PEGAS NONWOVENS SA

HALF YEAR REPORT

2016

25 August 2016

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Introduction

PEGAS NONWOVENS SA (hereafter “PEGAS” or “Company” or “Group”) is one of the leading producers of nonwoven textiles in the EMEA (Europe, Middle East and Africa) region for use primarily in the personal hygiene products market. PEGAS supplies its customers with spunbond and meltblown (together, "spunmelt") polypropylene- and polypropylene/polyethylene- based ("PP" and "PP/PE") textiles principally for use in disposable hygiene products (such as baby diapers, adult incontinence and feminine hygiene products) and, to a lesser extent, in construction, agricultural and medical applications.

Founded in 1990, the Company has grown over the past twenty-five years to become one of the largest producers of spunmelt nonwovens in the EMEA region (based on 2015 annual production capacity). Currently, PEGAS operates eight production lines in the Czech Republic and one production line in Egypt, which started commercial operation in 2013. The total annual production capacity of the Company is presently up to 90 thousand tonnes of nonwoven textiles in the Czech Republic and up to 20 thousand tonnes in Egypt. PEGAS consists of a parent holding company in Luxembourg and four operating companies, PEGAS NONWOVENS s.r.o., Pegas-NT a.s., Pegas - NW a.s. and PEGAS – NS a.s., all located in the Czech Republic. In 2010, PEGAS NONWOVENS International s.r.o. was established as a special purpose company for the execution of potential investment opportunities and this was followed by the establishment of PEGAS NONWOVENS EGYPT LLC in June 2011, a company that invests in the Egyptian production facility. As at 30 June 2016, PEGAS had 567 employees.

Shares in PEGAS are listed on the Prague Stock Exchange and on the Warsaw Stock Exchange, following an Initial Public Offering in December 2006. 100% of the shares are free float, held by institutional and retail investors.

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

First Half 2016 Key Figures

	January – June 2016	yoy	April - June 2016	yoy
Financials (EUR mil.)				
Revenues	**106.7**	**(4.5%)**	**51.6**	**0.9%**
Operating costs without depreciation and amortization	(83.9)	(6.9%)	(40.4)	(4.3%)
EBITDA	**22.8**	**5.8%**	**11.2**	**25.5%**
Depreciation and amortization	(8.1)	2.2%	(4.0)	2.8%
Profit from operations (EBIT)	**14.7**	**7.9%**	**7.2**	**43.3%**
FX gains/(losses) and other financial income/(expense) (net)	(2.0)	n/a	1.7	n/a
Interest expense (net)	(4.1)	17.4%	(2.0)	15.9%
Income tax – (expense)/income net	(1.1)	(46.3%)	0.2	n/a
Net profit	**7.5**	**(53.8%)**	**7.1**	**259.5%**
Net debt	144.7	1.8%	144.7	1.8%
Capital expenditure	6.4	318.6%	4.3	514.7%
Profitability ratios				
EBITDA margin	21.4%	2,1 p.p.	21.7%	4,2 p.p.
Operating profit margin	13.8%	1,6 p.p.	13.9%	4,1 p.p.
Net profit margin	7.1%	-7.5 p.p.	13.7%	9.8 p.p.
Operations				
Production output in tonnes	51,695	(0.3%)	25,659	0.1%
Number of employees - end of period	567	0.5%	567	0.5%
Number of employees - average	566	0.5%	563	0.3%
Exchange rates				
EUR/CZK - average	27.040	(1.7%)	27.061	(1.2%)
EUR/CZK - end of period	27.131	(0.4%)	27.131	(0.4%)
EUR/USD - average	1.116	0.0%	1.123	1.6%
EUR/USD - end of period	1.110	(0.8%)	1.110	(0.8%)

Statement of Mr. František Řezáč, CEO and member of the Board of Directors of PEGAS NONWOVENS SA:

"I consider the financial results for the second quarter as quite solid. This year's EBITDA, an indicator of operational performance, has not exhibited any of the significant fluctuations, which we were witness to in past years. In the second quarter, EBITDA amounted to EUR 11.2 million, which after adjusting for the effect of the revaluation of the share option plan, is fully comparable to the EBITDA achieved in the first quarter of this year. Respecting the absence of other external effects, such as developments in polymer prices, we have again been able to demonstrate how stable our business is under standard circumstances.

Production has again contributed to our good results, and has now consistently reached solid levels for several quarters in a row. Likewise, sales volumes are achieving planned targets and, expressed in tonnage terms, we have recorded an increase over last year. We have also been successful in maintaining inventories of finished products at optimal levels.

Since the beginning of the year, polymer prices have been relatively stable and the impact of the price pass-through mechanism on the first half results has not been significant. The revaluation of the share option plan has had only a slight negative impact on the financial results in the first half, by approximately EUR 0.5 million.

As far as long term projects are concerned, the investment into the new Compact-type production line is proceding according to plan and it is expected to be put into operation at the beginning of the third quarter of 2017. The construction of the warehouse hall at the Znojmo plant is approaching completion and we expect to be able to utilise these capacities for the storage of finished products and raw materials at the beginning of October.

An important step, with regard to the project in the Republic of South Africa, has been the establishment of a subsidiary for the purpose of purchasing an identified land parcel. Furthermore, we have entered into negotiations with our customers.

With respect to our shareholders, I believe that apart from the stable performance of the Company, our shareholders are also pleased with the dividend payout in the amount of EUR 1.25 per share that is scheduled for October."

2016 Outlook Confirmed

In the first half of 2016, the Company achieved financial results that are in line with its expectations and with the announced outlook for the entire year 2016.

Based on the results achieved in the first half of 2016 and respecting the developments in the European nonwoven textile market, including the expected development in the polymer market, the Company confirms its previously announced guidance for 2016 and expects this year's EBITDA to be in the range from EUR 43.0 to 49.0 million.

The Company is planning for total CAPEX in 2016 not to exceed the EUR 25 million level.

Interim Management Report for the First Half of 2016

Financial Results in the First Half of 2016

Revenues, Costs and EBITDA

In the first half of 2016, consolidated revenues (revenues from sales of products) reached EUR 106.7 million, down by 4.5% yoy. In the second quarter of this year, the total consolidated revenues were EUR 51.6 million, a 0.9% increase compared with the same period last year. The decline in the price of polymers had a negative effect on the year-on-year comparison of revenues. Since the beginning of the year, polymer prices have been more or less stable and are at long term lows. The negative effect of polymer prices on revenues was compensated for by the year-on-year increase of volumes sold in tonnage terms.

Total consolidated operating costs without depreciation and amortization (net) declined by 6.9% yoy to EUR 83.9 million in the first half of 2016. In the second quarter of 2016, consolidated operating costs without depreciation and amortization (net) were EUR 40.4 million, representing a decrease of 4.3% yoy.

