composite SMS fabric excellent filtration qualities. The production of the fabric of Pegatex® SMS type enables variable adjustment of surface density of the individual layers and variable size of pores – determining the filtration parameters and permeability. Excellent surface evenness guarantees quality mechanical properties (strength, flexibility, tear strength and further tearing).

The main advantages of absorbing products (wipes and absorbents):

- High sorption qualities (it retains up to 15 times its own weight);
- It does not change the chemical character of the liquid retained;
- It does not release the liquid retained, which is ensured by strong mechanical binding of liquid;
- It can be used repeatedly after squeezing or wringing;
- It is resistant to weather conditions, mildew and micro-organisms;
- Easy adjustment of the required shape and size;
- Possible disposal by incineration (according to the type of the liquid retained).

PRODUCT NAME	APPLICATION AREA	KEY APPLICATIONS
Pegatex® S	Hygiene products	Baby diapers, feminine hygiene products, adult incontinence products
	Medical and protective clothing	Gowns, head and shoe covers
	Agriculture	Crop cover, mulching textile
	Furniture and construction industry	Mattresses, neatening fabrics, interlinings, wind barriers, roofing membranes
	Wipes	Household and industrial wipes
Pegatex® SMS	Hygiene products	Baby diapers, adult incontinence
	Medical and protective clothing	Surgical drapes, gowns, face masks, industrial protective apparel
	Construction industry	Wind barriers
	Filtration products	Air filtration products
Pegatex® S BICO	Hygiene products	Baby diapers, feminine hygiene products, adult incontinence products
	Various industries	Composite fabrics, laminates
Pegatex® SMS BICO	Hygiene products	Baby diapers, feminine hygiene products, adult incontinence products
Pegatex® Micro	Hygiene products	Baby diapers, feminine hygiene products, adult incontinence products
PEGAS-AGRO® Crop cover	Agriculture	Textiles for professional plant protection
PEGAS-AGRO® Mulching fabric	Agriculture	Soil cover
Pegatex® MB (Meltblown)	Wipes, absorbents	Industrial wipes, absorbents of oils and chemicals

TECHNOLOGY AND PRODUCTION

The Group owns and operates technologically advanced equipment necessary to produce high-quality spunmelt nonwoven textiles. The production management is focused on continuous maintenance and modernization of its equipment and machinery, ensuring that the Company continues to rank among the leading European producers of nonwoven textiles.

All production lines are manufactured by Reicofil, a leading German global supplier of spunmelt nonwoven production equipment which currently dominates the market for PP- and PP/PE-based spunmelt nonwoven machines worldwide. The table below provides additional details on each of the current eight production lines.

Since PEGAS began the production of spunmelt nonwovens in 1992, it has kept pace with the latest technological developments in this field.

The SSMMMS 3200 Reicofil 4 Special line installed in autumn 2007 is state-of-the-art technology and the very first of its kind in the world and can produce ultra light-weight nonwoven textiles for the hygiene sector as well as for other applications.

The capacity of the first line is primarily sold for technical and agricultural applications. The capacity from meltblown line production is used for technical applications requiring a high absorption capacity, such as industrial wipes and absorbents. The Reicofil 4 line, which was installed at the end of 2004, employs a new technology which permits high speed production with improved nonwoven textile formation and uniformity.

MACHINE	YEAR OF INSTALLATION	TECHNOLOGY CONFIGURATION*	PLANT LOCATION	LINE WIDTH (METRES)	ANNUAL PRODUCTION (TONNES)
Reicofil 2	1992	S	Bučovice	3.2	2,750
Reicofil 2	1996	SMS	Bučovice	3.2	4,950
Reicofil meltblown	1996	M	Přímětice	1.6	700
Reicofil 3	1998	SMS	Bučovice	3.2	6,950
Reicofil 3 BiCo	2000	SSMMS	Přímětice	3.2	11,550
Reicofil 3 BiCo	2001	SSS	Přímětice	3.2	10,700
Reicofil 4	2004	SSS	Přímětice	4.2	19,000
SSMMMS 3200 Reicofil 4 Special	2007	SSMMMS	Přímětice	3.2	13,400
TOTAL PRODUCTION CAPACITY 2007 EOP					70,000

* "S" indicates a spunbond layer, "M" indicates a meltblown layer

In addition to the production lines, PEGAS operates three small finishing lines which enable the cutting, gluing and perforation of processed fabrics according to customer specifications.

The Company puts an emphasis on recycling scrap materials which are used in the spunmelt processes (such as edge materials or scrap from batch changeovers) and always focuses on installation of equipment which enables the reuse of significant amounts of total scrap material. To optimize recycling further, PEGAS has developed a proprietary technology process that, together with new re-granulation equipment, enables waste to be reduced to a minimum, by recycling almost all scrap material. This recycling line was installed in the first half of 2006.

5 Management Report

PLANTS AND PREMISES

PEGAS operates two production facilities located approximately 100 kilometres from each other in the south east of the Czech Republic. The original site in Bučovice has three production lines installed and further development space is now limited. The newer site in Přímětice was developed on the outskirts of Znojmo and has five production lines. In addition to the production sites, the Company owns an administrative building in Znojmo, close to the Přímětice production plant. All premises have been constructed as greenfield projects. The total production sites cover approximately 134,000 square meters, of which 59,000 square meters are occupied by buildings and other improvements (including the administrative building in Znojmo). PEGAS owns all of its real estate and the improvements constructed on it.

CUSTOMERS

PEGAS's position as a one of the market leaders in the European hygiene nonwovens market has enabled it to develop close and longstanding relationships with those customers that are leading corporations in their end markets. PEGAS intends to strengthen its existing customer relationships further by taking advantage of its in-depth understanding of customer needs, using technology expertise and introducing new and improved products and technologies. PEGAS works in close cooperation with its customers as well as suppliers in order to introduce new and improved products and product properties that address specific customer needs for softer, lighter and cost reducing materials.

The present customer concentration of the Company reflects the situation in the hygiene market which is divided among a small number of producers, each having a substantial market share.

In 2007 the largest customer accounted for 43% of the Company's total sales, compared with a 53% share in 2006. The top five customers represented a 78% share on total revenues in 2007 (82% in 2006). The risks associated with having a relatively small number of key customers are balanced by the benefits of mutual cooperation focused on the development and manufacture of customer-specific products, in part resulting from joint development programmes.

Agreements with PEGAS's large hygiene industry customers are negotiated and fixed mostly for one year. The agreements are entered into on a global basis and relate to all of the production facilities of each particular customer which PEGAS supplies with nonwoven textiles. Supplies to these customers are then fixed based on the specific volumes they request in their monthly binding orders.

PERSONAL HYGIENE COMPANIES	2005 MARKET SHARE IN TERMS OF UNIT VOLUME		
	BABY DIAPERS AND PANTS (%)	FEMININE HYGIENE (%)	ADULT INCONTINENCE (%)
P&G	49	48	na
Kimberly-Clark	15	3	3
SCA Hygiene	15	8	40
Ontex	10	10	8
Johnson& Johnson	--	15	--
Hartmann	--	--	15
TZMO	--	4	2
Paper Pak	--	--	5
Others	11	12	27
Total	100	100	100

Source: John R. Starr, Inc.

SUPPLIERS

The main raw materials used for spunmelt nonwoven are polymers, most importantly polypropylene followed by polyethylene, which are petroleum derivatives. In 2007, the consumption of PP and PE reached approximately 64 thousand tonnes, and accounted for 77% of the Company's total operating costs (excluding depreciation and amortization). Over the past three years, the Company has sourced polymer raw materials from a total of six suppliers. The polymer raw materials are purchased on both one year and multi-year agreements. The competitiveness among suppliers is maintained by on-going benchmarking.

Pass-through Mechanism and Delays

In general, PEGAS purchases PP and PE on the basis of published price indices. Under the terms of majority sales agreements with customers, prices for the Company's products are also based on published price indices for principal raw materials[1]. This practice is common in the hygiene nonwovens industry and to a lesser extent, also in the non-hygiene market. Such pass-through mechanism to a certain extent removes risk from movements in raw materials prices. When polymer prices increase or decrease, PEGAS records an increase or decrease in revenue. The pass-through mechanism works with some delays resulting from mismatch of fixation of input/output prices. The raw material prices are fixed on a monthly basis, while the majority of prices invoiced to customers are fixed on a quarterly basis. While in the long run, the interim discrepancies are well mitigated, a change in PP development may have a significant effect on EBITDA in the short term, as experienced in 2007.

QUALITY MANAGEMENT AND ENVIRONMENT

PEGAS is EN ISO 9001:2000 and EN ISO 14001:2004 certified. It first received these quality certifications in 1997. In connection with the amendment of the ISO standards of the 9001 series in 2000, the existing system was partially revised and subsequently the Quality Management System and Environmental Management System were integrated in 2002. PEGAS has the certified integrated system of quality according to EN ISO 9001:2001 by CQS, IQNet and environmental management EN ISO 14001:2004 by CQS, IQNet. The Company upgraded its certification to EN ISO 9004:2000 in 2006.

Quality Management System

In addition to the general quality requirements imposed by ISO 9001, the Company is looking continuously to improve and adjust its production process and relevant assets in order to provide superior output quality. All production premises are provided with overpressure air control to eliminate the risk of insects or particles contaminating fabrics. An optical quality control system has been introduced on all hygiene production line to monitor both the bonding consistency, uniformity and the presence of external particles. These measures have significantly decreased customers' deficiency claims.

Environmental Management System

PEGAS has implemented and maintained an environmental management system to take care of all environmental aspects as required by EN ISO 14001:2004.
The production process involves the change of PP or PE raw materials into the form of fibers through the application of heat and pressure. This process results in minimal chemical changes to the material and in limited atmospheric emissions. In 2006 PEGAS put into operation two re-granulated lines. By this method almost all wastes from production activities are recycled.
PEGAS has obtained all necessary environmental permits for its operations and is in compliance with Czech and EU environmental laws. Details related to environmental activities are available on PEGAS's website www.pegas.cz, in the section Company/Certification/Annual Environmental Policy Statement.

[1] ICIS, PLATTS

RESEARCH

Research and Technical Support

The development of new applications and products is one of the most important parts of PEGAS's current and future strategic focus. This platform is supported by the team of technicians, who are dedicated to product development and technical support and the this team was built more than 10 years ago.

The team works in several different directions, which are principally divided into industrial and hygiene applications, with the main focus on the hygiene field, as the key driver for the most important projects at the Company.

From the technology point of view, the technical department works on implementation of new sophisticated production lines, which are tailored to the customer's demand and specifications, with a goal to improve quality and efficiency of the production of such lines for standard products or to develop products with added values with current or new technologies.

Both objectives are conducted together with the raw material suppliers, using new specialised polymers or with machinery suppliers, allowing the Company to prepare added value products for clients.

Development of new applications and products is of a key strategic focus.

5 Management Report

In the field of technologies, PEGAS launched at the end of 2007 the new Reicofil special system, which allows the Company to produce ultralightweight materials with good performance, efficiency to run them on line, and still reasonable waste, and further to improve standard products and their properties.

In the field of other new materials, PEGAS successfully developed and commercialised a new soft nonwovens material, potentially used for many applications in the hygiene industry.

Additionally, PEGAS is actively working on development of elastomeric and extensible nonwovens, which can also bring a number of benefits to the clients, once it is further developed before its successful commercialization.

The project of plasma treatment, for which PEGAS obtained a government grant in 2008, is a good example of cooperation between PEGAS and other entities. PEGAS has started to develop a new kind of nonwovens with potentially durable hydrophilic properties.

Apart from hygienic applications, PEGAS is developing nonwovens which can be used in the medical area, as drapes and gowns, and these are very close to its commercialisation.

PEGAS cooperates with many different institutes which can support very positively Company's research sources, especially in areas of plasma or special polymers. There are several universities and R&D centers, mainly in the Czech Republic and Slovakia, and also in Western Europe, offering the Company special support in different specialized fields and/or highly sophisticated lab sources.

In order to better utilise production lines and accelerate development projects, PEGAS benefits from several pilot lines which are under special agreements available at supplier's site.

All projects are related either to new technologies themselves or to the utilization of newly developed raw materials in technologies or projects, which are dedicated directly to customers. There are several projects where all three parties are working together and thereby closing the chain of suppliers.

With respect to new technologies, PEGAS mainly focuses on tailoring nonwoven production lines to parameters demanded by clients for the finished products, or with the goal to improve efficiency and quality of production on standard products.

Research costs in 2007 were approximately EUR 1.8 million.

Intellectual Property

PEGAS has registered its trademark and logos in selected European and international markets. The Company has one registered patent for special nonwoven microfilament spunmelt material for hygiene products. The patent is registered internationally for selected European countries.

STRATEGY

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

1) Continue to strengthen its market position;
2) Retain its technology leadership in the market for spunmelt nonwoven textiles for the disposable hygiene products in Europe, and
3) Maintain superior financial performance.

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

Growing Production Capacities through Investments in Technologically Advanced Machinery:
PEGAS will continue to install new advanced capacities ahead of its main European competitors. The Company has already commenced a project for the next 9th production line to be built in Znojmo and it is currently in the final stage of the investment incentives application process. The Company will continue to work on the production process optimization on the emphasis on cost control and production output increase by improving efficiency of the 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 develop new materials.

Focus on Technologically Advanced Products:
PEGAS remains the largest European manufacturer of bi-component spunmelt nonwovens and with extensive experience in the design and production of ultra lightweight materials. The 8th production line, which is fully capable of producing technologically advanced products, should gradually adjust its product mix during 2008 and increase proportion of sales of technologically 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 further focus on minimizing costs and optimization of product mix in order to retain key customer relationships and partially mitigate margin erosion.

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

5 Management Report

HUMAN RESOURCES

PEGAS benefits from a skilled and motivated workforce, which results in relatively high profitability per employee and productivity growth. By focusing on retaining highly skilled employees, the Company is able to maintain a low staff turnover rate of approximately 8% annually. The table indicates the number and functional breakdown of employees.

NUMBER OF EMPLOYEES			AS AT DECEMBER 31ST
	2005	2006	2007
Non-executive Directors	--	4	2
Senior Management	6	6	6
Management	12	11	13
Specialists	48	46	49
Laboratory Staff	31	32	37
Qualified Workers	48	52	58
Manual Workers	167	180	219
TOTAL	312	331	384
AVERAGE NO. OF EMPLOYEES	333	328	358

PEGAS provides continuous training, some of which is compulsory, in areas such as work security, computer skills and foreign languages.

The average monthly wages for Company employees grew from EUR 899 in 2006 to EUR 935 in 2007. The monthly wage of the Company's employees (including management) in 2007 is still significantly below the average in Western Europe, but approximately by 30% higher than average in the South Moravian region of the Czech Republic. The remuneration structure is highly motivational, with the fixed salary part of the basic salary ranging from approximately 80% for manual workers up to approximately 60% for management. The salary of workers varies in relation to the volume produced on a specific line, including the quality of the product, and is capped.

There are no trade unions in PEGAS.

COMMENTS ON FINANCIAL RESULTS

Revenues, Costs and EBITDA

Consolidated revenues (revenues from sales of products) reached EUR 122 million in 2007, up by 0.9% yoy. The key drivers of this growth were 1) increased volumes produced and sold and 2) higher polymer prices which were to a large extent passed on to customers. Total consolidated operating costs without depreciation and amortization went up by 5.8% yoy to EUR 83.6 million. The main reason was an increase in polypropylene prices, electricity costs and increased staff costs.

EBITDA amounted to EUR 38.4 million, down by 8.4% yoy. Decrease in EBITDA was a result of a different product mix, rising polymer prices together with a subsequent delay in the polymer pass through mechanism and introduction of a share option plan for Board members. EBITDA margin reached 31.5%, down by 3.1 percentage points in comparison with 2006.

Operating Costs

Total raw materials and consumables used in 2007 amounted to EUR 78.4 million, a 6.3% increase on 2006. These costs also include research expenses which amounted to EUR 1.8 million, a 1.9% increase yoy.

Total staff costs amounted to EUR 6.3 million in 2007, a 22.9% yoy increase. This increase resulted from hiring new employees for the 8th production line, from introduction of a new remuneration scheme and accounting of the share option plan, which had no cash effect in 2007. As a result of the Czech koruna appreciation, total staff costs denominated in Czech korunas went up by 20.3%. You increase of staff costs in EUR would be 13.2% without share options. Total number of employees as at December 31st, 2007 was 384, up by 16.0% yoy.

Other operating income / (expense) net amounted to EUR 1.1 million in 2007, mainly represented by the one-off amount of EUR 1.04 million of received compensation from an arbitration proceeding.

Depreciation and Amortization

Consolidated depreciation and amortization reached EUR 12.3 million in 2007, up by 1.5% yoy. This increase was caused by appreciation of CZK against EUR as depreciation and amortization is exclusively carried in CZK.

Profit from Operations

Profit from operations (EBIT) amounted to EUR 26 million, down by 12.5% compared with 2006, driven by the factors affecting EBITDA as explained above.

Financial Results

Interest expenses related to the debt servicing amounted to EUR 10 million in 2007, a 47.1% decrease compared with 2006. The main reason was the decrease in the interest costs in connection with a repayment of the most expensive debts after the IPO and refinancing of the senior debt in May 2007. The Company now uses a 5-year syndicated bank loan, consisting of a EUR 130 million revolving facility and a EUR 20 million overdraft. PEGAS was able to obtain its current outstanding bank debt at better funding conditions and achieved an average spread over Euribor of 120 basis points compared with a spread of 247 basis points on the previous senior facility. Interest income reached EUR 0.2 million in 2007, down by 67.5% yoy due to new cash management policy in connection with refinancing.