In the first half of 2016, EBITDA amounted to EUR 22.8 million, up by 5.8% yoy. The year on year increase in EBITDA was, to a great degree, caused namely by the revaluation of the share option plan, which in the first half of 2016 represented an expense in the amount of EUR 0.5 million compared with an expense of EUR 2.5 million in the first half of 2015. In the first half of 2016, production volumes declined only slightly in comparison with the same period in the previous year and did not significantly impact EBITDA. On a year-on-year basis, the impact of the polymer price pass-through mechanism was slightly negative.

In the first half of 2016, the EBITDA margin was 21.4%, which is 2.1 percentage points higher than in the same period in 2015. In the first half of 2016, the EBITDA margin, adjusted for the effect of the revaluation of the share option plan, was 21.9%, which is 0.3 percentage points higher than in the same period in 2015.

EBITDA amounted to EUR 11.2 million in the second quarter of 2016, up by 25.5% yoy. The year-on-year comparison was most significantly impacted by the revaluation of the share option plan, which represented an expense of EUR 0.4 million in the second quarter of 2016, compared with an expense of EUR 1.8 million in the comparable period of the preceding year. EBITDA adjusted for this effect grew by 7.5% yoy to EUR 11.6 million.

The EBITDA margin in the second quarter of 2016 amounted to 21.7%, which is 4.2 percentage points above the previous year. In the second quarter of 2016, the EBITDA margin, adjusted for the effect of the revaluation of the share option plan, was 22.4%, which is 1.3 percentage points higher than in the same period in 2015.

The results in the first half are in line with the guidance range announced at the beginning of the year, when the Company indicated a year-on-year increase in EBITDA to EUR 43.0 to 49.0 million.

Operating Costs

Total raw materials and consumables used in the first half of this year amounted to EUR 76.8 million, a 5.9% yoy decrease. In the second quarter of 2016, this item reached EUR 36.8 million, a decrease of 1.8% compared with the same period in the previous year. The primary factor affecting the year-on-year decline was the lower polymer purchase price compared to the previous year.

In the first half of 2016, total staff costs amounted to EUR 6.2 million, a decrease of 18.7% yoy. The revaluation of the share option plan had the greatest effect on the year-on-year comparison of staff costs. In the first half of 2016, total staff costs adjusted for this effect amounted to EUR 5.7 million. As a result of the revaluation of the share option plan, staff costs declined by 23.3% to EUR 3.2 million in the second quarter. In the second quarter of 2016, total staff costs adjusted for this effect amounted to EUR 2.8 million.

Other operating expenses (net) reached EUR 0.9 million in the first half of this year, which is comparable with the same period in 2015. In the second quarter of 2016, Other operating expenses (net) amounted to EUR 0.4 million.

Depreciation and Amortization

Consolidated depreciation and amortization amounted to EUR 8.1 million in the first half of 2016, up by 2.2% yoy. In the second quarter of 2016, consolidated depreciation and amortization amounted to EUR 4.0 million, up by 2.8% yoy. Consolidated depreciation and amortization increased slightly on the back of an appreciation of CZK against EUR.

Profit from Operations

In the first half of 2016, profit from operations (EBIT) amounted to EUR 14.7 million, up by 7.9% over the same period in 2015.

In the second quarter of 2016, profit from operations (EBIT) when compared on a year-on-year basis, increased to EUR 7.2 million, up by 43.3% yoy.

The year-on-year comparison of profit from operations was most significantly impacted by the revaluation of the share option plan.

Financial Income and Costs

In the first half of 2016, foreign exchange changes and other financial income/expense (net) amounted to an expense of EUR 2.0 million compared to an income of EUR 8.2 million achieved in the same period last year. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The year-on-year change was caused primarily by the development of the EUR/USD exchange rate, where the dollar depreciated by approximately 2% in the first half of this year. In the comparable period last year, the US dollar appreciated against the Euro by almost 8%. The depreciation/appreciation of the US dollar against the Euro led to unrealized exchange rate losses/gains related to the revaluation of balance sheet items denominated in EUR, in particular due to the revaluation of the intracompany loan made to the subsidiary in Egypt. In the second quarter of 2016, foreign exchange changes and other financial income/(expense) (net) represented a gain of EUR 1.7 million, compared with a loss of EUR 0.3 in the comparable period in the previous year.

Interest expenses (net) related to debt servicing amounted to EUR 4.1 million in the first half, a 17.4% increase compared with the same period in 2015. In the second quarter of 2016, interest expenses (net) related to debt servicing amounted to EUR 2.0 million, a 15.9% increase compared with the same period last year. The year-on-year increase in interest expenses was caused by the larger volume of external debt that was related to the refinancing of the Company via long term bonds with maturities of seven and ten years. Furthermore, despite the repayment of bank loans, the interest expenses continued to reflect interest from interest rate swaps that had matured in June 2016.

Income Tax

In the first half of 2016, income tax amounted to EUR 1.1 million, down by 46.3% yoy. Current income tax payable amounted to EUR 1.5 million, while changes in deferred tax represented an income in the amount of EUR 0.4 million.

In the second quarter of 2016, income tax amounted to an income of EUR 0.2 million. In the second quarter of 2016, current income tax payable amounted to EUR 0.7 million, while changes in deferred tax represented a revenue of EUR 0.9 million.

Net profit

In the first half of 2016, Net profit reached EUR 7.5 million, down by 53.8% yoy primarily due to the reported unrealized foreign exchange changes in the compared periods. In the second quarter of 2016, the Company recorded a net profit of EUR 7.1 million, up by 259.5% compared with the same period in 2015. The higher net profit was caused primarily by unrealised foreign exchange changes in the compared periods.

Investments

In the first half of 2016, consolidated capital expenditures represented EUR 6.4 million, compared to EUR 1.5 million over the same period last year. Of this amount, EUR 5.3 million was spent on investments into production and warehousing capacity expansion, with the remainder being maintenance CAPEX. In the second quarter of 2016, consolidated capital expenditures represented EUR 4.3 million, compared to EUR 0.7 million over the same period last year.

The Company is planning for total CAPEX in 2016 not to exceed the EUR 25 million level.

Cash and Indebtedness

The total amount of consolidated financial debt (both short-term and long-term) as at 30 June 2016 was EUR 184.3 million, a 4.0% decrease compared with 31 December 2015. Net Debt as at 30 June 2016 reached EUR 144.7 million, down by 11.7% compared with 31 December 2015. Compared with the end of the first quarter of 2016, net debt was reduced by EUR 2.9 million. As at 30 June 2016, the Net Debt/EBITDA ratio was 3.17x.

Business Overview for the First Half of 2016

In the first half of 2016, the total production output (net of scrap) reached 51,695 tonnes, down by 0.3% compared with the first half of 2015. In the second quarter of 2016, the Company produced 25,659 tonnes, i.e an increase of 0.1% over the same period last year.