Foreign exchange gains and other financial income (net) amounted to EUR 3.8 million in 2007 mainly represented by both realized and unrealized FX changes related to balance sheet recalculations and a mark-to-market revaluation of interest rate swaps as at December 31st, 2007.

5 Management Report

Income Tax

In 2007 income tax amounted to a positive amount of EUR 2.1 million compared with the EUR 1.6 million charge in 2006. The positive amount reported in 2007 is due to release of deferred tax liability the amount of EUR 3.4 million resulting from a decreased statutory income tax rate based on the tax reforms in the Czech Republic introduced in late 2007.

Net Profit Attributable to Shareholders

Net profit attributable to shareholders amounted to EUR 22.1 million, up by 9.2% yoy, due to lower finance costs and income tax.

CAPEX and Investments

In 2007, total consolidated capital expenditure amounted to EUR 18.9 million, a 258.6% increase on 2006. Almost all capital expenditure was spent on the 8th production line project in the Czech Republic. Total investments planned in 2008 amount to EUR 18 million.

Cash and Indebtedness

Total amount of the consolidated financial debt (both short- and long-term) as at December 31st, 2007 was EUR 123.1 million, a 9.6% reduction compared with December 31st, 2006. Net debt as at December 31st, 2007 was EUR 122.5 million, up by 7.3% on 2006. This was equivalent to a Net Debt/EBITDA ratio of 3.2x. The decrease of the cash levels is due to current cash management policy of the Company since cash balances are being used to reduce a balance of the overdraft facility and subsequently the interest costs of the Company.

2007 Business Overview

The total production output (net of scrap) reached 57,464 tonnes in 2007, up by 6.1% when compared with 2006. Approximately 2 thousand tonnes, or 60% of the production increase on an annual basis, was produced at the end of the year on the newly opened 8th production line and the rest resulted from a better utilization and higher efficiencies in the production process on the existing capacities.

Revenues from sales of nonwovens textiles for the hygiene industry represented a 86% share on total revenues in 2007, slightly down from the 88.8% share in 2006 confirming the concentration on the core hygiene market. Revenues from sales of standard (commodity) textiles for hygiene products reached EUR 77.3 million, a decrease of 2% in comparison with the same period in 2006. The proportion of revenues from sales of commodity textiles for the hygiene industry represented a 63.4% share on total revenues, down from the 65.2% share in 2006.

The achieved revenues from technologically advanced products, such as soft, lightweight and bi-component materials, confirm the Company's concentration on this segment. The sales in this segment reached EUR 27.5 million, a 3.4%



decline over 2006, however, in line with the previous statements of the Company, approximately one third of total sales in this segment in 2006 was related to a one-off contract with a customer overseas. Although in 2007 this cooperation did not continue, the missing volume was almost completely replaced by new projects and orders from other segments. Going forward, sales expansion of technologically advanced materials remains one of the key objectives for the Company.

The proportion of technologically advanced sales on total sales in 2007 amounted to 22.6%, compared with 23.6% in 2006. Revenues from sales of non-hygiene products (for construction, agriculture and medicine) amounted to EUR 17.1 million in 2007, an increase of 26.3% over 2006. In terms of geographical distribution, the Company confirmed its strong and growing position in its core European market. Sales to Western Europe amounted to EUR 71.4 million in 2007, up by 37.3% over the year. Revenues from sales to CEE and Russia reached EUR 35.4 million, down by 1.4% yoy.

The revenues from sales to other territories amounted to EUR 15.1 million, down by 54.2% yoy due to the one-off orders from other territories last year which were not repeated in line with the Company's expectations. On November 8th, 2007, PEGAS officially opened the 8th production line at its production plant in Znojmo. The new machinery Reicofil 4 Special was designed to produce ultra-lightweight nonwoven textiles for the hygiene industry and other applications. Depending on the final product mix, the new line will increase the Company's annual capacity by 24% to 28% or 13 to 15 thousand tonnes.

In line with the Company's strategic intentions to grow organically together with its core spunmelt nonwovens market, PEGAS has applied for investment incentives in connection with the 9th production line project. The application process is in its final stage. Total investment related to the new 9th line is estimated around EUR 45 million, subject to a final configuration of the line. In this respect, PEGAS established a new subsidiary PEGAS – NS a.s. in December 2007, which shall become the recipient of the investment incentives and will own the production equipment of the 9th line.

5 Management Report

CZECH INVESTMENT INCENTIVES

Investment Incentives Granted to PEGAS

PEGAS has obtained three times investment incentives from the Czech authorities and currently has applied for the fourth investment incentive. Recipients of the existing investment incentives are subsidiaries PEGAS - DS a.s., PEGAS-NT a.s. and PEGAS - NW a.s. as special purpose companies to accommodate each investment. In December 2007, PEGAS - NS a.s. was established to receive the investment incentives in connection with the ninth line project.

PEGAS – DS a.s.

When PEGAS a.s. applied for investment incentives for PEGAS – DS a.s., the scheme for the manufacturing sector was operated under a different legal regime that existed before the current Investment Incentives Act came into force. Incentives were granted on the basis of individual arrangements entered into between the state and the recipient and were referred to as „memorandum of understanding“. PEGAS – DS a.s. was granted a package of incentives based on the Memorandum of Understanding signed on June 29th, 1999.
The investment incentives for PEGAS – DS a.s. consist of:

- Full corporate income tax payment relief for the first five years and a subsequent grant for the next five years which cannot exceed the amount of the grant from the first five-year period. This grant was subsequently changed and now covers full ten-year grant for full corporate income tax relief;
- Interest-free loans for establishing new jobs and re-training of employees in the amount of CZK 4.5 million; these loans were subsequently reclassified as grants after fulfillment of the conditions stated in the Memorandum of Understanding;
- Exemption of imported fixed assets from import duties.

The total amount of the incentives granted to PEGAS – DS a.s. cannot exceed 50% of the expended amount which is curently CZK 1,622 million. PEGAS – DS a.s. started making use of the incentives in fiscal year 2001 and, as a result, its corporate tax relief incentive will expire in 2010.

PEGAS–NT a.s.

The Czech government granted PEGAS–NT a.s. the following investment incentives in its decision of July 2002:

- Full corporate income tax relief for up to a 10 year period; and
- A job creation grant in the amount of CZK 5.4 million.

The total amount of the incentives cannot exceed 45% of the investment, which is currently equal to CZK 879 million; and in any case cannot exceed CZK 509.9 million. PEGAS-NT a.s. started making use of the incentives in fiscal year 2005.

PEGAS – NW a.s.

PEGAS – NW a.s. obtained its investment incentives based on the decision of the Czech government on June 10th, 2005. The incentive consist of corporate income tax relief for up to 10 years. The tax relief may not exceed 48% of the invested amount (equal to CZK 1,037 million), and in any case cannot exceed CZK 573.6 million. PEGAS – NW a.s. is planning to start making use of this incentive in 2008.

PEGAS – NS a.s.

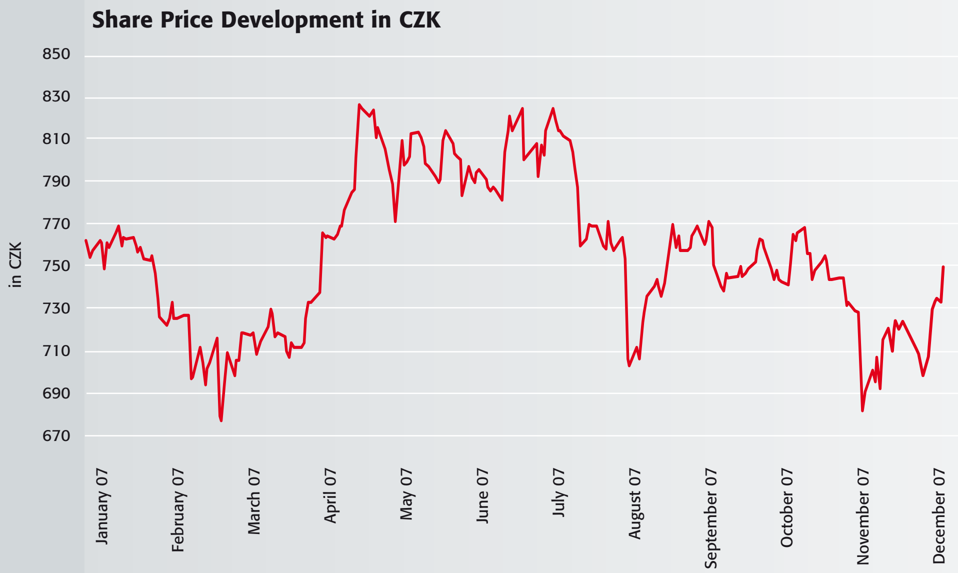
On December 3rd, 2007 PEGAS registered a subsidiary PEGAS – NS a.s. It has been set up in connection with the planned 9th production line which is currently in the project phase. Investment incentives, once decided and granted, should again consist of tax relief and subsidies in connection with newly created jobs.

MATERIAL SUBSEQUENT EVENTS

The management of the Group is not aware of any events that have occurred since December 31st, 2007 that would have any material impact on the Company.

Commitment of shareholders was fully demonstrated in the secondary offering in July 2007.

6 Investor Information



PEGAS's Shares and Share Capital

SHAREHOLDERS AS OF DECEMBER 31st, 2007	
Free Float	100%
Out of which Management	2%

In December 2006, PEGAS completed an IPO of its shares at a price of CZK 749.20 (EUR 27). The IPO consisted of the offer of 5,042,750 shares in total, including 1,810,000 shares newly issued in the Company's share capital and 3,323,750 shares offered by the selling shareholder Pamplona Capital Partners I, LP. Shares of PEGAS NONWOVENS S.A. were listed on the Prague Stock Exchange and on the Warsaw Stock Exchange on December 21st, 2006. PEGAS has one series of shares. All shares have one vote and carry equal dividend rights.

The shares are in registered form and are entered into depository systems of Clearstream Bank, Univyc in the Czech Republic and National Depository of Securities in Poland. The nominal value of one share is EUR 1.24 each. The aggregate nominal value of the issued share capital is EUR 11,444,456.

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.

Share Price Development and Trading Activity in 2007

During 2007 PEGAS shares were traded for a total value of CZK 19.76 billion on the Prague Stock Exchanges and for a total value of PLN 1,549.5 million on the Warsaw Stock Exchange.
The lowest trading price during the year was CZK 660 and PLN 91 and the highest CZK 840 and PLN 118 in the Prague and Warsaw Stock Exchanges respectively. Closing price on December 28th, 2007 was CZK 751 on the Prague Stock Exchange and PLN 102.9 on the Warsaw Stock Exchange and the market capitalization reached CZK 6.9 billion (based on the Prague Stock Exchange quote).

Changes in the Shareholders' Structure in 2007

On July 4th, 2007 the principal shareholder of PEGAS NONWOVENS S.A., Pamplona, announced its intention to sell part or its entire stake held in PEGAS. Pamplona placed its entire 43.4% stake on July 10th, 2007 via an accelerate bookbuilt on the Prague and Warsaw Stock Exchanges at the price of CZK 780 or PLN 102.49[2]. The shares were sold primarily to European institutional/portfolio investors and the placement was not targeted to retail investors. ING Bank NV acted as the sole bookrunner on the transaction and Wood&Co. and Patria acted as selling agents. The placement was comfortably oversubscribed.

Secondary Offering Overview

Date of Pricing	July 10th, 2007
Date of Settlement	July 16th, 2007
No. of shares offered by selling shareholder	4,001,165
Selling price (in CZK)	780
Market capitalization of the offered shares (in CZK billion) as at July 10th, 2007	3.12
Total market capitalization as at July 10th, 2007 (in CZK billion)[3]	7.32

Source: Company data

Significant institutional shareholders of PEGAS in 2007 were Templeton Asset Management Ltd., ING TFI in Poland and OPERA investment funds in Poland.

Changes in the Shareholders Structure post 2007

During 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.

PEGAS's Investor Relations Commitment

In the period since the IPO, PEGAS has focused on developing research coverage for the Company, developing relationships with analysts and setting up investor relations communication according to the best market standards. At present, the Company has eight sell-side analysts who publish research on the Company and a number of other commenting analysts from both international investment banks and local Czech financial institutions. The number of covering analysts doubled during 2007 confirming an increasing interest of the investor community in the stock.

PEGAS is dedicated to open and pro-active communication with its shareholders and has implemented a schedule of investor communication events which is fully compliant with market standards for listed companies.

Financial Results Calendar for 2008

May 28th, 2008
Q1 2008 unaudited consolidated financial results of PEGAS NONWOVENS S.A. in accordance with IFRS

June 16th, 2008
Annual General Meeting of Shareholders

August 27th, 2008
Q1 – Q2 2008 unaudited consolidated financial results of PEGAS NONWOVENS S.A. in accordance with IFRS

November 27th, 2008
Q1 – Q3 2008 unaudited consolidated financial results of PEGAS NONWOVENS S.A. in accordance with IFRS

IR Contact Details

Investor Relations
Address: Přímětická 3623/86, 669 04 Znojmo, Czech Republic
Phone number: +420 515 262 450
Fax number: +420 515 262 505
e-mail: iro@pegas.cz
website: www.pegas.cz, www.pegas.lu

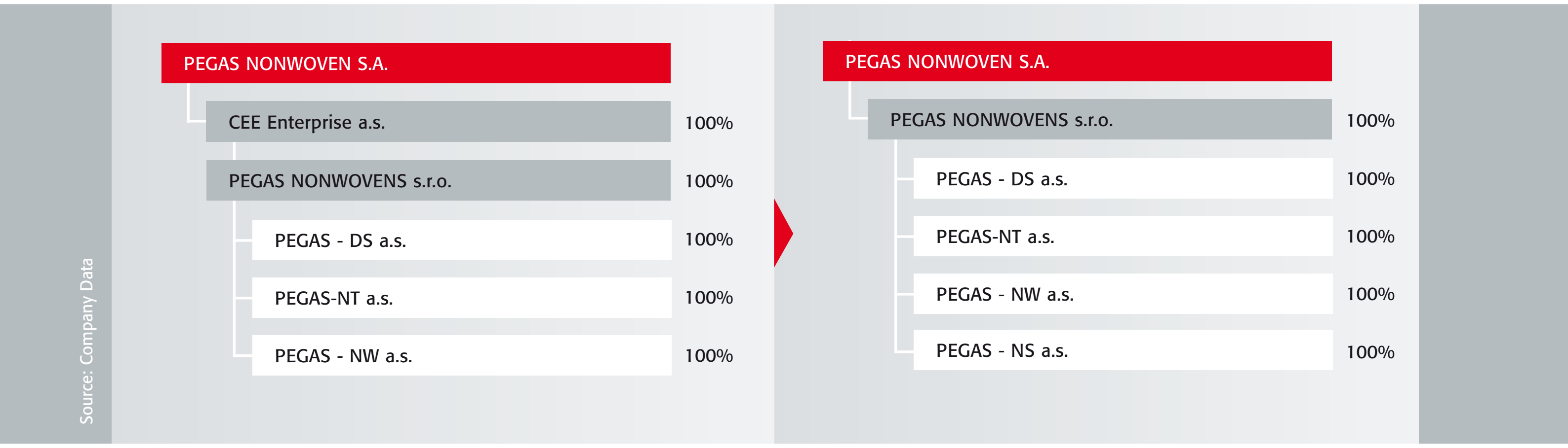
[2] Due to the execution of the placement on the stock exchanges in Prague and Warsaw, there is no official price in EUR. The CZK/EUR FX rate from July 10th, 2007 was 28.601.

[3] Based on closing price of shares of PEGAS on the PSE on July 10th, 2007 at CZK 793.

7 Corporate Governance

ORGANIZATIONAL STRUCTURE

The diagrams below represent changes of the Group Structure during 2007:



In order to simplify its corporate structure, PEGAS merged CEE Enterprise a.s. into PEGAS NONWOVENS s.r.o. on 20th August 2007. The decisive date of the merger was January 1st, 2007. This intermediate holding company CEE Enterprise a.s was a wholly owned, direct subsidiary of PEGAS NONWOVENS S.A., Luxembourg, having owned 100% of the share capital of the main operating subsidiary, PEGAS NONWOVENS s.r.o. in Znojmo, Czech Republic. CEE Enterprise a.s. was not an operating Company and did not own any assets other than a software licence and its shareholding in PEGAS NONWOVENS s.r.o.

All of the operating assets are owned by PEGAS NONWOVENS s.r.o. and its four subsidiaries: PEGAS – DS a.s., PEGAS–NT a.s., PEGAS – NW a.s. and PEGAS – NS a.s. which are companies incorporated in the Czech Republic. The Company's relations with suppliers and customers are carried out by PEGAS NONWOVENS s.r.o. The table below indicates the country of incorporation and direct and indirect shareholdings in PEGAS's subsidiaries:

COMPANY NAME	COUNTRY OF INCORPORATION	% OWNERSHIP INTEREST
PEGAS NONWOVENS s.r.o.	Czech Republic	100
PEGAS – DS a.s.	Czech Republic	100
PEGAS–NT a.s	Czech Republic	100
PEGAS – NW a.s.	Czech Republic	100
PEGAS – NS a.s.	Czech Republic	100

PEGAS – NW a.s., a Group subsidiary, increased its registered capital from CZK 550,000 thousand to CZK 650,000 thousands in April 2008. PEGAS – NW a.s. was established in 2005 as the legal entity for the recently launched, newest 8th production line.

PEGAS has in place a strong executive team with in-depth expertise in nonwovens.