In the first half of 2016, the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 86.2% share of total revenues, indicating a minor year-on-year increase. The high share of products in this category confirms the important position that the Company has in this market. In the second quarter of 2016, the share of revenues from sales of nonwoven textiles for the hygiene industry on total revenues was 84.5%, up by 1.2 percentage points compared with the same period last year.

The share of sales of non-hygiene products on total revenues was 13.8% in the first half of 2016 and 15.5% in the second quarter.

The geographical distribution of its markets[1], confirms the Company's steady focus on sales to the broader European area. In the first half of 2016, revenues from sales to Western Europe amounted to EUR 42.6 million, which represented a 39.9% share of total revenues, compared with a 36.2% share in the same period in 2015. In this period, revenues from sales to Central and Eastern Europe and Russia amounted to EUR 44.9 million and represented a 42.1% share of total revenues. Revenues from sales to other territories amounted to EUR 19.2 million, and represented an 18.0% share of total revenues.

Research and Development

The development of new applications, products and the optimisation of technologies are some of the key components of the current and future strategy of the Company. This platform is supported by a team of engineers, who are dedicated to the development of this new product platform, and the provision of customer and technology support to our partners.

Work teams are active in several different areas, which are principally divided into industrial and hygiene applications, with the primary focus on the hygiene field as the key driver for the most important projects at the Company.

From a technological standpoint, the technical department has two primary objectives:

1) *to improve the quality, performance and efficiency of production of standard products and*

2) to develop products with added value through the use of current and new technologies including bi-component spinning technology

Both of these objectives are being achieved in cooperation with the raw material suppliers, using standard and special new polymers, and/or with machinery suppliers, allowing the Company to produce value added products for its customers.

[1] The geographical breakdown is based on the location of delivery.

In the area of technology, in cooperation with its key equipment supplier, Pegas has developed a new technology known as Compact, which should simplify and speed up the Company's entry into developing markets, which are characterised by a set of specific risks related, for example, to higher CAPEX, immediate sale of the entire capacity of a production line, or the complexity of commissioning large production lines. The production plant in Znojmo was ultimately selected for the first installation of this line and it is planned to be put into operation at the beginning of the third quarter of 2017. Once its parameters are verified under real operating conditions, it should provide the Company potential for further expansion in new regions while at the same time strengthening and confirming Pegas' leading position in the area of technology.

Apart from the development of new technologies, PEGAS is actively working on developing nonwoven textiles with excellent touch and feel properties, bulkiness and softness These materials are already gradually being introduced into commercial production, delivering a range of advantages to customers. Development in this area is continuing and in the future it will be focused on the so-called 3D nonwoven textile structure with a potential visual effects. The development is based on the requirements of key customers and in several cases it is a product tailor-made for a specific partner.

Another possible future direction may also be research into the possibility of commercialising modified MB technologies in the nano-fibre area and the production of nonwoven textiles based on them. Here, it is expected that during 2016, the first prototype will be commercialised to bring significantly improved barrier properties primarily for applications in the hygiene segment.

PEGAS cooperates with many different institutions, which support the Company's research, especially in the area of modelling the structure of the nonwoven textile with the objective of achieving bulkiness and pleasant touch and feel properties, and also effective protective barrier functions. They include several universities and R&D centres, mainly in the Czech Republic and Slovakia, and also in Western Europe, offering the Company special support in various specialised fields and/or highly sophisticated lab resources.

Strategy

The future strategic objective of the Company is to:

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

2) maintain and extend its technological excellence in the European spunmelt nonwoven textile market for the production of disposable hygiene products in the EMEA region, and

3) deliver solid returns to its shareholders

PEGAS intends to fulfil its strategy principally by focusing on the following areas:

Continue investing into technologically advanced production capacity: PEGAS will continue to install state-of-the-art production capacities. The latest production line in Znojmo was launched in the second half of 2011, and the new production line in Egypt started production in 2013. The Company concluded a contract for the delivery of a new Compact-type production line, which represents a significant milestone in the Company's history, as it is an entirely new platform, the very first of its kind in the nonwoven textile industry. This new type of production line is, thanks to its lower overall investment cost, lower demands on infrastructure and lower capacity, considered to be an expansion platform suitable for gaining a foothold in new, especially developing markets.

Maintain close relationships with customers and suppliers: PEGAS will continue to work together with its clients, machinery manufacturers and raw material suppliers on the development of new research and development projects with the objective of staying ahead of the market. PEGAS will endeavour to remain at the forefront of technical developments in the industry, supply its customers with the highest quality products and continually develop new materials.

Focus on technologically advanced products: PEGAS is the largest producer of bi-component spunmelt nonwovens in the EMEA region with extensive experience in the design and production of ultra-lightweight materials. In recent years, the Company has successfully commercialised new materials with exceptional properties.

Maintain good financial performance within the industry: The main objective of PEGAS is to grow with its main market, achieving sales in-line with this growth and to achieve high operating margins relative to its competitors. PEGAS is effective at generating significant levels of cash, which is subsequently used to support expansion, reduce outstanding debt and pay out dividends.

Monitoring investment opportunities: The Company will continue to monitor investment opportunities outside the Czech Republic, whether acquisitions or the construction of new capacities in other territories.

Risk Factors

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

Marketing and Sales

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

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

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

Production

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

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

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

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

Research and Development

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

Potential Expansion

PEGAS is facing risks associated with potential acquisitions or investments, strategic partnerships or alliances, including opportunity identification, risk of the completion of the transaction and the integration of 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 the results of operations and financial performance.

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

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

Finance

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

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

There is a risk that the fluctuations in the value of the Czech koruna against the Euro 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 in 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 Workplace Safety

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

Key Personnel and Technical Expertise

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

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

Ownership Changes

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

Risk factors related to the investment in Egypt

Investments in developing markets such as Egypt are usually accompanied by a higher level of risk than investments in more developed countries. These risks include (amongst others) changes in the political environment, transfer of profits, nationalisation or politically motivated damage. In the future, the Egyptian economy may be susceptible to negative impacts similar to those that occur in other developing countries.

Egypt is located in a region, which particularly in the past few years is subject to constant political and security upheaval. Like other countries in this region, Egypt has been the target of random terrorist attacks. It cannot be guaranteed that extremists or terrorist groups will not incite or continue performing random acts of violence in Egypt, or that the government will continue to be relatively capable of maintaining the current level of order and stability in the country.

Despite the fact that PEGAS has concluded an insurance contract with EGAP for the coverage of risks connected to the investment in Egypt, which includes insurance against risks such as transfer of profits, nationalisation or politically motivated damage, there still exists a risk that the insurance coverage will not sufficiently protect PEGAS against all possible losses related to the investment in Egypt.

Shares and Shareholder Structure

Shareholder Structure as at 30 June 2016

Institutional and retail investors	100.0%
of which management of the Company	0.0%

As at 31 December 2015 and 30 June 2016, the management did not own any shares of the Company.

On 2 April 2016, the Company received a shareholder announcement stating that as at 31 March 2016, Templeton Asset Management Ltd. held 197,073 shares of PEGAS NONWOVENS S.A., representing 2.14% of the share capital and voting rights of the Company. Prior to 31 March 2016, Templeton Asset Management Ltd. held 903,059 shares of the Company, representing 9.78% of the share capital and voting rights of the Company.

On 2 April 2016, the Company received a shareholder announcement stating that as at 31 March 2016, Franklin Templeton Investment Management Limited held 494,963 shares of PEGAS NONWOVENS S.A., representing 5.36% of the share capital and voting rights of the Company.

Apart from these notifications, during the first six months of 2016, the Company did not receive any other notifications from shareholders about an acquisition or change of a major holding in the share capital and total voting rights attached to the shares issued by the Company.

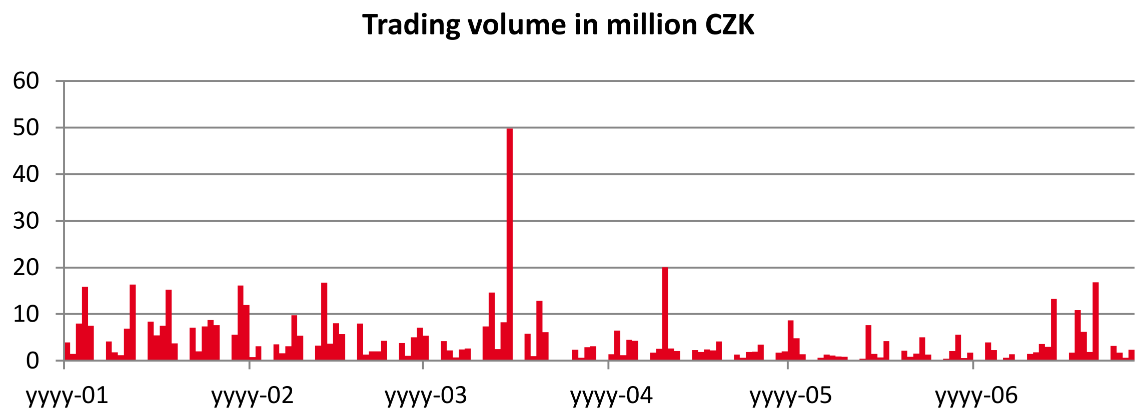
Share price and trading development in the first half of 2016

PEGAS shares are traded on the Prague Stock Exchange (PSE) under ISIN LU0275164910 BAAPEGAS and on the Warsaw Stock Exchange under ticker PGS. The shares of PEGAS NONWOVENS SA are as of 19 March 2007 part of the PX index, which covers the shares of all major issuers on the Prague Stock Exchange.

During the first half of 2016, PEGAS shares were traded for a total value of CZK 613 million on the Prague Stock Exchange and for a total value of PLN 3.6 million on the Warsaw Stock Exchange. The lowest trading price during the first 6 months of 2016 was CZK 685.10 and PLN 111.60 and the highest CZK 838.90 and PLN 137.90 on the Prague and Warsaw Stock Exchanges respectively.

The closing price on 30 June 2016 was CZK 798.60 on the Prague Stock Exchange and PLN 131.60 on the Warsaw Stock Exchange and market capitalisation reached CZK 7.0 billion (based on the Prague Stock Exchange quote).

Share Price Development of PEGAS on the PSE from 1 January 2016 to 30 June 2016



Dividend Policy and Declaration of Dividend

The Annual General Meeting of PEGAS NONWOVENS SA held on 15 June 2016 in Luxembourg, approved the proposed payout of a dividend in the amount of EUR 11,536,750, i.e. EUR 1.25 per share. The source of the dividend payout will be 2015 profit and retained earnings of prior years. The record date (i.e. the day at the end of which shares entitled to a dividend are registered at accounts of the entitled persons held by the settlement systems of Centrální depozitář cenných papírů, a.s, Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna or by other respective settlement systems) was set to 14 October 2016 and the dividend payment date was set to 26 October 2016.

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

Related Party Transactions

Remuneration of executive and non-executive directors

PEGAS NONWOVENS SA signed service agreements with its executive and non-executive directors. Executive directors receive remuneration from the Company's subsidiaries for their services.

Executive directors, i.e. board members and executive heads in the Czech Republic, may use the Company's cars for private purposes. Executive directors do not receive any other benefits in addition to this.

Management Bonus Scheme

The principles of the bonus scheme for 2008 and for the following financial years targeted to the senior management of PEGAS Group were approved by the AGM in 2008.

The key elements of the bonus scheme are as follows:

- The scheme was designed to ensure that senior management is focused on delivering the Company's budgeted economic results represented by the Budgeted EBITDA. This bonus scheme is valid for the accounting year of 2008 and onwards.
- The basis for the bonus calculation is EBITDA of the Pegas Group calculated in accordance with International Financial Reporting Standards at the consolidated level, adjusted for certain extraordinary and one-off items.
- If achieved EBITDA is equal to Budgeted EBITDA, the paid bonus will be the 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.

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

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 realised through Phantom options.

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, granted the manager the right to receive cash calculated as the closing price of one Company share on the Prague stock exchange (the PSE) (or other market if the PSE trading is discontinued) on the day preceding the day of 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 vested yearly, with the first options vesting from 18 December 2007 and the last options vesting from 18 December 2010.

The Annual General Meeting held on 15 June 2010 approved the grant of an aggregate amount of 230,735 phantom options (representing 2.5% of the PEGAS's share capital) to the directors and senior management of the Company and/or its affiliates, against no consideration. Each phantom option, when exercised, will grant the director the right to receive in cash an amount equal to the difference between CZK 473.00 representing PEGAS's share price on the PSE as at 15 December 2009 increased by 10%, and the closing price of one PEGAS's share on the day preceding the day of exercise of the phantom option on the PSE (or other market if the PSE trading is discontinued). 25% of the phantom options (i.e. 57,684 options) are transferred to them each year, i.e. the first options could have been exercised from 18 December 2010 and the last options from 18 December 2013. The first options of this share option plan (with the possible vesting date from 18 December 2010) fully replaced the previous options within the scope of the share bonus scheme, which were approved at the Annual General Meeting in 2007 (with the same possible vesting date). Therefore, the right to the remaining 34,008 options (with the vesting date of 18 December 2010) granted in 2007 and approved by the Annual General Meeting held on 15 June 2007 was abandoned.