7 Corporate Governance

The expertise of personnel and management team are one of the most valuable assets of the Company.

BOARD OF DIRECTORS

The Company is administered and managed by a board of directors (the „Board of Directors“). The Board of Directors elects for each meeting from its members a chairman, who presides at the current meeting of the Board of Directors.

The director(s) of the Company are appointed by a General Meeting of Shareholders for a term which may not exceed six years. The director(s) may be dismissed at any time and at the sole discretion of a General Meeting of Shareholders, and may be reappointed without restrictions.

Members of the Board of Directors
The following table sets out information with respect to each of the members of the Company's Board of Directors, their respective ages, and their positions, within the Company:

Board of Directors

NAME	AGE	POSITION/FUNCTION	BUSINESS ADDRESS	FUNCTION PERIOD IN 2007
Miloš Bogdan	44	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2007 – 31. 12. 2007
Aleš Gerža	34	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2007 – 31. 12. 2007
František Klaška	51	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2007 – 31. 12. 2007
František Řezáč	34	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2007 – 31. 12. 2007
Bernhard Lipinski	61	Non-executive Director	Steinertsweg 44b, 64753, Brombachtal, Germany	1. 1. 2007 – 31. 12. 2007
David Ring	45	Non-executive Director	Western Avenue,Western Docks, Southampton SO15 0HH, United Kingdom	1. 1. 2007 – 31. 12. 2007
Henry Gregson	49	Non-executive Director	25 Park Lane, London W1K 1RA, United Kingdom	1. 1. 2007 – 12. 12. 2007
John Halsted	43	Non-executive Director	25 Park Lane, London W1K 1RA, United Kingdom	1. 1. 2007 – 21. 09. 2007

Each of the directors indicated above was elected or appointed in November 2006.

Miloš Bogdan (1)
Chief Executive Officer

Aleš Gerža (2)
Chief Financial Officer

František Klaška (3)
Technical Director

František Řezáč (4)
Commercial Director

David Ring (5)
Non-executive Director

Bernhard W. Lipinski (6)
Non-executive Director

Brief biographical and professional details concerning the Company's directors are set forth below:

Miloš Bogdan

aged 44, was appointed an executive director of the Company in November 2006. Mr. Bogdan is the Chief Executive Officer and a director of PEGAS NONWOVENS s.r.o. and each of its four subsidiaries. Mr. Bogdan has been with PEGAS for 11 years, starting as a plant director in 1995. Before joining PEGAS, he worked as the Production Director in UNEX, a specialized engineering company. He was named Chief Executive Officer of PEGAS a.s. in 2000. Mr. Bogdan is a graduate of the Czech Technical University.

Aleš Gerža

aged 34, was appointed an executive director of the Company in November 2006. Mr. Gerža is the Chief Financial Officer of PEGAS NONWOVENS s.r.o. and each of its three subsidiaries. Mr. Gerža joined PEGAS in 1999, after having worked for 5 years in Danzas, a freight forwarding company. He was promoted to his current position in 2000. Mr. Gerža is a graduate of the Prague School of Economics.

František Klaška

aged 51, was appointed an executive director of the Company in November 2006. Mr. Klaška has been with the Company since 1991, having previously worked for 5 years in Zbrojovka Brno, a diversified engineering company. He was promoted to his current position of Technical and Development Director of PEGAS NONWOVENS s.r.o. in 2001. Mr. Klaška is a graduate of the Czech Technical University.

František Řezáč

aged 34, was appointed an executive director of the Company in November 2006. Mr. Řezáč joined the Company in 1996. He was promoted to his current position of Commercial Director of PEGAS NONWOVENS s.r.o. in 2004, after having worked as the HR Director and Legal Counsel. Mr. Řezáč is a graduate of the Law Faculty of Masaryk University Brno.

7 Corporate Governance

Bernhard W. Lipinski
aged 61, was appointed as a non-executive director of the Company in November 2006. He spent 33 years with BP Chemicals in Düsseldorf, Geneva, Antwerp and London. He managed BP Amoco's Film & Nonwovens business focusing on hygiene and relevant industrial markets until its divesture to RKW in 2002. Mr. Lipinski served as non-executive director to RKW, Germany, and Verdugt, the Netherlands.

David Ring
aged 45, was appointed as a non-executive director of the Company in November 2006. Mr. Ring is currently Chief Executive of the A&P Group, the UK's leading shiprepair and conversion company. Prior to joining A&P in 1999, Mr. Ring held senior positions in the aerospace and automotive industry. Mr. Ring holds a BA in Economics from the University of Lancaster.

Henry Gregson
aged 49, was appointed a non-executive director of the Company in November 2006. Mr. Gregson was appointed a director of PEGAS NONWOVENS s.r.o. in December 2005. Mr. Gregson is currently a partner of Pamplona Capital Management, LLP which advises the General Partner of the Selling Shareholder. Prior to helping found Pamplona Capital Management, LLP, Mr. Gregson was a director at Royal Bank Equity Finance and before that a partner at Phildrew Ventures. Mr. Gregson is currently a non-executive director of Liqvia Holdings Oy and ADR Haanpaa Oy. Mr. Gregson holds a Bachelor of Science in Civil Engineering degree from the University of Bristol and an MBA from Harvard Business School.

John Halsted
aged 43, was appointed as a non-executive director of the Company in November 2006. Mr. Halsted is the Managing Partner of Pamplona Capital Partners, LLP which he co-founded in September 2004. Prior to joining Pamplona, he served as a Senior Vice President of Beacon Capital Partners, a real estate investment firm with operations in the United States and Europe. Previously he was a Vice President of Harvard Private Equity, the private equity investment arm of the Harvard University endowment. Mr. Halsted holds a Bachelor of Science in Economics degree from the University of California at Berkeley and an MBA from Harvard Business School.

CHANGES TO THE BOARD OF DIRECTORS

On September 21st, 2007 John Halsted resigned from the office of the Board member and non-executive director of PEGAS NONWOVENS S.A. Mr. Halsted was a representative of the previous majority shareholder Pamplona. Effective as of December 12th, 2007 Henry Gregson resigned from the office of the Board member and non-executive director of PEGAS NONWOVENS S.A. Mr. Gregson was a representative of the previous majority shareholder Pamplona.

The Company is now in the final stage of naming replacements for the resigned Board members on an interim basis, subject to the approval of shareholders at the AGM in 2008.

KEY MANAGEMENT

Biographical details of the remaining key members of our senior management are provided below:

Rostislav Vrbácký
aged 44, Production Director of PEGAS NONWOVENS s.r.o. Mr. Vrbácký has been with the Company since 1991, having previously worked for five years in Zbrojovka Brno, a diversified engineering company. He was promoted to his current position in 2001. Mr. Vrbácký is a graduate of the Czech Technical University.

Lukáš Trávníček
aged 34, HR Director and Legal Counsel of PEGAS NONWOVENS s.r.o. Mr. Trávníček joined the Company in his current position in 2004, having previously worked for 4 years in PricewaterhouseCoopers and Landwell. Mr. Trávníček is a graduate of the Law faculty at Západočeská univerzita.

The following table sets out past and current directorships held by our management in the past five years:

Henry Gregson
Former Directorships:
Royal Bank Investments Limited
Royal Bank Development Limited
RBEF Limited
RB Drummond Investments Limited
RB Bishopsgate Investments Limited
Darchem Holdings Limited
Doncasters Limited
Britax Limited
Orion Group Limited
Rhodium Investments 1 Limited
Rhodium Investments 2 Limited
Rhodium Investments 3 Limited
Rhodium Investments 4 Limited

Current Directorships:
Liqvia Holdings Oy
ADR Haanpaa Oy

John Halsted
Former Directorships:
Cypress Communications Holdings Inc.
Co Space Inc.Blinds To Go, Inc.

Bernhard Lipinski
Former directorships:
Managing director of BP Chemicals PlasTec GmbH
Managing director of Amoco Chemical Deutschland GmbH
Non-executive director of RKW Gronau GmbH
Non-executive director of Verdugt b.v.
Board member of Unterstuetzungsverein RC Erbach- Michelstadt e. V.

Current Positions:
Managing director of ProTeam Ltd.
Board member of the Rotary Club Erbach- Michelstadt, Germany
Company Secretary of My Event Ltd.

David Ring
Current Directorships:
A&P Group LimitedA&P Drydocks Limited
A&P Ports & Properties Limited
Mandaco 482 Limited

A&P Property Limited Mandaco 483 Limited A&P Tyne Properties Limited

At the date of the Annual Report, no member of the Board of Directors has, in the previous five years, (i) been convicted of any offences relating to fraud; (ii) held an executive position at any company at the time of or immediately preceding any bankruptcy, receivership or liquidation; (iii) been subject to any official public sanction by any statutory or regulatory authority (including any designated professional body), or (iv) been the subject of any official public incrimination or been disqualified by a court from acting as a member of the administrator, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company. Except as disclosed in this report, no member of the Board of Directors has a conflict of interest (actual or potential) between his private interests and his duties to the Company.

No member of the Board of Directors holds a supervisory or a non-executive position in another listed company or carries on principal activities outside the Company which are significant with respect to the Company.

Mr. Lukáš Trávníček, HR Director and Legal Counsel of PEGAS NONWOVENS s.r.o. (one of the key executive managers) resigned from his position in February 2008. He will remain in his position till the end of April 2008. As a result of his resignation, his rights under the share option plan expire and may no longer be exercised.

7 Corporate Governance

REMUNERATION OF DIRECTORS AND MANAGEMENT

The objective of the Company's remuneration policy is to provide a compensation programme that allows to attract, retain and motivate members of the Board of Directors and other key managers who have the character traits, skills and background to successfully lead and manage the Company. There is no Remuneration Committee established at PEGAS.

Remuneration (2007) in EUR

		PEGAS NONWOVENS S.A.	OTHER GROUP COMPANIES		
		Pecuniary Income	Pecuniary Income	Received in kind	TOTAL
Members of the Board of Directors	**Board Remuneration (incl. Supervisory board)**	191,568	2,881	--	194,449
	Salaries and other similar income	--	200,856	17,455	218,311
	Management Bonus	134,151	--	--	134,151
	TOTAL	325,719	203,737	17,455	546,911
Management of the Group Companies*	**Salaries and other similar income**	--	496,729	35,011	531,740
	Management Bonus	--	175,083	--	175,083
	Board Remuneration (incl. Supervisory board)	--	46,822	--	46,822
	TOTAL	--	718,634	35,011	753,645
	TOTAL	325,719	922,371	52,466	1,300,556

* 15 managers included

Information on Shares Held by the Management

As of December 31st, 2007, Board members of PEGAS held together 128,227 shares of PEGAS, representing 128,227 of aggregate voting rights. Other members of key management together held 57,258 shares of PEGAS, representing 57,258 of aggregate voting rights.

Cash-settled Share-based Payment for Executive Managers and Non-executive Directors

The AGM in 2007 approved a new phantom option scheme targeted to directors of PEGAS NONWOVENS S.A. and to two members of the senior management of the Company.
The scheme is designed to provide incentives to the senior management of PEGAS to deliver the Company's targets and align their interests with the interests of the Company's shareholders and is effective in the four year period ending on December 18th, 2010.
The Grant date of the phantom options was May 24th, 2007. The key elements of the phantom share option scheme are as follows:

An aggregate amount of 173,755 phantom options was granted to the directors of PEGAS, for no consideration. An aggregate amount of 56,980 phantom options was granted to two members of the senior management of PEGAS NONWOVENS s.r.o., for no consideration. Each phantom option, when exercised, will grant 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 exercise of the phantom option less CZK 749.20 representing the offer price at the time of the initial public offering of the shares of PEGAS NONWOVENS S.A. (the IPO price). 25% of the phantom options vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on December 18th, 2007 and the last options vesting on the 4th anniversary of the IPO.

In 2007, none of the entitled persons exercised granted vested phantom options. The fair value of the phantom options as at 31 December 2007 is TEUR 494. The Members of the Board of Directors benefit is TEUR 372 of the total amount.

The Company and the operating companies are currently not intending to create and have not created a share option plan for the benefit of their employees.

Management Bonus Scheme

The AGM in 2007 approved the principles of the bonus scheme for 2007 targeted to the senior management of PEGAS, namely executive directors of PEGAS NONWOVENS S.A. and to two members of the senior management of PEGAS NONWOVENS s.r.o. The key elements of the bonus scheme are as follows:

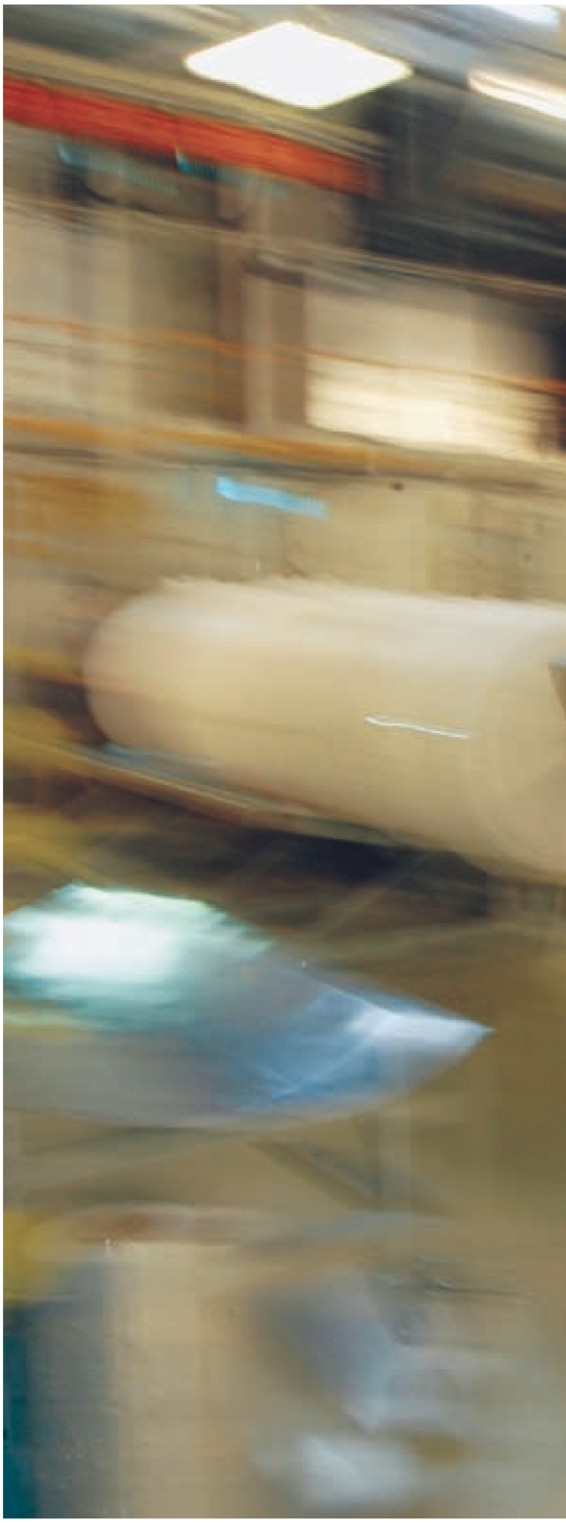
The scheme is designed to ensure that the senior management is focused on delivering the Company's budgeted economic results represented by the Budgeted EBITDA and is valid for the accounting year of 2007. Basis for the bonus calculation is EBITDA calculated in accordance with Czech/Luxembourg GAAP as the consolidated profit for the Group adjusted for certain extraordinary items, gains or losses.

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. Final approval of the Bonus is made by the Board of Directors. In 2007 the budgeted EBITDA was exceeded by 2% with the respective bonus to be paid in 2008.

7 Corporate Governance

CORPORATE GOVERNANCE

Pursuant to the Warsaw Stock Exchange By-laws, and in connection with the listing of the Company's shares on the Warsaw Stock Exchange, the Company is required to declare which of the Polish principles of corporate governance contained in the WSE Corporate Governance Rules it intends to comply with, as well as to enumerate the principles which it does not intend to comply with and to state the reasons for the non-compliance. The Company has decided to observe the majority of the WSE Corporate Governance Rules as stated in detail below.



Changes in the shareholders structure represent an opportunity to focus on implementation of consistent long term strategy.

7 Corporate Governance

Statement On Warsaw Stock Exchange Corporate Governance Rules

NO.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS S.A.
	GENERAL RULES		
I.	**Objective of the Company** The main objective of a Company's authorities is to Further the Company's interests, i.e. to increase the value of the assets entrusted to them by the shareholders, taking into consideration the rights and interests of entities other than the shareholders that are involved in the functioning of the Company, especially the Company's creditors and employees.	Yes	
II.	**Majority Rule and Protection of the Minority** A joint-stock Company is a capital venture, therefore it must respect the principle of capital majority rule and the primacy of majority over minority. A shareholder who contributes more capital also bears a greater economic risk. It is, therefore, justified that his interests be considered in proportion to the capital he contributes. The minority must have a guarantee that their rights will be properly protected within the limits set by the law and commercial integrity. When exercising his rights, a majority shareholder should Take into account the interests of the minority.	Yes	The Company is a public limited liability Company (société anonyme), incorporated under the laws of Luxembourg.
III.	**Honest Intentions and Non-Abuse of Rights** The exercising of rights and reliance on legal institutions should be based on honest intentions (good faith) and cannot go beyond the purpose and economic reasons for which these institutions are established. No actions should be taken which, by exceeding the limits set, constitute an abuse of the law. The minority should be protected against any abuse of ownership rights by the majority and the interests of the majority should be protected against any abuse by the minority of its rights, thus ensuring the best possible protection of the equitable nterests of the shareholders and other market participants.	Yes	
IV.	**Court Control** The Company's authorities and persons chairing the general meeting cannot decide on issues which should be resolved by a court judgment. This does not apply to activities which the Company's authorities and persons chairing general meetings are authorised or obliged to undertake by force of law.	Yes	
V.	**Independent Opinions Ordered by the Company** When choosing an entity to provide expert services, particularly an auditor, financial and tax advisors or legal advisors, he Company should examine whether there are any ircumstances that would limit the entity's independence when performing the tasks entrusted.	Yes	
	BEST PRACTICES OF GENERAL MEETINGS		
1.	A general meeting should take place in a location and at a time that allows the participation of as many shareholders as possible.	Yes	
2.	A request made by parties entitled to do so for a general meeting to be convened and for certain issues to be put on its agenda should be justified. Draft resolutions proposed for adoption by the general meeting and other key documents should be presented to the shareholders together with justification and a supervisory board opinion before the general meeting to allow them time to review and evaluate the same.	Yes	

NO.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS S.A.
3.	A general meeting convened on the shareholders' request should be held on the date given in the request and, if this date cannot be kept, on the nearest date that would allow the general meeting to settle the issues on its agenda.	Yes	
4.	A general meeting whose agenda includes certain issues at the request of authorized entities or which has been convened on such a request can only be cancelled with the consent of the requesting parties. In all other instances, a general meeting can be cancelled if its holding is hindered (force majeure) or is obviously groundless. A meeting is called off in the same way as it is convened, limiting negative consequences for the Company and its weeks before the original meeting date. A change in the date of a general meeting is made in the same way as a cancellation, even if the proposed agenda does not change.	Yes	
5.	Before a shareholder's representative can participate in a general meeting, his right to act on the shareholder's behalf should be duly documented. It should be presumed that a written document confirming the right to represent a shareholder at a general meeting conforms with the law and does not require any additional confirmations or acknowledgement unless the Company's management board or the chairman of the general meeting has doubts about its authenticity or validity prima facie (when drawing up the list of attendance).	Yes	
6.	The general meeting should have regular by-laws setting out in detail the principles on which meetings are conducted and resolutions adopted. The by-laws should, in particular, contain provisions on elections, including elections to the supervisory board by voting in separate groups. The by-laws should not be subject to frequent change; it is advisable for any changes to enter into force as of the following general meeting.	Yes	
7.	The person opening the general meeting should immediately organise the election of the meeting chairman and should refrain from making any substantial or formal decisions.	Yes	
8.	The chairman of the general meeting ensures that the meeting is run efficiently and that the rights and interests of all the shareholders are observed. The chairman should, in particular, counteract any abuse of rights by meeting participants and should guarantee that the rights of minority shareholders are respected. The chairman should not, without good reason, resign from his function or delay signing the meeting minutes.	Yes	
9.	A general meeting should be attended by the members of both the supervisory board and the management board. The auditor should also be present at an annual general meeting and an extraordinary general meeting if the Company's financial matters are to be discussed. The absence of a supervisory or management board member from the general meeting requires an explanation, which should be given at the meeting.	Yes	We are partially unable to comply with this rule as there is a single board structure in the Company – there is no Supervisory Board.
10.	Supervisory and management board members and the Company's auditor should, within their powers and to the extent needed to settle issues discussed at the general meeting, provide meeting participants with explanations and information about the Company.	No	We are partially unable to comply with this rule as there is a single board structure in the Company – there is no Supervisory Board.
11.	All answers provided by the management board to questions posed by the general meeting should take into account the fact that a public Company carries out its reporting obligations in the way stipulated in the Law on the Public Trading in Securities; certain information cannot be provided in any other way.	Yes	

7 Corporate Governance

NO.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS S.A.
12.	Short breaks in the session which do not constitute an adjournment and are ordered by the chairman in justified cases cannot be aimed at hindering the exercising by the shareholders of their rights.	Yes	Under Article 5.4 of the Regulations of the General Meeting of the Shareholders, no breaks in the meeting may be ordered or motions of participants approved if they would impair in any way the rights of shareholders.
13.	Voting on administrative issues may only concern issues related to the running of the meeting. Resolutions which may have an impact on the exercising by the shareholders of their rights cannot be voted on in this way.	Yes	Under Article 6.4 of the Regulations of the General Meeting the only procedural matters which may be voted upon are those relating to the conduct of the General Meeting. For the avoidance of doubt, no resolutions which could impact the exercise of shareholders' rights shall be treated as relating to procedural matters.
14.	A resolution not to consider an issue on the agenda may be adopted only if it is supported by sound reasons. Any motion in this respect should be accompanied by a detailed justification. A decision to remove an item from the agenda or not to consider an issue put on the agenda at a shareholder's request requires a general meeting resolution, once all the shareholders present who put the issue on the agenda have given their consent, supported by 75% of the votes present at the meeting.	No	Under Article 6.4 of the Regulations of the General Meeting a resolution which seeks to prevent or delay discussion or vote on a matter which is contained in the agenda may be adopted only if it is supported by sound reasons
15.	Any party objecting to a resolution must be given the opportunity to put forward concise reasons for its objections.	Yes	Under Article 6.4 of the Regulations of the General Meeting any party who raises objection to a resolution shall be given the opportunity to justify concisely the reason for the opposition.
16.	As the Code of Commercial Companies does not provide for court control in the event of a resolution not being adopted by the general meeting, the management board or the meeting chairman should form resolutions in such a way that anyone who does not agree with the merits of a decision being the subject of the resolution has the possibility of challenging the same, provided that he is entitled to do so.	Yes	Under Article 6.7 Regulations of the General Meeting in order to give to all shareholders equal opportunity to challenge the substance of the decisions of the General Meetings regardless of whether the vote was rejected or approved, the resolutions shall be formulated in a manner allowing for a challenge by a shareholder.

NO.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS S.A.
17.	Written statements made by a participant at a general meeting are recorded in the minutes at the participant's request	Yes	Under Article 6.8 of the Regulations of the General Meeting at the request of a participant of the General Meeting, any written declaration by the participant shall be recorded in the minutes of the Meeting.
	BEST PRACTICES OF SUPERVISORY BOARDS		
18.	The supervisory board submits a concise evaluation of the Company's standing to the general meeting every year. The evaluation should be made available to all shareholders early enough to allow them to become acquainted with the contents before the annual general meeting.	No	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
19.	A member of the supervisory board should have the relevant education, the appropriate professional and practical experience, be of high moral standing and be able to devote the time required to perform his supervisory board function properly. Supervisory board candidature should be announced and supported by reasons sufficiently detailed to enable an nformed choice to be made.	Yes	This rule applies to the Bard of Directors.
20.	(a) At least half the members of the supervisory board should be independent members, subject to point (d) below. Independent members of the supervisory board should not have relations with the Company and its shareholders or employees which could significantly affect the independent member's ability to make impartial decisions. (b) Detailed independence criteria should be laid down in the Company's statutes. (c) Without the consent of the majority of independent supervisory board members, no resolutions should be adopted on the following issues: – performances of any kind by the Company and any entities associated with the Company in favour of management board members; – consent to the execution by the Company or a subsidiary of a key agreement with an entity associated with the Company, a member of the supervisory board or management board, or with their associated entities; and – appointment of an auditor to audit the Company's financial statements. (d) In companies where one shareholder holds a block of shares carrying over 50% of all voting rights, the supervisory board should consist of at least two independent members, including an independent chairman of the audit committee, should such a committee be set up.	No	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
21.	A supervisory board member should, above all, keep the Company's interests in mind.	Yes	This rule applies to the Bard of Directors.
22.	Supervisory board members should take the relevant action to receive from the management board regular and complete information on any and all significant issues concerning the Company's operations and on any risks related to the business and ways of managing such risks.	No	As there is no Supervisory Board in the Company, we are unable to comply with this rule.

7 Corporate Governance

NO.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS S.A.
23.	A supervisory board member should inform the other members of the board of any conflict of interest that arises, and should refrain from participating in discussions and from voting on any resolution on the issue in respect of which the conflict of interest has arisen.	Yes	This rule applies to the Board of Directors.
24.	Information on a supervisory board member's personal, actual and organizational connections with a given shareholder, particularly with the majority shareholder, should be made publicly available. The Company should have a procedure in place for obtaining such information from supervisory board members and for making it publicly available.	Yes	Under to Article 9.16 of the Articles of Association, a director having a personal interest contrary to that of the Company in a matter submitted to the approval of the Board of Directors shall be obliged to inform the Board of Directors thereof and to have his declaration recorded in the minutes of the meeting. He may not take part in the relevant proceeding of the Board of Directors. At the next General Meeting, before votes are taken on any other matter, the shareholder shall be informed of those cases in which a director had a personal interest contrary to that of the Company.
25.	Supervisory board meetings should be accessible and open to management board members, save for issues which directly concern the management board or its members, especially the removal, liability and remuneration (of management board members).	No	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
26.	A supervisory board member should make it possible for the management board to present publicly and in an appropriate manner information on the transfer or acquisition of shares in the Company or in its dominant Company or subsidiary and of transactions with such companies, provided that such information is relevant to his financial standing.	No	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
27.	Supervisory board members' remuneration should be set on the basis of a set of transparent procedures and rules. The remuneration should be fair but should not constitute A significant cost item in the Company's business or have a material impact on its financial results. It should also be in reasonable relation to the remuneration of members of the management board. The total amount of all supervisory board members' remuneration, as well as the remuneration of in dividual members, with a breakdown of its various elements should be disclosed in the annual report together with information on the procedures and rules applied to determine it.	No	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
28.	The supervisory board should operate in accordance with its by-laws, which should be publicly available. The by-laws should stipulate that at least two committees should be set up: – audit, and – remuneration.	No	As there is no Supervisory Board in the Company, we are unable to comply with this rule.

NO.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS S.A.
29.	The audit committee should consist of at least two independent members and at least one person possessing the relevant qualifications and experience in accounting and finance. The committee's tasks should be specified in the board by-laws. The committees should present reports on their activities to the supervisory board every year. The Company should then make these reports available to its shareholders. The agenda of a supervisory board meeting should not be amended or supplemented during the meeting to which it relates. This requirement does not apply if all the supervisory board members are present and agree to the amendment or supplementation, and if certain actions have to be taken by the supervisory board to protect the Company against damage and in the case of a resolution assessing whether there is a conflict of interests between a supervisory board member and the Company.	Yes	
30.	A supervisory board member delegated by a group of shareholders to permanently exercise supervision should submit detailed reports on the performance of his task to the supervisory board.	No	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
31.	A supervisory board member should not resign from his function during his term of office if this would make it impossible for the board to function, particularly if it could hinder the timely adoption of an important resolution.	Yes	
	BEST PRACTICES OF MANAGEMENT BOARDS		
32.	With the Company's interests in mind, the management board sets out the strategy and the main objects of the Company's operations and submits them to the supervisory board. The management board is responsible for implementation and performance. The management board sees that the Company's management system is transparent and effective and that its business is conducted in accordance with legal regulations and best practice.	Yes	
33.	When making decisions on corporate issues, management board members should act within the limits of justified business risk, i.e. after considering all information, analyses and opinions, which, in the reasonable opinion of the management board, should be taken into account in a given case in view of the Company's interest. When determining the Company's interests, the long-term interests of the Company's shareholders, creditors and employees should be kept in mind, as well as those of other entities and persons cooperating with the Company, also the interests of the local community.	Yes	
34.	In transactions with shareholders and other persons whose interests affect those of the Company, the management board should act with the utmost care to ensure that the transactions are carried out at arm's length.	Yes	
35.	A management board member should always be loyal to the Company and avoid actions which could lead to the advancement of his own material interests only. If a management board member receives information about the opportunity to make an investment or another advantageous transaction relating to the Company's objects, he should put this information immediately before the management board to be reviewed in terms of the Company taking advantage of it. Such information may only be used by a management board member or passed on to a third party with the consent of the management board and only if it does not infringe on the Company's interests.	Yes	
36.	A management board member should treat his shares in the Company and its dominant companies and subsidiaries as a long-term investment.	Yes	

7 Corporate Governance

NO.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS S.A.
37.	Management board members should inform the supervisory board whenever a conflict of interests arises, or if there is a risk of a conflict of interests arising in connection with the function performed.	Yes	
38.	The remuneration of management board members should be set on the basis of transparent procedures and principles, taking into account its incentive nature and ensuring effective and smooth management of the Company. The remuneration should correspond to the size of the Company's business enterprise, should be in reasonable relation to business results, and be related to the scope of liability in a given function, taking into account the level of remuneration of members of management boards in similar companies on a similar market.	Yes	
39.	The total amount of all management board members' remuneration, as well as the remuneration of individual members, with a breakdown of its various elements should be disclosed in the annual report together with information on the procedures and rules applied to determine it. If the amount of the remuneration of individual members of the management board significantly differs, it is recommended that a relevant explanation be published.	No	Under Art. 3.1 of the Regulations of the Board of Directors, the principles and the level of remuneration of Directors shall be set by the General Meeting.
40.	The management board should lay down in the by-laws principles and procedures for operating and allocating powers. These principles should be clear and generally available.	Yes	
	BEST PRACTICES IN RELATIONS WITH THIRD PARTIES AND THIRD PARTY INSTITUTIONS		
41.	When selecting an auditor, the Company should ensure that he will perform the tasks entrusted to him impartially.	Yes	
42.	In order to ensure an impartial opinion, the Company should change its auditor once every five years at the least. The change of auditor should also be understood as a change in the individual carrying out the audit. Additionally, over a long period of time the Company should not use the services of the same auditing entity.	Yes	
43.	The auditor should be selected by the supervisory board on the recommendation of the audit committee, or by the general meeting on the recommendation of the supervisory board containing the audit committee recommendation. If an auditor other than the one recommended by the audit committee is chosen by either the board or the general meeting, detailed reasons should be given. Information on the selection of an auditing entity together with the relevant justification should be disclosed in the annual report.	No	According to Article 14 of the Articles of Association the audit of the Company's annual accounts shall be entrusted to one or several external auditors (réviseurs d'entreprises), appointed by the General Meeting which shall fix their number, remuneration, and their term of office.

NO.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS S.A.
44.	The current auditor or the auditor auditing the annual accounts of the Company or its subsidiaries in the period under examination cannot act as a special purpose auditor for the same Company.	Yes	
45.	A Company should acquire its own shares in such a way that no group of shareholders is privileged.	Yes	
46.	The Company's statutes, its basic internal regulations, information and documents related to general meetings, and its financial statements should be made available in the Company's registered office and on its website.	Yes	
47.	A Company should have appropriate media relations procedures and regulations and an information policy ensuring coherent and reliable information about the Company. The Company should, in compliance with legal regulations and to safeguard its interests, make information on its current operations and business standing available to media representatives and allow them to attend general meetings.	Yes	
48.	In its annual report, a Company should include a statement to the effect that corporate governance standards are applied. Any departure from these standards should also be publicly explained.	Yes	

7 Corporate Governance

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

Production

Any disruption to our production facilities would have a material adverse effect on the Company's business. PEGAS is dependent on one manufacturer for the equipment and technical support in 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. The Company's competitors may have access to more and cheaper sources of capital allowing them to modernize and expand their operations more quickly and giving them a substantial competitive advantage over PEGAS. The steady supply and transportation of products from our 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 and electricity could have a material adverse impact on the Company's financial condition and results of operations, although a polymer price increase is by and large transferred to customer prices.

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 is a party could harm the business and its prospects.

Finance

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

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

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

Security, Environment and Safety

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

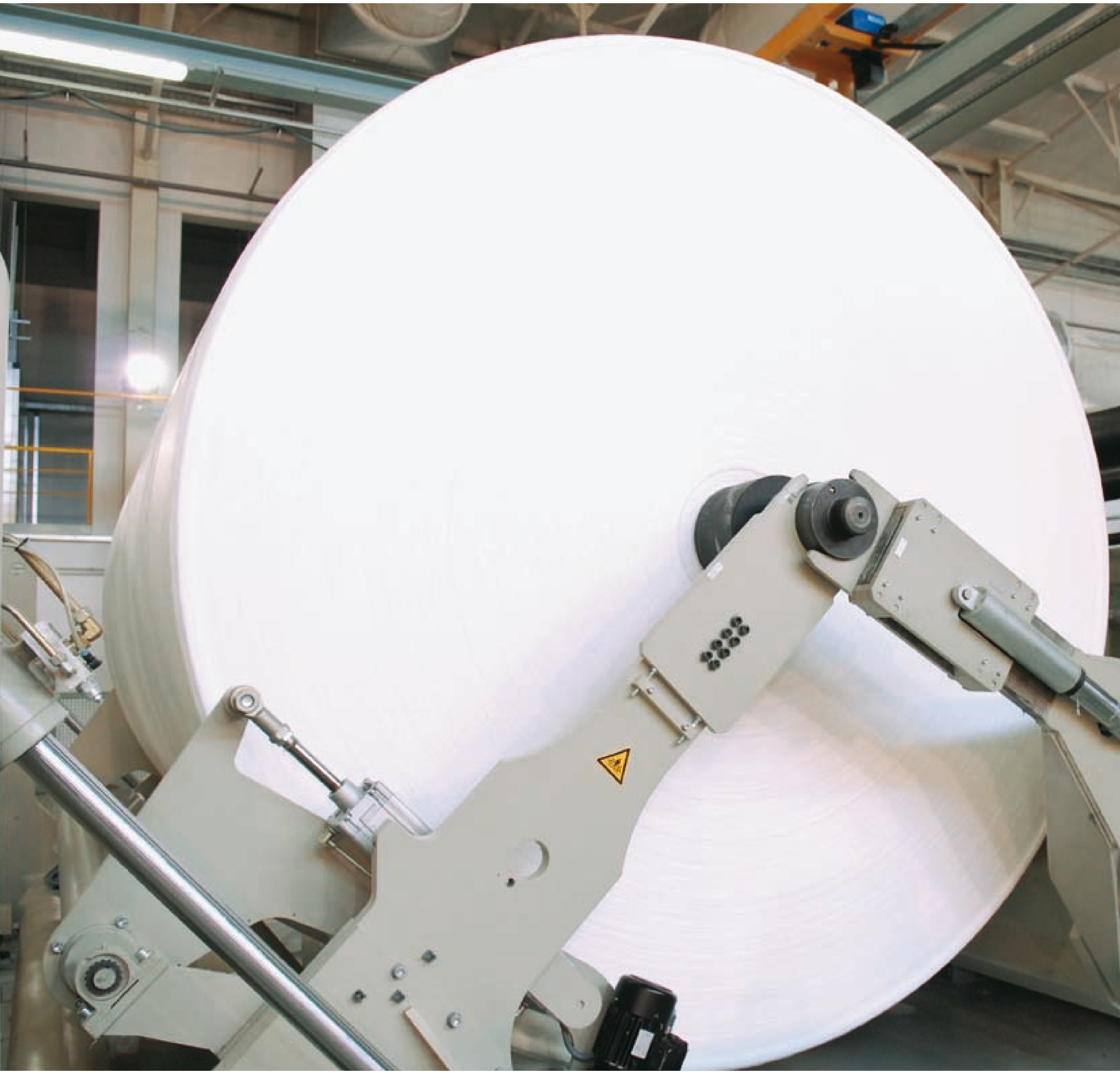
Key Personnel and Technical Expertise

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

As a practically 100% free float Company, PEGAS is fully committed to increasing a long term shareholders value.