The Extraordinary General Meeting held on 21 July 2014, resolved to convert 230,735 phantom options granted in 2010-2013 by PEGAS to the directors and senior management of PEGAS and/or its affiliates into 230,735 warrants. Each warrant, when exercised, grants the holder the right to receive (i) one share in PEGAS for a strike price corresponding to CZK 473, representing PEGAS's share price on the Prague Stock Exchange (the "PSE") as of 15 December 2009 increased by 10%, or (ii) a payment in cash amounting to the final price of one share of PEGAS on the Prague Stock Exchange on the business day preceding the exercise date, less CZK 473 representing PEGAS's share price on the PSE as of 15 December 2009 increased by 10%. All the warrants will vest immediately from their granting date and will have the same exercise period that was initially planned for the phantom options.

The Extraordinary General Meeting held on 21 July 2014 resolved to issue 230,735 new warrants (representing 2.5% of the PEGAS's share capital) to the directors and senior management of PEGAS and/or its affiliates collectively, for a market price set by an expert valuation in the amount of CZK 5.89 per new warrant to be paid in cash by the directors, it being understood that the Board of Directors of PEGAS will decide how the new warrants will be divided among the directors and senior management of PEGAS and/or its affiliates. Each new warrant, when exercised, entitles the holder to either receive (i) one share in PEGAS for a strike price corresponding to CZK 588.16 (representing the average of PEGAS's share price on the Prague Stock Exchange from 1 October 2013 to 31 December 2013) less all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), or (ii) a payment in cash amounting to the final price of one share of PEGAS on the Prague Stock Exchange on the business day preceding the exercise date, plus all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), less the strike price of CZK 588.16 (representing the average of PEGAS's share price on the Prague Stock Exchange from 1 October 2013 to 31 December 2013).

As at 30 June 2016, the total number of issued phantom options and warrants was 300,039 (as at 31 December 2015 there were 300,039). As at 30 June 2016, the total number of phantom options and warrants comprised of 53,840 phantom options with a strike price of CZK 749.20, and 15,464 phantom options with a strike price of CZK 473, and 230,735 warrants with a strike price of CZK 588.16.

No phantom options or warrants were exercised in the first half of 2016. The fair value of the phantom options and warrants as at 30 June 2016 was EUR 1,677 thousand.

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 Warsaw Stock Exchange Corporate Governance Rules. Further information is available in the 2015 Annual Report.

Annual General Meeting of 15 June 2016

At PEGAS's AGM which was held in Luxembourg on 15 June 2016, all resolutions from 1 to 11 that were subject to shareholder approval were adopted.

The agenda of the Annual General Meeting was as follows:

1. Election of the Bureau for the Annual General Meeting.
2. Presentation and discussion of the report of the auditors regarding the statutory accounts and the consolidated accounts for the financial year ended 31 December 2015 and of the reports of the Board of Directors of PEGAS on the statutory accounts and the consolidated accounts for the financial year ended 31 December 2015.
3. Approval of the statutory accounts and the consolidated accounts for the financial year ended 31 December 2015.
4. Allocation of the net results of the financial year ended 31 December 2015 and the dividend payout in the amount of EUR 11,536,750, i.e. EUR 1.25 per share.
5. Discharge of the liability of the members of the Board of Directors and the auditors of PEGAS for, and in connection with, the financial year ended 31 December 2015.
6. Ratification of the decision of the Board of Directors to co-opt Mr. František Klaška and Marian Rašík as members of the PEGAS Board of Directors.
7. Reappointment of Marek Modecki and Jan Sýkora as members of the PEGAS Board of Directors.
8. Appointment of a Luxembourg independent auditor ("réviseur d'entreprises agréé") to assess the statutory accounts and the consolidated accounts for the financial year ending 31 December 2016.
9. Approval of the remuneration policy for members of the Board of Directors without executive authority for the financial year 2016.
10. Approval of the remuneration policy for members of the Board of Directors with executive authority for the financial year 2016.
11. Granting authority to the Board of Directors to acquire shares of PEGAS.
12. Miscellaneous.

Board of Directors Structure as at 30 June 2016

Board of Directors PEGAS NONWOVENS SA

First name	Age	Position/Function	Address	Function Period in the first half of 2016
František Řezáč	42	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2016 – 30. 6. 2016
František Klaška	59	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2016 – 30. 6. 2016
Marian Rašík	45	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2016 – 30. 6. 2016
Marek Modecki	57	Non-Executive Director, Chairman of the Board	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	1. 1. 2016 – 30. 6. 2016
Jan Sýkora	44	Non-Executive Director	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	1. 1. 2016 – 30. 6. 2016

There were no personnel changes to the Company's Board of Directors during the first half of 2016.

Group Entities

For the purpose of translating the registered capital of Czech subsidiaries, the exchange rates of CZK/EUR 27.131 and USD/EUR 1.110, effective as at 30 June 2016, were used.

Company name	Acquisition/ Registration Date	Share in the Subsidiary	Share capital	Share capital (EUR '000)	Number and Nominal Value of Shares
PEGAS NONWOVENS s.r.o.*	5. 12. 2005	100%	CZK 3,633 thousand	134	100% share at the value of CZK 3,633 thousand CZK
PEGAS-NT a.s.	14. 12. 2005	100%	CZK 550,000 thousand	20,272	54 shares with a nominal value of CZK 10,000 thousand per share and 10 shares with a nominal value of CZK 1,000 thousand per share
PEGAS - NW a.s.	14. 12. 2005	100%	CZK 650,000 thousand	23,958	64 shares with a nominal value of CZK 10,000 thousand per share and 10 shares with a nominal value of CZK 1,000 thousand per share
PEGAS - NS a.s.	3. 12. 2007	100%	CZK 650,000 thousand	23,958	64 shares with a nominal value of CZK 10,000 thousand per share and 10 shares with a nominal value of CZK 1,000 thousand per share
PEGAS NONWOVENS International s.r.o.**	18. 10. 2010	100%	CZK 200 thousand	7	100% share at the value of CZK 200 thousand
PEGAS NONWOVENS EGYPT LLC ***	6. 6. 2011	100%	USD 23,000 thousand	20,717	100% share at the value of USD 23,000 thousand

* PEGAS NONWOVENS s.r.o. was registered on 14 November 2003 under the initial name of ELK INVESTMENTS s.r.o.. During the course of 2006 the business name of the company was changed to PEGAS NONWOVENS s.r.o. PEGAS a.s., the subsidiary of PEGAS NONWOVENS s.r.o., was established in 1990. It merged with PEGAS NONWOVENS s.r.o. with effect from 1 January 2006. PEGAS a.s. 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. CEE Enterprise a.s. was deleted from the Commercial Register on 20 August 2007. Former subsidiary Pegas - DS a.s ceased to exist as a result of a merger with PEGAS NONWOVENS s.r.o as its successor company.

** PEGAS NONWOVENS International s.r.o. was established as a special purpose vehicle created for the purpose of executing international investments.