8 Consolidated Financial Statements of PEGAS NONWOVENS S.A.

for the year ended December 31st, 2007 and Independent Auditors Report



8.1 INDEPENDENT AUDITOR'S REPORT

KPMG Audit
Allée Scheffer
L-2520 Luxembourg

Téléphone +352 22 51 51 19
Fax: +352 22 51 71
audit@kpmg.lu
www.kpmg.lu

To the Shareholders of
PEGAS NONWOVENS S.A.
68-70, boulevard de la Pétrusse
L-2320 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of PEGAS NONWOVENS S.A., which comprise the consolidated balance sheet as at December 31, 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 51 to 84.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Réviseur d'Entreprises

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements as set out on pages 51 to 84 give a true and fair view of the consolidated financial position of PEGAS NONWOVENS S.A. as of December 31, 2007, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

Luxembourg, April 24th, 2008

KPMG Audit S.`a r.l.
Réviseurs d Entreprises

Thierry Ravasio

8.2 CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31st, 2007

PEGAS NONWOVENS S.A.

Consolidated Income Statement

prepared under International Financial Reporting Standards (IFRS)

FOR THE YEAR ENDED 31 DECEMBER (IN THOUSANDS OF EUR)	NOTE	2007	2006 AS AMENDED
Revenue	8.6.6 a), b)	121,971	120,941
Raw materials and consumables used	8.6.6 c)	(76,584)	(71,936)
Staff cost	8.6.6 f), g)	(6,279)	(5,111)
Depreciation and amortization expense	8.6.6 h)	(12,333)	(12,152)
Research expense	8.6.6 e)	(1,837)	(1,803)
Other operating income / (expense) net	8.6.6 d)	1,105	(189)
Profit from operations		26,043	29,750
Foreign exchange gains and other financial income	8.6.6 i)	9,321	19,690
Foreign exchange losses and other financial expense	8.6.6 j)	(5,561)	(8,942)
Interest income	8.6.6 k)	199	613
Interest expense	8.6.6l)	(9,955)	(18,805)
Profit before income tax		20,047	22,306
Income tax (expense) / income	8.6.6m)	2,091	(1,601)
Profit for the year		22,138	20,705
Attributable to:			
Equity holders of the Company		22,138	20,274
Minority interest		--	431
Net profit for the year		22,138	20,705
Earnings per share	8.6.6 n)		
Basic earnings per share (EUR)		2.40	24.66
Diluted earnings per share (EUR)		2.40	2.92

The Notes are an integral part of these consolidated financial statements.

8.3 CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31st, 2007

PEGAS NONWOVENS S.A.

Consolidated Balance Sheet

prepared under International Financial Reporting Standards (IFRS)

AS AT 31 DECEMBER (IN THOUSANDS OF EUR)	NOTE	2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	8.6.6 o)	137,355	110,522
Intangible assets	8.6.6 p)	196	102
Goodwill	8.6.6 p)	87,157	84,384
Total non-current assets		224,708	195,008
Current assets			
Inventories	8.6.6 q)	12,416	8,363
Trade and other receivables	8.6.6 r)	26,244	23,640
Cash and cash equivalents	8.6.6 s)	511	22,014
Total current assets		39,171	54,017
Total assets		263,879	249,025
EQUITY AND LIABILITIES			
Share Capital and reserves			
Share capital	8.6.6t)	11,444	11,444
Share premium	8.6.6 v)	33,997	41,011
Legal reserves	8.6.6 w)	1,120	--
Translation reserves		2,536	725
Retained Earnings	8.6.6 u)	44,788	23,770
Total share capital and reserves		93,885	76,950
Non-current liabilities			
Bank loans	8.6.6 x)	116,508	122,851
Other payables	8.6.6 y)	101	275
Deferred tax liabilities	8.6.6 z)	12,190	15,225
Total non-current liabilities		128,799	138,351
Current liabilities			
Trade and other payables	8.6.6 aa)	33,218	20,212
Tax liabilities	8.6.6 bb)	1,427	192
Bank current liabilities	8.6.6 x)	6,550	13,320
Total current liabilities		41,195	33,724
Total liabilities		169,994	172,075
Total equity and liabilities		263,879	249,025

The Notes are an integral part of these consolidated financial statements.

8.4 CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31st, 2007

PEGAS NONWOVENS S.A.

Consolidated Cash Flow Statement

prepared under International Financial Reporting Standards (IFRS)

FOR THE YEAR ENDED 31 DECEMBER (IN THOUSANDS OF EUR)	NOTE	2007	2006 AS AMENDED
Profit before income tax		20,047	22,306
Adjustment for:			
Amortization and depreciation		12,333	12,152
Foreign exchange gains		(1,529)	(6,894)
Interest expense		9,955	18,805
Fair value changes of interest rate swap		(36)	(1,869)
Other financial expense		(251)	(1,068)
Cash flows from operating activities			
Decrease / (increase) in inventories		(3,623)	259
Decrease / (increase) in receivables		(1,753)	2,013
Increase / (decrease) in payables		(3,462)	(1,484)
Income tax paid		(140)	(1,601)
Net cash from operating activities		31,541	42,619
Cash flows from investment activities			
Purchases of property, plant and equipment		(18,878)	(5,265)
Net cash used in investment activities		(18,878)	(5,265)
Cash flows from financing activities			
Increase / (decrease) in bank loans		(17,735)	(34,381)
Increase / (decrease) in long term debt		(174)	(28,104)
Issuance of share capital		--	40,513
Distribution		(7,014)	--
Repayment of convertible debt		--	(1,460)
Interest paid		(9,490)	(18,801)
Other financial income		251	1,068
Net cash used in financing activities		(34,162)	(41,165)
Net decrease in cash and cash equivalents		(21,499)	(3,811)
Cash and cash equivalents at the beginning of the period		22,014	27,034
Effect of exchange rate fluctuations on cash held		(4)	(1,209)
Cash and cash equivalents at 31 December	8.6.6 s)	511	22,014

The Notes are an integral part of these consolidated financial statements.

8.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31st, 2007

PEGAS NONWOVENS S.A.

Consolidated Statement of Changes in Equity

prepared under International Financial Reporting Standards (IFRS)

FOR THE YEAR ENDED 31 DECEMBER 2007 (IN THOUSANDS OF EUR)	SHARE CAPITAL	SHARE PREMIUM	OTHER RESERVES	LEGAL RESERVES	TRANSLATION RESERVES	RETAINED EARNINGS	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	MINORITY INTEREST	TOTAL EQUITY
at 31 December 2005	125	--	4,432	--	(4)	(1,367)	3,186	--	3,186
Share issue	11,319	46,626	--	--	--	--	57,945	--	57,945
Equity issue expenses recognized directly in equity net of tax	--	(5,615)	--	--	--	--	(5,615)	--	(5,615)
Conversion of convertible debt	--	--	(2,972)	--	--	2,972	--	--	--
Repayment of mezzanine loan	--	--	(1,460)	--	--	1,460	--	--	--
Exchange differences	--	--	--	--	729	--	729	--	729
Net profit for the year	--	--	--	--	--	20,274	20,274	431	20,705
Acquisition of minority interest	--	--	--	--	--	431	431	(431)	--
at 31 December 2006	11,444	41,011	--	--	725	23,770	76,950	--	76,950
Distribution	--	(7,014)	--	--	--	--	(7,014)	--	(7,014)
Exchange differences	--	--	--	--	1,811	--	1,811	--	1,811
Net profit for the year	--	--	--	--	--	22,138	22,138	--	22,138
Reserves created from retained earnings	--	--	--	1,120	--	(1,120)	--	--	--
at 31 December 2007	11,444	33,997	--	1,120	2,536	44 788	93,885	--	93,885

The Notes are an integral part of these consolidated financial statements.

8.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.6.1 General information and definition of the consolidated entity

Description and principal activities

PEGAS NONWOVENS S.A. ("the Company"), originally incorporated under the name Pamplona PE Holdco 2 S.A., is a commercial company incorporated in Luxembourg on 18 November 2005, under the legal form of a "Société anonyme". The registered office is at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg and the Company is registered with the Commercial Register of Luxembourg under number B 112.044. The Company acts only as a holding Company. On 14 December 2005, the Company acquired full control over the activities of PEGAS a.s. (now PEGAS NONWOVENS s.r.o.).

PEGAS NONWOVENS s.r.o. is incorporated in the Czech Republic. Its registered office is located in Znojmo, Přímětická 86, 669 04. PEGAS NONWOVENS s.r.o. and its subsidiaries are engaged in the production of nonwoven textiles.

The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group").

8.6.2 Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) as adopted by the European Union. These consolidated financial statements were approved by the Board of Directors and authorized for issue on 22 April 2008.

b) Change in the income statement presentation

The Group adopted in 2007 a different presentation of the income statement. The change is further explained in Note 8.6.5.

c) Presentation and functional currency

The financial statements are presented in thousands of EUR ("TEUR"). The underlying functional currency of PEGAS NONWOVENS s.r.o. and its subsidiaries is Czech Koruna ("CZK"). Their financial statements were translated from the functional currency to the presentation currency. The underlying functional currency of PEGAS NONWOVENS S.A. is EUR.

d) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

e) Use of estimates and judgements

The preparation of 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

8.6.3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

a) Consolidation methods

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 fulfill 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 fairvalue 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.

b) Foreign currencies

All Czech based companies in the Group operate in the Czech Republic which is their primary economic area. Consequently, the Czech Koruna (CZK) is the functional currency of these entities. The Company sets a fixed rate of exchange based on the Czech National Bank official rate for the last working day of the calendar month to be applied to transactions recorded during the following month. During the year, exchange gains and losses are only recognized when realized at the time of settlement. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognized in profit or loss.

For the purpose of presenting consolidated financial statements, the assets and liabilities are expressed in EUR using exchange rates ruling at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Exchange rates used CZK/EUR (source: official rates of Czech National Bank)

Period average (for Income Statement and Cash Flow Statement)	Exchange rate
1 January 2006 - 31 December 2006	28.343
1 January 2007 - 31 December 2007	27.762
Balance sheet date	
Balance sheet as at 31 December 2006	27.495
Balance sheet as at 31 December 2007	26.620

Exchange differences arising from the above stated exchange rates, if any, are classified as equity and transferred to the Group's translation reserve.

c) Revenue recognition

Revenues are recognized at fair value of the consideration received or the consideration to be received and represent receivables for goods and services delivered in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenues from the sale of products are recognized when products are delivered and either the title to the products has been passed to the customer or the risks to the products have been passed to the carrier. Revenues from the sale of services are recognized when the service is rendered.

d) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

e) Research

Expenditure on research activities, undertaken with the prospect of acquiring new scientific or technical knowledge and understanding, is recognized in the income statement as an expense as incurred.

f) Costs associated with the initial public offering

Costs incurred to increase equity are deducted from the amount of equity, but only to the extent related to the issue of new shares. Transaction costs attributable to the issue of new shares are directly debited to equity less all related tax implications. These costs primarily include external costs incurred for legal, accounting and other advisory services, direct communication with investors and remuneration paid to financial institutions mediating the subscription of shares in the public market. All costs that have been incurred continuously but do not directly relate to the increase in equity are charged to expenses.

g) Borrowing costs

Borrowing costs are recognized in the income statement in the period to which they relate.

h) Taxation

The tax expense in the income statement includes current and deferred tax expenses.

Current tax

Current income tax is based on taxable profit and the tax base. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted under local legislation by the balance sheet date.

Deferred tax

Deferred tax liabilities and assets arising on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases of these assets and liabilities used in the computation of taxable profit are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated using the tax rates that are expected to be applied in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to the profit or loss account. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

i) Government grants

The Company benefits from the following investment incentives granted by the Czech Government:

Grants and subsidies relating to employees

The Government of the Czech Republic has provided grants to train employees and subsidies to establish new jobs. These grants and subsidies were accounted for in the year in which related expenses were incurred.

Grants relating to income tax

Grants relating to income tax represent investment incentives. The Group does not account for a total tax liability but records its tax liability less the expected amount of investment incentives.

j) Property, plant and equipment

Property, plant and equipment is stated at cost (including costs of acquisition) less accumulated depreciation and any recognized impairment loss. The cost of assets (other than land and assets under construction) is depreciated over their estimated useful lives, using the straight-line method, on the following basis:

MAJOR GROUPS OF ASSETS	NUMBER OF YEARS
Production lines	12-20
Factory and office buildings	30-60
Cars and other vehicles	5-6

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

k) Intangible assets

Purchased intangible assets are stated at cost less accumulated amortization. They are amortized on a straight-line basis over their estimated useful lives. The carying amounts of intangible assets are reassessed to identify impairment losses where events or changes of facts indicate that the carrying amount of each individual asset exceeds its recoverable amount. Intangible assets primarily include software, which is amortised on a straight-line basis over its estimated useful life, which is eight years.

l) Goodwill

Goodwill represents a positive difference between the cost of acquisition and the fair value of the acquired interest in net identifiable assets and liabilities of a subsidiary as at the date of acquisition. Goodwill arising on an acquisition of subsidiaries is included in intangible assets. After the initial recognition, goodwill is stated at cost less impairment losses. At the acquisition date, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination.

m) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the asset is not a separate cash-generating unit, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. The management has determined that for goodwill testing purposes all acquired subsidiaries are considered as one cash generating unit.

n) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. The cost is calculated using the weighted average method. The net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. The cost of finished products comprises direct materials and direct labour costs and a proportion of production overheads based on normal operating capacity, excluding finance costs.

o) Financial instruments

Financial assets and financial liabilities are recognized in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

p) Derivative financial instruments

The Group's operating activities are primarily exposed to financial risks such as changes in foreign exchange rates and interest rates. Where necessary, the Group uses derivative financial instruments to hedge these risks. Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. A derivative is a financial instrument or other contract which fulfils the following conditions:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract ;
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- It is settled at a future date.

Derivative financial instruments which do not fulfill the criteria for hedging instruments are classified as held-for-trading and carried at fair value, with changes in fair value included in net profit or loss of the period in witch they arise. The Group uses interest rate swaps to hedge the risk of changes in interest rates. As the group does not perform hedge accounting, these swaps are regarded in accordance with IAS 39 as held-for-trading and changes in their fair values are recognized directly in the income statement.

q) 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, which vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on 18 December 2007 and the last options vesting on the 4th anniversary of the IPO. 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 Company measures the liability arising from the phantom options at fair value at each reporting date. The changes in the fair value of these liabilities are recognized in the income statement for the period. The fair value of the Phantom options is determined by:

- Pricing model;
- Expected life assumption / participant behaviour;
- Current share price;
- Expected volatility;
- Expected dividends;
- Risk-free interest rate.

r) Trade receivables

Short-term trade receivables do not carry any interest and are stated at their nominal value reduced by appropriate allowances for estimated irrecoverable amounts. Long-term trade receivables are discounted to their present value.

s) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank accounts and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

t) Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

For convertible debts, the part which corresponds to a potential interest in equity of the Company is reported as part of equity.

u) Borrowings

Interest-bearing bank loans

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings using the effective interest rate method.

Convertible loan notes

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loan note into equity of the Group, is included in equity (Other reserves).

v) Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to the present value where the effect is material.

w) Trade payables

Short-term trade payables are stated at their nominal value. Long-term trade payables are discounted to their present value.

x) New standards and interpretations not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published. Their application is mandatory for accounting periods beginning on or after 31 December 2007. The Company has not opted for their early adoption. These include:

- **IAS 1 Presentation of Financial Statements (revised 2007)** (effective for annual periods beginning on or after 1 January 2009). The revised Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. The Group has not yet completed its analysis of the impact of the revised Standard.
- **IAS 23 Borrowing costs (revised 2007)** (effective for annual periods beginning on or after 1 January 2009). The main change from the revised version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The Group has not yet completed its analysis of the impact of the revised Standard.
- **IAS 27 Consolidated and separate financial statements (revised 2008)** (effective for annual periods beginning on or after 1 July 2009). The revised version applied together with IFRS 3 Business Combinations. The main change from the revised version is related to partial disposals of subsidiaries. Management does not expect any significant effects on adoption of this Standard.
- **IFRS 2 Share-based Payment (effective for annual periods beginning on or after 1 January 2008)**. The amendments published clarify the terms ‚vesting conditions' and ‚cancellations'. The Group has not yet completed its analysis of the impact of the revised Standard.
- **IFRS 3 Business Combinations (revised 2008)** (effective for annual periods beginning on or after 1 July 2009). The revised Standard implements changes mainly in (1) putting a greater emphasis on the use of fair value, (2) focussing on changes in control as a significant economic event, (3) focussing on what is given to the vendor as consideration, rather than what is spent to achieve the acquisition. IFRS 3 will have an impact on the way the Group reports on acquisitions.
- **IFRIC 11 Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)**. The Group has not yet completed its analysis of the impact of the new Interpretation.
- **IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)**. The Group has not yet completed its analysis of the impact of the new Interpretation.
- **IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)**. The Interpretation addresses how companies, which grant their customers loyalty award credits when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points. IFRIC 13 is not relevant to the Group.
- **IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction** (effective for annual periods beginning on or after 1 January 2008). The Group has not yet completed its analysis of the impact of the new Interpretation.

y) E.U. adoption of IAS/IFRS

European Commission Regulations adopted the following IASB standards and interpretations as published in the Official Journal of the European Union in 2007.

- **IFRIC 10 Interim Financial Reporting and Impairment** was adopted by Commission Regulation (EC) No 610/2007 as at 1 June 2007.
- **IFRIC 11 Group and Treasury Share Transactions** was adopted by Commission Regulation (EC) No 611/2007 as at 1 June 2007.
- **IFRS 8 Operating Segments** was adopted by Commission Regulation (EC) No 1358/2007 as at 21 November 2007.

8.6.4 Financial risks and capital management

The Company is exposed to the financial risks connected with its operations as follows:

- Credit risk, regarding its normal business relations with customers;
- Liquidity risk, with particular reference to the availability of funds and access to the credit market;
- Market risk (primarily relating to exchange rates, interest rates), since the Company operates at an international level in different currencies and uses financial instruments depending on interest rates.

When managing its financial risks, the Group concentrates on the unpredictability of financial markets and endeavours to minimise potential negative effects on the results of operations.

The following paragraphs provide qualitative and quantitative disclosure on potential effects of these risks upon the Company.

Credit risk

The vast majority of sales are on credit to customers. Risks arising from the provision of credit are fully covered by insurance policies in respect to individual customers' receivables or by receiving advanced payments from customers. The maximum credit risk to which the Group is theoretically exposed is represented by the carrying amounts stated for trade and other receivables in the balance sheet, totaling TEUR 26,244 as at 31 December 2007 (TEUR 23,640 as at 31 December 2006), of which 86% represents trade receivables (83% as at 31 December 2006). Of the balance, TEUR 2,055 (TEUR 1,869 as at 31 December 2006) is a receivables in respect to fair value of interest rate swaps.

Overview of trade and other receivables according to due date

	2007		2006	
		% OF TOTAL		% OF TOTAL
Not yet overdue	24,403	92.9	22,643	95.8
Overdue less than 1 month	1,827	7.0	838	3.5
Overdue more than 1 month	14	0.1	159	0.7
Total	26,244	100.0	23,640	100.0

The overdue amounts as at 31 December 2007 were paid by the end of January 2008 except for TEUR 98. No receivables have been written off in 2006 and 2007.

Liquidity risk

Liquidity risk arises if the Company is unable to obtain the funds needed to carry out its operations under current economic conditions. In order to reduce the liquidity risk, the Company optimises the management of funds as follows:

- maintaining an adequate level of available liquidity;
- obtaining adequate credit lines;
- monitoring future liquidity on the basis of business planning.

Management believes that the funds and available credit lines described in Note 8.6.6 x), in addition to the funds that are generated from operating activities, will enable the Company to satisfy its requirements resulting from its investment activities and its working capital needs.

Market risk

Market risk is the risk that the Company's income or the value of the financial instruments held are affected by changes in market prices, such as foreign exchange rates, interest rates and equity prices. The Company is exposed to market risks from fluctuations in foreign currency exchange and interest rates.

Currency risk

Even though the Group carries out its activities only in the Czech Republic, it does business on an international level, which results in the exposure to currency risks in respect to both its operating and financial activities. The functional currency of PEGAS NONWOVENS s.r.o. and its subsidiaries is Czech Koruna (CZK), while the functional currency of PEGAS NONWOVENS S.A is EUR. The majority of operating activities such as revenues and operating costs are carried out in EUR. The majority of financial activities (such as repayment of loans and interest) are also carried out in EUR. Presentation currency of the consolidated financial statements is EUR as described in Note 8.6.3 b. The Company is in general exposed to exchange rate risks impacting income and cash flows.

Income statement

Trading
Due to EUR being the functional currency of the Company, appreciation of CZK against EUR impacts consolidated cash flows negatively and vice versa. This effect is presented in the table on page 21 under line Trading.

Depreciation and amortization
The depreciation and amortization is carried in CZK, subsequently impacting Income statement results presented in EUR.

Financial result

The Company is currently exposed to potential changes in income statements mainly due to unrealized foreign exchange gains and losses resulting from revaluation of balance sheet items (bank loans, intercompany loans, cash, trade receivables and trade payables). There is no cash flow impact of the unrealised foreign exchange gains and losses.

Corporate income tax

Unrealised foreign exchange gains and losses are taxable in the Czech Republic.

Cash flow

Trading

The sales of its own production in EUR and CZK cover the purchases of raw material, other operating costs and debt servicing in the given currency, which results in natural hedging of the Group's activities by cash flows in these currencies. Despite the natural hedging, there is some disproportion between inflows and outflows of specific currencies representing the cash flow exposure to currency risk. However FX rate changes influence the above mentioned trading as well as the cash flows.

Corporate income tax

Corporate income tax mentioned above also influences also the cash flows.

Overview of income statement items by currency in 2007

IN %	EUR	CZK	OTHER
Revenues	91	8	1
Operating expenses (excl. depreciation and amortization)	83	17	--
Depreciation and amortization	--	100	--
Finance costs	100	--	--
Corporate income tax	1	99	--

The Group did not use any foreign exchange derivatives to reduce currency risk neither as at 31 December 2007 nor as at 31 December 2006. The Company is exposed mainly to the fluctuation risk of the CZK/EUR exchange rate. Changes in other exchange rates would have no material impact on the Company.

Sensitivity analysis

Potential impact from instantaneous appreciation or depreciation of CZK against EUR by 10% is detailed in the following table.

Appreciation of CZK/EUR FX rate by 10%

		2007	2006
Cash flow statement	Trading	(2,397)	(2,229)
	Corporate income tax*	(4,633)	(4,660)
	Total	(7,030)	(6,889)
Income statement	Trading	(2,397)	(2,229)
	Depreciation	(1,370)	(1,350)
	Unrealised FX losses from BS revaluation	19,303	19,416
	Corporate income tax*	(4,633)	(4,660)
	Total	10,903	11,177

Depreciation of CZK/EUR FX rate by 10%

		2007	2006
Cash flow statement	Trading	1,961	1,824
	Corporate income tax	--	--
	Total	1,961	1,824
Income statement	Trading	1,961	1,824
	Depreciation	1,121	1,105
	Unrealized FX losses from BS revaluation	(15,793)	(15,886)
	Corporate income tax*	--	--
	Total	(12,711)	(12,957)

* Corporate income tax calculation excludes impact of changes in Trading due to investment incentives.

Interest rate risk

The Company is exposed to interest rate risk resulting from bank loans bearing variable interest rates. The Company makes use of a 5-year syndicated loan of EUR 150 million, which bears a variable interest rate. In order to manage the interest rate risks, the Company concluded two interest rate swaps (IRS). For details refer to Note 8.6.6 r).

Sensitivity analysis

To assess the potential impact of changes in interest rates, the Company calculates the hypothetical gains or losses from bank loans unsecured by IRS at the back of changed interest expenses on a yearly basis. At the same time the Company would be impacted by a change of fair value in IRS. Based on the bank loan balance and cash and cash equivalents as at 31 December 2007 and instantaneous and parallel increase of the EUR yield curve by 1% p.a., the loss from increased net interest expenses would reach TEUR 267 on an annual basis (TEUR 696 as at 31 December 2006). The increase of the yield curve by 1% p.a. would increase the fair value of IRS by approximately TEUR 978 as at 31 December 2007 (approx. TEUR 1,675 as at 31 December 2006). The above mentioned hypothetical income is taxable. As a result, the income tax would increase by TEUR 171 in 2007 (TEUR 235 in 2006).

The instantaneous and parallel decrease of the EUR yield curve by 1% p.a. would lead to savings from decreased net interest expenses in the amount of TEUR 267 on an annual basis (TEUR 696 as at 31 December 2006) and the fair value of IRS would decrease by approximately TEUR 1,024 as at 31 December 2007 (approx. TEUR 1,781 as at 31 December 2006). Lower potential volatility in the fair value of IRS as at 31 December 2007 is due to lower notional amount of the swaps compared with 31 December 2006.

Capital management

The Company's objectives when managing capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- To provide an adequate return to shareholders commensurately with the level of risk

The Company manages the amount of capital and capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. The Company does not define any level of capital, however management closely monitors the risks in connection with capital inadequacy and is prepared to change the level of capital as stated above. The Company is not subject to externally imposed capital requirements.

8.6.5 Change of income statement presentation

The Group decided to amend the presentation of the income statement in order to better present the operating result of the Company. Realised and unrealised foreign exchange gains and losses, changes in fair value of swaps, interest income, bank charges are no longer presented in Profit from operations as a part of Other operating income / (expense) net but rather shown as foreign exchange gains and other financial income and interest income. The 2006 actual operating and financial results have been amended on a comparable basis as follows:

	2006		2006 AS AMENDED
Realised and unrealised foreign exchange gains / (losses) *	9,334		
Fair value changes of interest rate swap **	1,869		
Gain / (loss) on the sale of equipment	25	Gain/(loss) on the sale of equipment	25
Interest income ***	613		
Insurance proceeds	101	Insurance proceeds	101
Insurance cost	(504)	Insurance cost	(504)
Other taxes	(25)	Other taxes	(25)
Other expenses ****	(241)	Other income ****	214
Other operating income / (expense) net total	11,172	Other operating income / (expense) net total	(189)

	2006 AS AMENDED
Realised and unrealized foreign exchange gains *	17,821
Fair value changes of interest rate swap **	1,869
Foreign exchange gains and other financial income	19,690
Realised and unrealised foreign exchange losses *	8,487
Other financial expense ****	455
Foreign exchange losses and other financial expense	8,942
Interest income ***	613
Interest income	613

* Realised and unrealised foreign exchange gains / (losses) are presented in financial results in two separate lines.

** Fair value changes of interest rate swap is presented in financial results under the item foreign exchange gains and other financial income.

*** Interest income is presented in the consolidated income statement separately.

**** Financial costs (mainly bank charges) from the item other expenses in the amount of TEUR 455 are presented in item foreign exchange losses and other financial expense.

8.6.6 Notes to the consolidated financial statements

a) Revenue

Product groups

	2007		2006	
		% of total		% of total
Hygiene Sales				
Hygiene - specialty	27,543	22.6	28,498	23.6
Hygiene - other	77,289	63.4	78,870	65.2
Total hygiene	104,832	86.0	107,368	88.8
Non-hygiene	17,139	14.0	13,573	11.2
Total sales	121,971	100.0	120,941	100.0

Markets

	2007		2006	
		% of total		% of total
Domestic sales	18,889	15.5	14,729	12.2
Export	103,082	84.5	106,212	87.8
Total	121,971	100.0	120,941	100.0

b) Segment reporting

The Group solely produces nonwoven textiles and the management has not identified any reportable segments. Geographical segments are defined as follows:

Region

	2007	2006
Western Europe	71,426	52,006
Central and Eastern Europe	32,500	31,853
Russia	2,931	4,099
Others	15,114	32,983
Total	121,971	120,941

In presenting information on the basis of geographical segments, segment revenue is based on the invoice address of the customer. All the assets are located in the Czech Republic, and all expenditure on assets is in, the Czech Republic.

c) Raw materials, consumables and services used

	2007	2006
Raw materials consumed	66,512	64,207
Consumed spare parts and repairs	2,832	2,623
Energy consumed	4,672	3,553
Other consumables	478	467
Other services	2,090	1,086
Total raw materials and consumables used	76,584	71,936

Raw materials consumed amount to 86.8% of the total amount of raw materials and services consumed in 2007 (89.0% in 2006).

d) Other operating income / (expense) net

	2007	2006 AS AMENDED
Gain on the sale of equipment	34	25
Insurance proceeds	147	101
Insurance cost	(494)	(504)
Other taxes	(24)	(25)
Other income	1,442	214
Other operating income / (expense) net total	1,105	(189)

The item other income includes a successful arbitration award in favour of PEGAS-NT a.s. in 2007 as compensation for damages in the amount of TEUR 1,040.

e) Research

In 2007, the Group invested TEUR 1,837 in research. The most significant part represents expenditure on raw materials for products testing in the amount of TEUR 1,354.

In 2006, research expenses were TEUR 1,803, of which expenses on raw materials for products testing amounted to TEUR 1,423.

f) Average number of employees, executive managers and non-executive directors of the Group and expenses

2007	AVERAGE NUMBER OF EMPLOYEES	TOTAL	WAGES AND SALARIES	REMUNERATION OF BOARD MEMBERS	CASH-SETTLED SHARE-BASED PAYMENTS	SOCIAL SECURITY AND HEALTH INSURANCE EXPENSES	SOCIAL EXPENSES
Employees	348	4,952	3,590	--	--	1,259	103
Executives and Non-executives	10	1,327	521	191	494	117	4
Total	358	6,279	4,111	191	494	1,376	107

2006	AVERAGE NUMBER OF EMPLOYEES	TOTAL	WAGES AND SALARIES	REMUNERATION OF BOARD MEMBERS	CASH-SETTLED SHARE-BASED PAYMENTS	SOCIAL SECURITY AND HEALTH INSURANCE EXPENSES	SOCIAL EXPENSES
Employees	318	4,505	3,261	--	--	1,147	97
Executives and Non-executives	10	606	289	212	--	101	4
Total	328	5,111	3,550	212	--	1,248	101

Four executive managers are members of the Company's board. Mr. John Halsted and Mr. Henry Gregson resigned as non-executive Board members of PEGAS NONWOVENS S.A. in 2007. Mr. Halsted resigned on 21 September 2007 and Mr. Gregson on 12 December 2007. Both served as non-executive Board members of the Company from December 2005. 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. Apart from phantom share options the Board members did not receive any loans, advances or any other benefit in kind in either 2007 or 2006.

g) Cash-settled share-based payment for executive managers and non-executive directors

The Annual General Meeting held on 15 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 24 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 18 December 2007 and the last options vesting on the 4th anniversary of the IPO.

Summary of the contractual terms of the phantom option scheme:

GRANT DATE	VESTING DATE	STRIKE PRICE (CZK)	TOTAL NUMBER OF OPTIONS GRANTED	NUMBER OF OPTIONS GRANTED TO EXECUTIVES	NUMBER OF OPTIONS GRANTED TO NON-EXECUTIVES	FAIR VALUE OF OPTIONS GRANTED (TEUR)	FAIR VALUE OPTIONS GRANTED TO EXECUTIVES (TEUR)	FAIR VALUE OPTIONS GRANTED TO NON-EXECUTIVES (TEUR)
24 May 2007	18 Dec 2007	749.2	57,686	46,148	11,538	295	236	59
24 May 2007	18 Dec 2008	749.2	57,683	46,147	11,536	98	79	19
24 May 2007	18 Dec 2009	749.2	57,683	46,147	11,536	59	47	12
24 May 2007	18 Dec 2010	749.2	57,683	46,147	11,536	42	33	9
Total			230,735	184,589	46,146	494	395	99

No phantom shares were exercised in 2007. There was no share option plan for executive managers and non-executive directors in 2006. The fair value of the phantom options as at 31 December 2007 is TEUR 494. The non-executive directors benefit is TEUR 99 of the total amount. The Black-Scholes pricing model was used to calculate the fair value of the phantom options. The assumptions used in the model are as follows:

- Last price of PEGAS NONWOVENS S.A. shares in 2007 quoted in Prague Stock Exchange used (CZK 750.50);
- The participants are expected to exercise the given part of granted phantom options within ten years from vesting;
- Risk free interest rate is linearly interpolated from CZK interbank PRIBOR rates (<12M) and CZK interest rate swap points (>12M).
- Standard deviation for the whole period from IPO used for volatility of shares calculation (20.82%).

h) Depreciation and amortization expense

	2007	2006
Depreciation of tangible assets	12,289	12,056
Amortization of intangible assets	44	96
Total	12,333	12,152

i) Foreign exchange gains and other financial income

	2007	2006 AS AMENDED
Realised and unrealised foreign exchange gains	9,285	17,821
Fair value changes of interest rate swap	36	1,869
Total	9,321	19,690

For details about the change in income statement presentation refer to Note 8.6.5.

j) Foreign exchange losses and other financial expenses

	2007	2006 AS AMENDED
Realised and unrealised foreign exchange losses	5,509	8,487
Other financial expense	52	455
Total	5,561	8,942

Other financial expense includes mainly bank fees. For details about the change in income statement presentation refer to Note 8.6.5.

k) Interest income

	2007	2006 AS AMENDED
Interest income	199	613

The item includes interest income on bank accounts and term deposits.