***PEGAS NONWOVENS EGYPT LLC was established for the purpose of executing the investment into the construction and operation of the new production plant in Egypt.

Interim Unaudited Consolidated Financial Statements

prepared in accordance with the International Financial Reporting Standards

for the six month period ending 30 June 2016

Condensed Consolidated Statement of Comprehensive Income for the 6 Month Period

in thousand EUR	Six-month period to 30 June 2015 (unaudited)	 30 June 2016 (unaudited)	% change
Revenue	111,674	106,664	(4.5%)
Raw materials and consumables used	(81,647)	(76,847)	(5.9%)
Staff costs	(7,572)	(6,154)	(18.7%)
Other operating income/(expense) net	(894)	(850)	(4.9%)
EBITDA	**21,561**	**22,813**	**5.8%**
EBITDA margin	***19.3%***	***21.4%***	***2.1 pb***
Depreciation and amortization expense	(7,936)	(8,107)	2.2%
Profit from operations	**13,625**	**14,706**	**7.9%**
FX gains and other financial income	11,313	(208)	n/a
FX losses and other financial expenses	(3,117)	(1,749)	(43.9%)
Interest income	0	49	n/a
Interest expense	(3,532)	(4,196)	18.8%
Profit before tax	**18,289**	**8,602**	**(53.0%)**
Income tax (expense)/income	(1,962)	(1,054)	(46.3%)
Net profit after tax	**16,327**	**7,548**	**(53.8%)**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	722	(3,101)	n/a
Changes in translation reserves	2,342	(3,044)	n/a
Total comprehensive income for the period	**19,391**	**1,403**	**(92.8%)**
Net earnings per share			
Basic net earnings per share (EUR)	1.77	0.86	(51.3%)
Diluted net earnings per share (EUR)	1.75	0.86	(51.0%)

Condensed Consolidated Statement of Comprehensive Income for the 3 Month Period

in thousand EUR	Three-month period to 30 June 2015 (unaudited)	30 June 2016 (unaudited)	% change
Revenues	51,113	51,584	0.9%
Raw materials and consumables used	(37,516)	(36,834)	(1.8%)
Staff costs	(4,145)	(3,181)	(23.3%)
Other operating income/(expense) - (net)	(516)	(359)	(30.6%)
EBITDA	**8,936**	**11,210**	**25.5%**
EBITDA margin	***17.5%***	***21.7%***	***4.2 pb***
Depreciation and amortization expense	(3,938)	(4,047)	2.8%
Profit from operations	**4,998**	**7,163**	**43.3%**
FX gains and other financial income	415	(321)	n/a
FX losses and other financial expenses	(762)	2,069	n/a
Interest income	(1)	23	n/a
Interest expense	(1,758)	(2,061)	17.3%
Profit for the period before tax	**2,892**	**6,873**	**137.6%**
Income tax (expense)/income	(923)	205	n/a
Net profit after tax	**1,969**	**7,078**	**259.5%**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	(505)	(1,063)	110.5%
Changes in translation reserves	387	(2)	n/a
Total comprehensive income for the period	**1,851**	**6,014**	**224.9%**
Net earnings per share			
Basic net earnings per share (EUR)	0.21	0.81	278.4%
Diluted net earnings per share (EUR)	0.21	0.80	281.4%

Condensed Consolidated Statement of Financial Position

in thousand EUR	30 June 2015 (unaudited)	31 December 2015 (audited)	30 June 2016 (unaudited)
Assets			
Non-current assets			
Property, plant and equipment	180,547	181,250	179,234
Intangible assets	442	2,369	2,345
Goodwill	85,133	85,857	85,516
Total non-current assets	**266,122**	**269,476**	**267,095**
Current Assets			
Inventories	38,450	39,538	29,952
Trade and other receivables	45,404	54,692	48,739
Income tax receivables	0	0	0
Cash and cash equivalents	9,227	28,082	39,663
Total current assets	**93,081**	**122,312**	**118,354**
Total assets	**359,203**	**391,788**	**385,449**
Equity and liabilities			
Share capital and reserves			
Share capital	11,444	11,444	11,444
Legal reserves	9,187	9,451	9,451
Treasury shares	0	(12,797)	(13,672)
Translation reserves	7,255	5,691	2,646
Cash flow hedge reserves	(1,264)	1,418	(1,683)
Retained earnings	132,854	141,505	137,517
Total share capital and reserves	**159,476**	**156,712**	**145,703**
Non-current liabilities			
Bank loans	38,209	0	0
Deferred tax liabilities	16,462	17,440	16,866
Other non-current liabilities	90,683	184,806	184,315
Total non-current liabilities	**145,354**	**202,246**	**201,181**
Current liabilities			
Trade and other payables	30,597	23,895	38,072
Tax liabilities	1,281	1,824	493
Bank current liabilities	22,495	7,111	0
Provisions	0	0	0
Total current liabilities	**54,373**	**32,830**	**38,565**
Total liabilities	**199,727**	**235,076**	**239,746**
Total equity and liabilities	**359,203**	**391,788**	**385,449**

Condensed Consolidated Statement of Cash Flows

in thousand EUR	2015 (unaudited)	2016 (unaudited)
Profit before tax	**18,289**	**8,602**
Adjustment for:		
Depreciation and Amortization	7,936	8,107
Foreign exchange gains/losses	(5,777)	(1,615)
Interest expense	3,532	4,196
Other changes in equity	722	(3,101)
Other financial income/(expense)	274	(499)
Cash flows from operating activities		
Decrease/(increase) in inventories	4,858	8,788
Decrease/(increase) in receivables	(1,277)	1,957
Increase/(decrease) in payables	(21,973)	2,784
Income tax (paid) / received	(319)	(1,769)
Net cash flows from operating activities	**6,265**	**27,449**
Cash flows from investment activities		
Purchases of property, plant and equipment	(1,540)	(6,447)
Net cash flows from investment activities	**(1,540)**	**(6,447)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	(2,445)	(7,106)
Increase/(decrease) in other non-current liabilities	1,647	(490)
Acquisiton of own shares and other changes in capital	0	(875)
Distribution of dividends	0	0
Interest paid	(3,388)	(1,449)
Other financial income/(expense)	(274)	499
Net cash flows from financing activities	**(4,460)**	**(9,421)**
Cash and cash equivalents at the beginning of the period	8,962	28,082
Net increase (decrease) in cash and cash equivalents	265	11,581
Cash and cash equivalents at the end of the period	**9,227**	**39,663**

Condensed Consolidated Statement of Changes in Equity

in thousand EUR	Share capital	Legal reserves	Own shares	Translation reserves	Cash flow hedge reserve	Retained earnings	Total share capital and reserves
as at 1 January 2015	**11,444**	**9,187**	**--**	**4,913**	**(1,986)**	**127,141**	**150,699**
Distribution	--	--	--	--	--	(10,614)	**(10,614)**
Other comprehensive income for the period	--	--	--	2,342	722	--	**3,064**
Net profit for the period	--	--	--	--	--	16,327	**16,327**
Legal reserves created from retained earnings	--	--	--	--	--	--	**--**
as at 30 June 2015	**11,444**	**9,187**	**--**	**7,255**	**(1,264)**	**132,854**	**159,476**
as at 1 January 2016	**11,444**	**9,451**	**(12,797)**	**5,691**	**1,418**	**141,505**	**156,712**
Distribution	--	--	--	--	--	(11,537)	**(11,537)**
Other comprehensive income for the period	--	--	--	(3,044)	(3,101)	--	**(6,145)**
Net profit for the period	--	--	--	--	--	7,548	**7,548**
Acquisition of own shares	--	--	(875)	--	--	--	**(875)**
Legal reserves created from retained earnings	--	--	--	--	--	--	**--**
as at 30 June 2016	**11,444**	**9,451**	**(13,672)**	**2,646**	**(1,683)**	**137,517**	**145,703**

Selected explanatory notes to the interim consolidated financial statements

Basis of preparation

These financial statements were prepared under International Financial Reporting Standards (IFRS) and International Accounting Standards IAS 34 for interim financial reporting as adopted by the European Union. Condensed interim financial statements do not include all the information and disclosures required in the annual financial statements. This interim report was not audited by the Company´s external auditors.

Summary of Significant Accounting Policies

The same basis of preparation, accounting policies, presentation and methods of computation have been followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2015.

Disclosures on seasonal and economic influences

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

Important events and transactions

There were no important events or transactions in the first half of 2016 which would have a significant effect on the understanding of the changes in the statement of financial position and performance of the Company.

Estimates

The preparation of interim financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors. The objective of making estimates is to present a true and fair view of the financial position of the Company, namely for determining the values of assets and liabilities for which this value is not readily available from other sources. The actual results may differ from these estimates.

There were no material changes in the nature or size of the estimates since the issue of the previous financial reports.

Repurchases and repayments of debt and equity securities

The bank facilities utilised by the Company consist of an overdraft facility (up to EUR 20 million). During the first six months of 2016, the Company reduced its balance on the overdraft facility from EUR 7,111 thousand to EUR 0 and is presently not utilising this line of credit. The Company did not conclude any new bank facilities in the first half of 2016.

In the first half of 2016, the Company did not make any repurchases or repayments of debt securities.

In the first half of 2016, within the scope of the share buyback programme, the Company bought back 32,929 of its own shares at the acquisition value of EUR 875 thousand, equivalent to 0.36% of the Company's share capital. Thereby, as at 8 February 2016, the Company completed the share buyback programme and presently holds 461,470 of its own shares, equivalent to 5% of its share capital.

Dividend

The Annual General Meeting of the Company held on 15 June 2016 in Luxembourg, approved the payout of a dividend in the amount of EUR 11,536,750, i.e. EUR 1.25 per share.

The source of the dividend payout is 2015 profit and retained earnings of prior years. The record date (i.e. the day at the end of which shares entitled to a dividend are registered at accounts of the entitled persons held by the settlement systems of Centrální depozitář cenných papírů, a.s, Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna or by other respective settlement systems) was set to 14 October 2016 and the dividend payment date was set to 26 October 2016.

Segment information

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

Material events subsequent to the end of the interim period

Establishment of a subsidiary in the Republic of South Africa

In accordance with the decision of the Board of Directors, announced 16 June 2016, PEGAS has established a subsidiary in the Republic of South Africa under the business name PEGAS NONWOVENS RSA (PTY) LTD. The subsidiary was registered with validity to 11 July 2016 and is under 100% ownership of the PEGAS Group.

The management of the Group is not aware of any other events that occurred subsequent to the end of the interim period, which would have a significant effect on the consolidated financial statements as at 30 June 2016.

Disclosures on changes in the composition of the entity / changes in consolidation

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

Information about the fair value of financial instruments

During the period of the first six months of this year no changes occurred in the valuation methodology for financial instruments.

Interest rate swaps

As at 30 June 2016, the Company held no open interest rate swaps. Two interest rate swaps that were concluded in 2011 at a total nominal value of EUR 98,000 thousand matured on 14 June 2016.

Currency forward contracts

As at 30 June 2016, the Company held no open currency forward contracts.

Cross currency swaps

As at 30 June 2016, the Company held three open cross currency swaps (CCIRS).

The first swap, further referred to as CCIRS 1, was concluded in November of 2014 at a total nominal value of CZK 2,489,575 thousand (receiving leg) against EUR 90,201 thousand (paying leg) with the objective of hedging the currency risk on the CZK issue of public bonds Pegas 2.85/2018.

The second swap, further referred to as CCIRS 2, was concluded in July of 2015 at a total nominal value of CZK 678,000 thousand (receiving leg) against EUR 25,000 thousand (paying leg) with the objective of hedging the interest and currency risk on the CZK issue of private bonds maturing on 14 July 2025 with a variable interest rate of 6M PRIBOR + 2.00% p.a.

The third swap, further referred to as CCIRS 3, was concluded in July of 2015 at a total nominal value of CZK 1,080,000 thousand (receiving leg) against EUR 39,852 thousand (paying leg) with the objective of hedging the currency risk on the CZK issue of private bonds maturing on 14 July 2022 with a fixed interest rate of 2.646% p.a.

The company performs hedge accounting for these cross currency swaps. The change in the fair value of these swaps, that is considered as effective in terms of hedging, is recorded in equity. The change in the fair value of these swaps, that is considered as non-effective in terms of hedging, is recorded in the profit and loss statement.

The fair value of these swaps, as at 30 June 2016, is presented in the following table. A positive value represents a receivable of the Company, a negative value a payable of the Company.

Counterparty	as at 30 June 2015	as at 30 June 2016	% hedging of the underlying liability
CCIRS 1	890	1.497	108%
CCIRS 2	--	(1.748)	100%
CCIRS 3	--	(812)	100%
Total	**890**	**(1.063)**	**105%**

in thous. EUR

Fair value of these swaps as at 30 June 2016 represents a payable of the Company. To this date, these swaps cover approximately 105% of Other long term payables of the Company, which constitute a total nominal value of the public bond issue in the amount of CZK 2.5 billion (less the sum of the repurchased bonds in the amount of CZK 198 million) and two private bond issues in the amount of CZK 1,080 million, resp. CZK 678 million.

Sensitivity of the fair value of cross currency swaps

The appreciation of CZK against EUR by 1% would, as at 30 June 2016, increase the fair value of the cross currency swaps by approximately EUR 1.5 million.

The depreciation of CZK against EUR by 1% would, as at 30 June 2016, decrease the fair value of the cross currency swaps by approximately EUR 1.5 million.