For details about change of income statement presentation refer to Note 8.6.5.

l) Interest expense

	2007	2006
Interest and debt settlement expenses on loans and borrowings	9,747	18,238
Interest on employee deposits	97	77
Other	111	490
Total	9,955	18,805

m) Income tax (expense) / income

	2007	2006
Current income tax	(1,297)	(1,703)
Deferred income tax	3,388	102
Total	2,091	(1,601)

The changes in deferred tax are described in Note 8.6.6 z).

Effective tax rate

	2007	% OF TOTAL	2006	% OF TOTAL
Profit before income tax	20,047		22,306	
Income tax calculated usingthe enacted tax rate	4,811	24.0	5,353	2.0
Effect of income tax rate changes	(1,087)	(5.3)	--	--
Effect of taxed non-deductible expenses	69	0.3	70	0.3
Effect of non-taxable revenues	(16)	(0.1)	(28)	(0.1)
Effect of consolidation and IFRS adjustments that do not have impact on deferred tax	(535)	(2.7)	1,140	5.1
Effect of tax incentives	(5,113)	(25.4)	(4,951)	(22.2)
Tax relating to prior periods	(1)	0.0	(112)	(0.5)
Effect of items deductible from the tax base	(79)	(0.4)	(60)	(0.3)
Effect of unrecognized deferred tax asset in the Czech Republic	(212)	(1.1)	(2)	0.0
Effect of the difference between the tax rate in the Czech Republic and Luxembourg and effect of unrecognized deferred tax asset relating to PEGAS NONWOVENS S.A in Luxembourg	67	0.3	190	0.9
Tax discounts	(8)	0.0	(7)	0.0
Lump sum tax PEGAS NONWOVENS S.A.	13	0.1	8	0.0
Total income tax / effective tax rate	(2,091)	(10.4)	1,601	7.2

Three companies of the Group have received investment incentives in the Czech Republic. PEGAS - DS a.s. was granted investment incentives in the regime preceding the Act on Incentives, receiving a grant from the state to pay income tax. The Company does not account for the total tax liability but reports the tax liability less the expected amount of the subsidy. PEGAS-NT a.s. and PEGAS – NW a.s. were granted an investment incentive after the effective date of the Act on Incentives. PEGAS-NT a.s. recognises the grant for income tax as a tax discount and does not account for the total tax liability. PEGAS – NW a.s. is expected to start making use of the incentive in 2008. To translate the maximum amount of investment incentives into EUR, the CZK/EUR 26.62 rate of exchange effective on 31 December 2007 was used.

	MAX. PERCENTAGE OF INVESTED AMOUNT USED AS CORPORATE TAX RELIEF (IN %)	MAX. AMOUNT (IN MILLION CZK)	MAX. AMOUNT (IN MILLION EUR)	CORPORATE TAX RELIEF FOR (IN YEARS)	FIRST YEAR OF USAGE OF CORPORATE TAX RELIEF
PEGAS - DS a.s.	50	--	--	10	2001
PEGAS-NT a.s.	45	509.9	19.2	10	2005
PEGAS - NW a.s.	48	573.6	21.5	10	expected in 2008

Investment incentives are tax savings granted by the government provided certain conditions have been fulfilled (such as level of incremental investments) by the Group. When considering the principle of prudence and the fact that the amount of a subsidy depends on the actual economic performance, the companies do not account for any intangible asset that arises from investment incentives and corresponds to income tax subsidies. The estimate of the unrecognized asset would not be reliable.

Since nearly all taxable income were generated from the operating activity in the Czech Republic, the tax rate of 24% (24% in 2006) in the Czech Republic was used to calculate the total income tax.

n) Earnings per share

The calculation of basic earnings per share as at 31 December 2007 was based on the net profit attributable to equity holders of TEUR 22,138 and a weighted average number of ordinary shares in 2007. 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 as at 31 December 2007 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 2007.

No minority interests in subsidiary companies were recognized as at December 31, 2007 and December 31, 2006. Minority interest shown in the income statement for the year 2006 was attributable to the 6 managers' participation in CEE Enterprise. The participation commenced in January 2006 and was terminated in November 2006 when the 6 managers became the shareholders of the Company.

Weighted average number of ordinary shares

2006	NUMBER OF OUTSTANDING SHARES IN 2006	WEIGHTED AVERAGE
January - November	100,806	91,692
December	9,229,400	730,302
Total		821,994

2007	NUMBER OF OUTSTANDING SHARES IN 2007	WEIGHTED AVERAGE
January - December	9,229,400	9,229,400

BASIC EARNINGS PER SHARE		2007	2006
Net profit attributable to equity holders	TEUR	22,138	20,274
Weighted average number of ordinary shares	Number	9,229,400	821,994
Basic earnings per share	EUR	2.40	24.66

Earnings Per Share (EPS) is calculated as net profit for the year attributable to equity holders of the Company divided by the weighted average of the number of shares existing each day in the given year. The basic EPS attributable to equity holders of the Company based on the number of shares existing as at 31 December 2006 was 2.20 EUR.

Weighted average number of ordinary shares for calculation of diluted earnings per share

2006	NUMBER OF OUTSTANDING SHARES IN 2006	WEIGHTED AVERAGE
Shares:		
January - November	100,806	91,692
December	9,229,400	730,302
Convertible bonds and warrants (recalculated to potential ordinary shares):		
January - November	8,592,541	7,872,123
Total		8,694,117

2007	NUMBER OF OUTSTANDING SHARES IN 2007	WEIGHTED AVERAGE
January - December	9,229,400	9,229,400

DILUTED EARNINGS PER SHARE		2007	2006
Net profit for the year attributable to equity holders	TEUR	22,138	20,274
Finance costs related to convertible bonds	TEUR	--	5,375
Tax effect of the finance costs	TEUR	--	(240)
Net profit attributable to equity holders adjusted by finance costs related to convertible bonds including income tax effect	TEUR	22,138	25,409
Weighted average number of ordinary and potential ordinary shares	Number	9,229,400	8,694,117
Diluted earnings per share	EUR	2.40	2.92

o) Property, plant and equipment

	LAND AND BUILDINGS	PRODUCTION MACHINERY	OTHER EQUIPMENT	UNDER CONSTRUCTION	PREPAYMENTS	TOTAL
Acquisition cost						
Balance at 31. 12. 2005	28,249	77,575	5,046	227	347	111,444
Additions	--	1,166	523	1,119	2,893	5,701
Disposals	(49)	--	(187)	(2)	--	(238)
Transfers	17	356	--	(17)	(356)	--
Exchange differences	1,756	6,653	484	46	98	9,037
Balance at 31. 12. 2006	29,973	85,750	5,866	1,373	2,982	125,944
Additions	6,314	24,716	3,010	53	447	34,540
Disposals	(3)	--	(4)	(3)	--	(10)
Transfers	1,292	3,011	--	(1,350)	(2,953)	--
Exchange differences	1,313	4,008	322	(10)	(10)	5,623
Balance at 31. 12. 2007	38,889	117,485	9,194	63	466	166,097
ACCUMULATED DEPRECIATION						
Balance at 31. 12. 2005	29	243	59	--	--	331
Depreciation expense	1,189	10,464	403	--	--	12,056
Disposals	--	--	(100)	--	--	(100)
Exchange differences	245	2,681	209	--	--	3,135
Balance at 31. 12. 2006	1,463	13,388	571	--	--	15,422
Depreciation expense	948	10,599	742	--	--	12,289
Disposals	(1)	--	(3)	--	--	(4)
Exchange differences	89	894	52	--	--	1,035
Balance at 31. 12. 2007	2,499	24,881	1,362	--	--	28,742
Net book value						
31. 12. 2005	28,220	77,332	4,987	227	347	111,113
31. 12. 2006	28,510	72,362	5,295	1,373	2,982	110,522
31. 12. 2007	36,390	92,604	7,832	63	466	137,355

p) **Intangible fixed assets**

	SOFTWARE	GOODWILL	TOTAL
Acquisition cost			
Balance at 31. 12. 2005	24	79,991	80,015
Additions	63	--	63
Exchange differences	46	4,393	4,439
Balance at 31. 12. 2006	133	84,384	84,517
Additions	136	--	136
Disposals	(18)	--	(18)
Exchange differences	9	2,773	2 782
Balance at 31. 12. 2007	260	87,157	87,417
Accumulated amortization			
Balance at 31. 12. 2005	--	--	--
Amortization expense	96	--	96
Exchange differences	(65)	--	(65)
Balance at 31. 12. 2006	31	--	31
Amortization expense	44	--	44
Disposals	(13)	--	(13)
Exchange differences	2	--	2
Balance at 31. 12. 2007	64	--	64
Net book value			
31. 12. 2005	24	79,991	80,015
31. 12. 2006	102	84,384	84,486
31. 12. 2007	196	87,157	87,353

On December 14, 2005, the Group acquired full control over the activities of PEGAS a.s. (now PEGAS NONWOVENS s.r.o.) and its subsidiaries.

The goodwill arising on this acquisition is attributable primarily to customer relationships, management skills, the skills and technical talent of the acquired workforce, the reputation for quality and the anticipated future profitability of the combined group. The management was not able to measure reliably the fair value of customer related intangibles due to the fact that demand from individual customers cannot be reliably predicted.

q) Inventories

	2007	2006
Materials	5,034	3,724
Products	5,046	2,593
Semi-finished products	642	395
Spare parts	1,634	1,482
Other	60	169
TOTAL	12,416	8,363

Spare parts includes items with useful life shorter than one year or of immaterial individual value.

r) Current trade and other receivables

	2007	2006
Receivables from sales of products	22,460	19,632
Advance payments	91	41
Fair value of interest rate swaps	2,055	1,869
Value added tax receivables	1,350	1,842
Prepaid expenses	133	126
Accrued income	83	40
Other	72	90
TOTAL	26,244	23,640

The Group concluded two interest rate swaps in 2006 in order to hedge interest rate risk. Under these contracts the Company pays a fixed interest rate of 3.236% p.a. and receives the floating interest rate represented by 6M EURIBOR. The swaps were amortized with the following combined notional amounts:

PERIOD	NOTIONAL AMOUNT (IN TEUR)
14. 03. 2006-14. 06. 2006	106,500
14. 06. 2006-14. 12. 2006	101,831
14. 12. 2006-14. 06. 2006	97,163
14. 06. 2007-14. 12. 2007	92,494
14. 12. 2007-16. 06. 2008	87,825
16. 06. 2008-15. 12. 2008	82,845
15. 12. 2008-15. 06. 2009	77,865
15. 06. 2009-14. 12. 2009	72,263

Fair value of these swaps is determined by the EUR yield curve at the balance sheet date and the discounted cash flow method.

Fair value of the swaps as at 31 December 2007 and 2006 is as follows:

COUNTERPARTY	2007	2006
Česká spořitelna	1,003	--
Erste Bank	1,052	940
Bank Austria Creditanstalt AG	--	929
Total	2,055	1,869

These swaps hedged 69.5% of the Group's debts as at 31 December 2007 (69.9% as at 31 December 2006).

s) Cash and cash equivalents

	2007	2006
Cash in hand	28	24
Current accounts	148	5,739
Time / overnight deposits	335	16,251
Total	511	22,014

Significant reduction in cash and cash equivalents as at 31 December 2007 compared with 2006 was due to a new cash management policy in connection with the refinancing of the Company s debt in 2007. The new bank debt facilities allow the Company to use cash balances towards debt outstanding on the daily basis. For details refer to Note 8.6.6 x).

t) Share capital

Until November 2006, the Company's share capital consisted of 12,500 shares at EUR 10 per share. In November 2006, this number was split into 100,806 shares at EUR 1.24 per share.

Subsequently, on 28 November 2006, the Company increased the share capital by EUR 9,075,056.56 by incorporation of debt into capital and by issuing 7,318,594 shares at EUR 1.24 per share. Pamplona Capital Partners I, LP acquired 7,133,109 shares and some of the Group's management 185,485 shares.

Within the issue of shares in the public market, in December 2006 the Group issued 1,810,000 new ordinary shares. These newly issued shares were subscribed by investors at EUR 27 per share.

The difference between the subscribed value of newly issued shares (EUR 27) and the nominal value (EUR 1.24) was recorded in equity as share premium in the total amount of TEUR 46,626.

The total number of shares as at 31 December 2006 is 9,229,400 shares at EUR 1.24 per share.

In July 2007 the Company's principal shareholder Pamplona Capital Partners I, LP placed its whole stake held in the Company to qualified investors on the Prague and Warsaw Stock Exchanges.

No changes to the number of shares occurred in 2007.

u) Retained earnings

There were no dividends from retained earnings paid in the year ended 31 December 2007. For detail about Distribution refer to Note 8.6.6 v).

v) Share premium

On 27 September 2007, the Company distributed EUR 7,014,344 or EUR 0.76 per share to its shareholders in form of a share premium repayment.

w) Legal reserves

Legal reserves are obligatorily created from net profit after tax by the Czech entities under the Czech commercial law. These reserves are designed to cover the potential future losses or for overcoming of unfavourable future periods of time. The legal reserves are not distributable to shareholders.

x) Bank overdrafts and loans

In May 2007, the Company refinanced its previous senior bank debt taken on in late 2006 with a 5-year syndicated loan totaling EUR 150 million. The new facilities 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 new bank facilities are non-amortizing, which removes the Company from its obligations of the Company to make mandatory repayments.

2007	DRAWDOWN LIMIT	BANK LOAN LIABILITY	ARRANGE-MENT FEES	CARRYING AMOUNT	CURRENT	NON-CURRENT	INTEREST RATE	INTEREST RATE AT 31. 12. 2007
Revolving	130,000	119,000	(1,669)	117,331	823	116,508	1,2,3,6M EURIBOR +1.2%	5.394%
Overdraft	20,000	5,984	(257)	5,727	5,727	--	1,2,3,6M EURIBOR + 1.25%	6.059%
Bank loans total	150,000	124,984	(1,926)	123,058	6,550	116,508		

2006	BANK LOAN LIABILITY	ARRANGE-MENT FEES	CARRYING AMOUNT	CURRENT	NON-CURRENT	INTEREST RATE	INTEREST RATE AT 31. 12. 2006
Bank loans:							
Revolving loan	--	(126)	(126)	--	(126)	--	--
Credit tranche A	75,485	(1,504)	73,981	13,320	60,661	1,3,6M EURIBOR +2.25% (+2.00)*	5.674%
Credit tranche B	26,781	(464)	26,317	--	26,317	1,3,6M EURIBOR +2.75%	6.424%
Credit tranche C	36,648	(649)	35,999	--	35,999	1,3,6M EURIBOR +3.25%	6.924%
Bank loans total	138,914	(2,743)	136,171	13,320	122,851		

* 2.25% margin was applied until 13 December 2006. From 14 December 2006 2.00% margin was applied.

These new bank loans are secured by:

1) the ownership interest in PEGAS NONWOVENS s.r.o.
2) security over the enterprise of PEGAS NONWOVENS s.r.o.
3) security over the plant and machinery of PEGAS NONWOVENS s.r.o.
4) bank accounts of PEGAS NONWOVENS s.r.o. and
5) shares of subsidiaries PEGAS – DS a.s., PEGAS–NT a.s. and PEGAS – NW a.s

The carrying amount of the bank loans approximates their fair value.

The revolving credit facility is divided into current and non-current liability based on management estimate. The estimate is based on the 2008 budget.

y) Other payables due after one year

The balance of other payables of TEUR 101 represents the long term part of the phantom options scheme payables.
Other payables in 2006 in amount of TEUR 275 comprises:

1) TEUR 204 representing the funds received from Pamplona Equity Advisors I Ltd. to cover operating expenses before IPO;
2) TEUR 71 representing an interest-free loan provided by the state to fund research projects.

z) Deferred tax

Deferred tax assets and liabilities

	ASSETS		LIABILITIES		NET	
	2007	2006	2007	2006	2007	2006
Property, plant and equipment	--	--	(12,268)	(15,642)	(12,268)	(15,642)
Inventories	154	65	--	--	154	65
Other	--	352	(76)	--	(76)	352
Deferred tax asset / (liability)	154	417	(12,344)	(15,642)	(12,190)	(15,225)
Offset of deferred tax assets and liabilities	(154)	(417)	154	417	--	--
Deferred tax asset / (liability)	--	--	(12,190)	(15,225)	(12,190)	(15,225)

In accordance with accounting policy described in Note 8.6.3 h., the deferred tax was calculated using the tax rates applied for the years in which the tax asset will be realised or the tax liability will be settled, i.e. 21% for year 2008, 20% for year 2009 and 19% for the following years (2006 – 24%). The tax rate decrease arises from the tax reforms ratified by Czech Parliament in 2007.

The decrease of deferred tax in the amount of TEUR (3,035) consists of deferred tax income of TEUR 3,388 and the effect of the foreign exchange loss of TEUR 353.

aa) Current trade and other payables

	2007	2006
Trade payables	28,110	15,980
Advances received	21	67
Liabilities to employees	3,154	1,797
Deferred income	1,598	1,735
Other	335	633
Total	33,218	20,212

The Company opened a new production line in 2007. The increase of trade payables in 2007 is attributable to purchases of new machinery in connection with this new production line in the amount of TEUR 15,081.

bb) Tax liabilities and other tax liabilities

	2007	2006
Employment tax	76	66
Corporate income tax liability reduced by income tax prepayments	1,351	126
Total	1,427	192

cc) Group Entities

To translate the registered capital of Czech subsidiaries, the CZK/EUR 26.62 rate of exchange effective on 31 December 2007 was used.