Foreign currency options

As at 30 June 2016, the Company held an open position in a foreign currency option structure that was concluded by the Company in March 2016. The objective of this foreign currency option structure is to hedge currency risk connected to revenues in EUR and their conversion to CZK in approximately the amount as the Company expends each month on the payment of wages and salaries. Based on this structure, the Company has, in the period from July 2016 to July 2019 the right to sell EUR 1.1 million and to purchase CZK 29.348 million under the condition that the exchange rate as at the date of the monthly expiration is lower than 26.68. Concurrently, the Company has, in the same period the obligation to sell EUR 1.375 million and to purchase CZK 36.685 million under the condition that the EUR/CZK exchange rate as at the date of the monthly expiration is higher than 27.52.

The fair value of the foreign currency option structure, as at 30 June 2016, is presented in the following table. A positive value represents a receivable of the Company, a negative value a payable of the Company.

Counterparty	as at 30 June 2015	as at 30 June 2016
Foreign currency option structure	--	(428)
Total	**--**	**(428)**

in thous. EUR

Sensitivity of the fair value of the foreign currency option structure

The appreciation of CZK against EUR by 5% would, as at 30 June 2016, increase the fair value of the foreign currency option structure by approximately EUR 2.1 million.

The depreciation of CZK against EUR by 5% would, as at 31 March 2016, decrease the fair value of the foreign currency option structure by approximately EUR 1.9 million.

Earnings per share

Basic earnings per Share are calculated as the net profit for the period attributable to equity holders of the Company divided by the weighted average number of shares existing each day in the given period, which take into account (by reduction) the shares bought back.

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 for the effect of the expected issue of all potential diluting securities, i.e. warrants in the case of the Company.

No changes to the number of shares issued by the Company occurred during the first six months of 2016 or in the first six months of 2015.

The weighted average number of ordinary registered shares used for the calculation of the basic earnings per share, as at 30 June 2016, reflects the shares bought back on the basis of the share buyback programme completed in February 2016.

Basic earnings per share

		Three months ended		Six months ended	
		30 June 2015	30 June 2016	30 June 2015	30 June 2016
Net profit attributable to equity holders	'000 EUR	1,969	7,078	16,327	7,548
Weighted average number of ordinary shares	amount	9,229,400	8,767,930	9,229,400	8,769,011
Basic earnings per share	**EUR**	**0.21**	**0.81**	**1.77**	**0.86**

Diluted earnings per share

		Three months ended		Six months ended	
		30 June 2015	30 June 2016	30 June 2015	30 June 2016
Net profit attributable to equity holders	'000 EUR	1,969	7,078	16,327	7,548
Weighted average number of ordinary shares	amount	9,371,672	8,835,142	9,352,637	8,826,946
Basic earnings per share	**EUR**	**0.21**	**0.80**	**1.75**	**0.86**

Related party transactions

Except for the information above there were no other new transactions between the Group and the executive managers or the non-executive directors concluded in the first six months of 2016.

Approval of the interim financial statements

The interim financial statements were approved by the Company's Board of Directors on 24 August 2016.

Marek Modecki
Chairman of the Board of Directors
PEGAS NONWOVENS SA

František Řezáč
Member of the Board of Directors
PEGAS NONWOVENS SA

Declaration

Marek Modecki, Chairman of the Board of Directors of PEGAS NONWOVENS SA

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

hereby declare that, to the best of their knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true view of assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole and that the interim 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.

24 August 2016

Marek Modecki
Chairman of the Board of Directors
PEGAS NONWOVENS SA

František Řezáč
Member of the Board of Directors
PEGAS NONWOVENS SA

Contacts

PR/IR Officer

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Glossary

6th October City – is a satellite city near Cairo, Egypt. The city has a population of approximately half a million people and many companies have their regional headquarters located there.

BCPP (PSE) – Prague Stock Exchange a regulated market for securities in the Czech Republic.

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

Bučovice – a town in Moravia in the Vyškov District with a population of approximately 6,500 people. PEGAS operates three production lines here.

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

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

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

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.

EGAP – Export Guarantee and Insurance Corporation. (EGAP) established in June 1992 as a national insurer of loans with a focus on insuring export loans against territorial and commercially uninsurable commercial risks connected with the export of goods and services from the Czech Republic. EGAP became a part of the government's export assistance system and provides insurance services to all exporters of Czech goods, services and investments.

IFRS – International Financial Reporting Standards.

IPO – Initial Public Offering.

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

John R. Starr – is a management consulting firm which has specialised in hygiene absorbent products, nonwoven products and key raw materials fields.

EBIT Margin – Percentage margin calculated as EBIT / Revenues.

EBITDA Margin – Percentage margin calculated as EBITDA / Revenues.

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

Meltblown Fabric – Textile produced using the meltblown process.

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

Planned EBITDA – A financial indicator defined as revenues less cost of goods sold and selling, general, and administrative expenses used in the sales plan of the Company as a benchmark value for the evaluation of the performance in the management bonus scheme.

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). These polymers are naturally hydrophobic, resistant to many chemical solvents, bases and acids.

Přímětice – Formerly an independent municipality, currently a suburb of Znojmo. PEGAS operates six production lines here.

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

Reicofil – Leading nonwoven machinery manufacturer.

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

SAP – Company management information system.

Spunbond Textile – Textile produced by spunbond/spunmelt process.

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

Meltblown Process – Technological process of producing nonwovens. Polymer is extruded into air gap nozzles and then blown in the form of very thin fibres (1-10 microns) on to a belt.

Warrants – securities that give the holder the right to purchase or sell a certain amount of securities at a certain price within a certain time frame.

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

Other Information

Basic Information on the Company

Company Name
PEGAS NONWOVENS SA

Registered Office
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
18 November 2005 under the name Pamplona PE Holdco 2 SA

Jurisdiction Luxembourg

The holding company of PEGAS, PEGAS NONWOVENS SA, was incorporated in Luxembourg as a joint-stock company (société anonyme) for an unlimited duration on November 18, 2005 under the name Pamplona PE Holdco 2 SA and is registered with the Luxembourg trade and companies register under number B. 112.044. The articles of incorporation of the Company have been published in the Mémorial, Recueil des Sociétés et Associations number C 440 of March 1, 2006. The Company's registered office is at 68–70, boulevard de la Pétrusse, L-2320 Luxembourg, 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,

c) to enter into, assist or participate in financial, commercial and other transactions, and to grant assistance of the holding Company, subsidiary, or fellow entity or any other form thereof associated in any way with the Company, or the said holding Company, subsidiary of follow subsidiary, in which the Company has a direct or indirect financial interest, any assistance as, e.g., pledges, loans, advances or guarantees;

d) to borrow and raise money in any manner and to secure the repayment of any money borrowed;

e) to borrow funds and issue bonds and other securities;

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