Subsidiaries included in the consolidated entity

COMPANY	ACQUISITION DATE	SHARE IN THE SUBSIDIARY	REGISTERED CAPITAL (TCZK)	REGISTERED CAPITAL (TEUR)	NUMBER AND NOMINAL VALUE OF SHARES
PEGAS NONWOVENS s.r.o. *	5. 12. 2005	100%	3,633	136	100% participation of TCZK 3,633
PEGAS - DS a.s.	14. 12. 2005	100%	800,000	30,053	64 shares at TCZK 10,000 per share and 64 shares at TCZK 2,500 per share
PEGAS-NT a.s.	14. 12. 2005	100%	550,000	20,661	54 shares at TCZ 10,000 per share and 10 shares at TCZK 1,000 per share
PEGAS - NW a.s.	14. 12. 2005	100%	550,000	20,661	54 shares at TCZK 10,000 per share and 10 shares at TCZK 1,000 per share
PEGAS - NS a.s.**	3. 12. 2007	100%	5,000	188	5 shares at TCZK 1,000 per share

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

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

8.6.7 Related parties transactions

a) In 2007, the Group repaid a liability to Pamplona Equity Advisors I Ltd. in the amount of TEUR 204 as described in Note 8.6.6 y);

b) Except for the information provided under Note 8.6.6 f) and 8.6.6 g) there were no other transactions between the Group and the executive managers or the non-executive directors.

In July 2007 the Company's principal shareholder Pamplona Capital Partners I, LP placed its whole stake held in the Company to qualified investors on the Prague and Warsaw Stock Exchanges.

8.6.8 Contingencies and commitments

The Group has no material contingencies or commitments which would not be reported in the balance sheet.

8.6.9 Material subsequent events

The management of the Group is not aware of any events that have occurred since the balance sheet date that would have any material impact on the consolidated financial statements as at 31 December 2007.

Date: 22 April 2008

Signature of the authorised representative:

Miloš Bogdan
Member of the Board of
PEGAS NONWOVENS S.A.

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

9 Stand-alone Financial Statements of PEGAS NONWOVENS S.A.

for the year ended December 31st, 2007 and Independent Auditors Report

9.1 INDEPENDENT AUDITOR'S REPORT

KPMG

KPMG Audit
Allée Scheffer
L-2520 Luxembourg

Téléphone +352 22 51 51 19
Fax: +352 22 51 71
audit@kpmg.lu
www.kpmg.lu

To the Shareholders of
PEGAS NONWOVENS S.A.
68-70, boulevard de la Pétrusse
L-2320 Luxembourg

REPORT OF THE REVISEUR D ENTREPRISES

We have audited the accompanying annual accounts of PEGAS NONWOVENS S.A., which comprise the balance sheet as at December 31, 2007 and the profit and loss acount for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 87 to 92.

Board of Directors responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentations of these annual accounts in accordance with Luxemburg legal and regulatory requirements relating to the preprations of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Réviseur d Entreprises

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgement of the Réviseur d Entreprises, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises considers internal control relevant to the entity s preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on

KPMG

the effectiveness of the entity s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as wll as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual accounts give as set out on pages 87 to 92 a true and fair view of the financial position of PEGAS NONWOVENS S.A. as of December 31, 2007, and of the results of its operations for the year then ended in accordance with Luxemburg legal and regulatory requirements relating to the preparation of the annual accounts.

Luxembourg, April 1st, 2008

KPMG Audit S.`a r.l.
Réviseurs d Entreprises

Thierry Ravasio

9.2 STAND-ALONE STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31st, 2007

PEGAS NONWOVENS S.A.

Profit and Loss account

for the year ended December 31, 2007

(EXPRESSED IN EUR)	NOTES	2007	2006
Charges:			
External charges	9.4.9	860,950.78	4,610,157.73
Other operating charges	9.4.6	819,734.56	--
Interest payable and similar charges:			
- concerning affiliated undertakings			3,730,054.31
- other interest payable and charges		6,732.85	1,601,862.92
Taxes	9.4.8	12,520.00	8,000.00
		1,699,938.19	9,950,074.96
Income:			
Interest receivable and similar income:			
- derived from affiliated undertakings		--	5,174,599.76
- other interest receivable and similar income		30,041.45	990.77
Loss for the year		1,669,896.74	4,774,484.43
		1,699,938.19	9,950,074.96

The accompanying notes form an integral part of these annual accounts. Stand-alone Balance Sheet as at December 31st, 2007.

9.3 STAND-ALONE BALANCE SHEET AS AT DECEMBER 31st, 2007

PEGAS NONWOVENS S.A.

Balance sheet

as of December 31, 2007

(EXPRESSED IN EUR) ASSETS	NOTES	2007	2006
Fixed assets			
Financial assets:			
Shares in affiliated undertakings	9.4.3	383,812.76	383,812.76
Current assets:			
Debtors:			
Amounts owed by affiliated undertakings:	9.4.4		
- becoming due and payable within one year		1,050.00	1,050.00
- becoming due and payable after more than one year		44,858,674.70	50,608,674.70
Other debtors becoming due and payable within one year		--	83,852.71
Cash at bank		387,727.05	5,197,368.24
		45,247,451.75	55,890,945.65
Prepayments		24,611.37	--
		45,655,875.88	56,274,758.41

LIABILITIES	NOTES	2007	2006
Capital and reserves:	9.4.5		
Subscribed capital		11,444,456.00	11,444,456.00
Share premium		39,611,374.20	46,625,718.20
Loss brought forward		(4,800,337.42)	(25,852.99)
Loss for the year		(1,669,896.74)	(4,774,484.43)
		44,585,596.04	53,269,836.78
Provisions	9.4.6	494,015.83	--
Creditors:			
Amounts owed to affiliated undertakings becoming due and payable after more than one year	9.4.7	--	203,737.44
Tax debts	9.4.8	21,420.00	8,900.00
Other creditors becoming due and payable within one year		554,844.01	2,792,284.19
		576,264.01	3,004,921.63
		45,655,875.88	56,274,758.41

The accompanying notes form an integral part of these annual accounts.

9.4 NOTES TO THE STAND-ALONE FINANCIAL STATEMENTS

9.4.1 Organization

PEGAS NONWOVENS S.A. is a commercial Company incorporated in Luxembourg on November 18, 2005, under the legal form of a "Société anonyme". The registered office of the Company is at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg and the Company is registered with the Luxembourg Trade and Companies Register under the section B number 112.044.

The object of the Company is to take participations and interests, in any form whatsoever, in any commercial, industrial, financial or other, Luxembourg or foreign enterprises; 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; 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 or fellow subsidiary, in which the Company has direct or indirect financial interest, any assistance such as e.g. pledges, loans, advances or guarantees; to borrow and raise money in any manner and to secure the repayment of any money borrowed; to borrow funds and issue bonds and other securities; and to perform any operation which is directly or indirectly related to its purpose. The Company can perform all commercial, technical and financial operations connected directly or indirectly in all areas as described above in order to facilitate the accomplishment of its purpose.

The Company also prepares consolidated financial statements, which are published according to the provisions of the law.

The accounting year begins on January 1 and ends on December 31.

The Company entered into an initial public offer to list shares on both the Prague Stock Exchange (PSE) and Warsaw Stock Exchange (WSE) on December 21, 2006.

9.4.2 Summary of Significant Accounting Policies

The Company maintains its books in EUR ("EUR") and the annual accounts have been prepared in conformity with generally accepted accounting principles in Luxembourg including the following significant accounting policies:

a) Formation Expenses
Formation expenses include costs related to the incorporation and further capital increases of the Company.
As of December 31, 2007, formation costs have been fully expensed.

b) Financial Assets
Financial assets are stated at historical acquisition cost. Dividends are recognized when they are declared by the affiliated undertaking. Write-downs are recorded if, in the opinion of management, a permanent impairment in value has occurred.

c) Foreign Currency Translation
Monetary assets and liabilities stated in currencies other than EUR are translated at the exchange rates prevailing at the balance sheet date. Income and expenses denominated in foreign currency have been translated at the exchange rate prevailing at the transaction date. Realized and unrealized exchange losses and realized exchange gains are recorded in the statement of profit and loss.

d) Debtors
Debtors are recorded at nominal value less any value adjustment for doubtful accounts.

e) Cash-settled Share-based Payment
In 2007, the Company entered into a Share price bonus scheme for its Board Members and the key personnel of its subsidiaries. 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, which 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. The Company measures the provision arising from the phantom options at fair value at each reporting date, the changes in the fair value are recognized in the profit and loss account for the period. The fair value of the Phantom options is determined by:

- Pricing model
- Expected life assumption/ participant behaviour
- Current share price
- Expected volatility
- Expected dividends
- Risk-free interest rate

9.4.3 Shares in Affiliated Undertakings

On December 5, 2005, the Company acquired 100 shares of CEE Enterprise a.s., a joint stock company incorporated in the Czech Republic, for an amount of CZK 2,248,190 (EUR 78,737.44).

On January 18, 2006, the Company decided to increase the share capital of CEE Enterprise a.s. by an amount of CZK 1,600,000 by the issuance of 1,600,000 new shares with a nominal value of CZK 1.00 each and also decided to subscribe for 1,510,000 shares for an amount of CZK 1,510,000 (EUR 51,855.29), the remaining 90,000 new shares being subscribed by six new shareholders. On November 28, 2006, t.e Company acquired 90,000 shares of CEE Enterprise a.s. for an amount of EUR 253,220.03.

On April 26, 2006, the Company acquired 1 share of PEGAS a.s., a joint stock company incorporated in the Czech Republic, for an amount of EUR 1,050.00. On December 4, 2006, the Company decided to sell this share for an amount of EUR 1,050.00. During 2007, PEGAS NONWOVENS s.r.o. a Company incorporated in the Czech Republic, wholly owed subsidiary of CEE Enterprise a.s. decided to merge with and absorb CEE Enterprise a.s. with effect on January 1, 2007.

As of December 31, 2007, the Company held the following participations:

NAME OF THE COMPANY	COUNTRY	PERCENTAGE OF OWNERSHIP	ACQUISITION COST (EUR)	SHAREHOLDERS EQUITY (THS. CZK)	RESULT FOR THE YEAR (THS. CZK)
PEGAS NONWOVENS s.r.o	Czech Republic	100.00%	383,812.76	1,151,743	618,532

The shareholders equity includes the result for the period. The shareholders equity and result for the period are based on unaudited consolidated accounts for the year ended December 31, 2007. In 2007, the participation in PEGAS NONWOVENS s.r.o. has been pledged to secure bank loans.

9.4.4 Amounts Owed by Affiliated Undertakings

On December 13, 2005, the Company granted a the first loan to its subsidiary for an amount of EUR 39,768,950. This loan bore interest at a rate of 10.00% per annum and was repayable on December 14, 2035 at the latest. On November 29, 2006, the loan including accrued interest was replaced by a new loan granted by the Company to its subsidiary for an amount of EUR 43,525,943.70. This loan bears no interest and is repayable on November 29, 2056.

On December 13, 2005, the Company granted a second loan to its subsidiary for an amount of EUR 15,000,000. This loan bore interest at a rate applicable to the Mezzanine Loan plus a margin of 0.125%. This loan was repayable on December 14, 2014 at the latest. Part of this loan amounting to EUR 9,800,576.92 comprising principal and accrued interest was reimbursed by the Company's subsidiary on August 31, 2006. On November 29, 2006, the loan including accrued interest was replaced by a new loan granted by the Company to its subsidiary for an amount of EUR 6,855,833.92. This loan was partially repaid on August 31, 2007 for an amount of EUR 6,773,102.92. It bears no interest and is repayable on November 29, 2056.

On November 28, 2006, as a result of a capital increase made by the Company's shareholders, the Company received a contribution in kind from the shareholders being a loan to its subsidiary for an aggregate amount of EUR 226,897.08. This loan bore no interest and was fully repaid on August 31, 2007.

On January 30, 2007, the Company granted another loan to its subsidiary for an amount of EUR 1,250,000.00. This loan bears no interest and is repayable on January 30, 2057 or at the request of the subsidiary, convertible into shares or funds of the subsidiary as a contribution outside the registered capital.

9.4.5 Capital and Reserves

a) Subscribed Capital and Share Premium

The Company was incorporated with a share capital amounting to EUR 125,000 represented by 12,500 shares with a par value of EUR 10.00 each, fully paid-in.

On November 28, 2006, the shareholders of the Company decided to split the existing 12,500 shares with a par value of EUR 10.00 each into 100,806 shares with a par value of EUR 1.24 each. Consequently, the share capital of the Company was reduced by an amount of EUR 0.56 which was allocated to the Company's share premium account. Also on November 28, 2006, the shareholders of the Company decided to increase the share capital by an amount of EUR 9,075,056.56 together with a share premium amounting to EUR 118.20, by the issuance of 7,318,594 shares with a par value of EUR 1.24 each, by way of a contribution in kind.

Within the issue of shares in the public market, in December 2006 the Group issued 1,810,000 new ordinary shares. These newly issued shares were subscribed by investors at EUR 27 per share. The difference between the subscribed value of newly issued shares (EUR 27) and the nominal value (EUR 1.24) was recorded in equity as share premium in the total amount of EUR 46,625,600.

As a result of the share premium distribution made on September 27, 2007 for an aggregate amount of EUR 7,014,344.00, the share premium account amounted to EUR 39,611,374.20 as of December 31, 2007. As of December 31, 2007, the share capital of the Company amounted to EUR 11,444,456.00 represented by 9,229,400 shares with a par value of EUR 1.24 each, fully paid-in.

b) Legal Reserve

Under Luxembourg law an amount equal to at least 5% of the net profit must be allocated annually to a legal reserve until such reserve equals 10% of the share capital. This reserve is not available for dividend distribution. No allocation is required in the current year due to losses incurred.

9.4.6 Provisions

The Annual General Meeting held on 15 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 24 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. 25% of the phantom options vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on 18 December 2007 and the last options vesting on the 4th anniversary of the IPO.

No phantom options were exercised in 2007. There was no share option plan for executive managers and non-executive directors in 2006. The fair value of the phantom options as at December 31, 2007 is EUR 494,015.83.

9.4.7 Amounts Owed to Affiliated Undertakings

On December 13, 2005, the Company received an advance from an affiliated undertaking to fund expenses for an amount of EUR 203,737.44. This advance bore no interest and was fully repaid on April 2, 2007.

9.4.8 Taxes

The Company is subject to all the taxes applicable to commercial companies in Luxembourg.

9.4.9 External Charges

External charges included in 2006 expenses in relation to the IPO of the Company on December 21, 2006.

10 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.

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

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

EBITDA – Earnings Before Interest, Taxes, Depreciation, and Amortization - A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses. Calculated as Net profit beforeincome fax, interest expanse, interest income, foreign exchange changes, other financial income expanse and depreciation and Amortization.

IFRS – International Financial Reporting Standards.

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.

IPO – Initial Public Offering.

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

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

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

Meltblown Fabric – Textile produced using the meltblown process.

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

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

Over-allotment Option – A right granted to an underwriter by an issuer or a selling securityholder to acquire, for the purposes of covering the underwriter's over-allocation position, a distributed security of the issuer that has the same designation and attributes as a distributed security that is distributed under a prospectus.

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.

Reicofil – Leading nonwoven machinery producer.

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.

11 Other Information

11.1 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 of PEGAS, 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 86, 669 04 Znojmo, Czech Republic.

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 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 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	ACTIVITY
PEGAS NONWOVENS s.r.o.	Znojmo, Přímětická 3623/86, PSČ 66904	25478478	Production of textiles, production of plastic and rubber products
PEGAS – DS a.s.	Znojmo, Přímětická 3623/86, PSČ 66904	25554247	Production of nonwovens textiles. R&D of technology, textiles and manufacturing
PEGAS–NT a.s	Znojmo, Přímětická 3623/86, PSČ 66904	26287153	Production of textiles
PEGAS – NW a.s.	Znojmo, Přímětická 3623/86, PSČ 66904	26961377	Production of textiles
PEGAS – NS a.s.	Znojmo, Přímětická 3623/86, PSČ 66904	27757951	Production of nonwovens textiles, intermediation of trade and services, R&D in the field of natural, technical and social science

Expenses of PEGAS group related with external auditors services in year 2007

EUR THOUSANDS	AUDIT	OTHER	TOTAL
PEGAS NONWOVENS S.A.	42.0	--	42.0
Other companies within PEGAS Group	149.1	8.2	157.3
TOTAL	191.1	8.2	199.3

11.2 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.

Contacts

PEGAS NONWOVENS S.A.
Address:
68-70, boulevard de la Pétrusse
L-2320 Luxembourg
Luxembourg

Registry and registration number:
Registered with the Luxemburg trade and Companies register under numer B 112.004

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

PEGAS NONWOVENS s.r.o.
Znojmo, Přímětická 3623/86, PSČ 66904
IČ: 25478478

PEGAS – DS a.s.
Znojmo, Přímětická 3623/86, PSČ 66904
IČ: 25554247

PEGAS–NT a.s.
Znojmo, Přímětická 3623/86, PSČ 66904
IČ: 26287153

PEGAS – NW a.s.
Znojmo, Přímětická 3623/86, PSČ 66904
IČ: 26961377

PEGAS – NS a.s.
Znojmo, Přímětická 3623/86, PSČ 66904
IČ: 27757951

Note

Note

PEGAS NONWOVENS S.A.
Design, production and print: ENTRE s.r.o.