PEGAS NONWOVENS

every single detail

PEGAS NONWOVENS SA

HALF YEAR REPORT 2012

AUGUST 30, 2012

PEGAS NONWOVENS SA

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CHAPTER 1

Introduction

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

Since its foundation in 1990, the Company has over the last twenty years become the largest European producer of spunmelt nonwovens based on annual production capacity in tonnes. At the present time PEGAS operates nine production lines at two production plants in the Czech Republic and another production line is under construction in Egypt. The total production capacity of the Company is up to 90 thousand tonnes of nonwoven fabric per annum. 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 executes the investment construction in Egypt. As at June 30, 2012 PEGAS had 448 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. The Company’s management together held 0.9% of the shares as at June 30, 2012.

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

CHAPTER 2

First Half 2012

Key Figures

Financials (EUR Thousands)	Three Months to June 30			Six Months to June 30		
	2011	2012	% Change	2011	2012	% Change
Revenues	41,572	47,967	15.4%	82,589	92,269	11.7%
EBITDA	7,032	8,098	15.2%	15,286	17,586	15.0%
Profit from Operations (EBIT)	4,917	5,029	2.3%	11,057	11,429	3.4%
Net Profit for the Period	4,412	449	(89.8%)	10,796	9,124	(15.5%)
CAPEX	4,975	19,161	285.1%	19,652	27,393	39.4%
Ratios						
EBITDA Margin	16.9%	16.9%	0 pp	18.5%	19.1%	0.6 pp
Operating Profit (EBIT) Margin	11.8%	10.5%	(1.3 pp)	13.4%	12.4%	(1.0 pp)
Net Profit Margin	10.6%	0.9%	(9.7 pp)	13.1%	9.9%	(3.2 pp)
CAPEX as % of Revenues	12.0%	39.9%	27.9 pp	23.8%	29.7%	5.9 pp
Total Production Output (in tonnes net of scrap)	17,546	21,612	23.2%	34,848	42,686	22.5%
Number of Employees – End of Period (EOP)	423	448	5.9%	423	448	5.9%
Number of Employees during Period (Average)	404	434	7.4%	401	429	7.0%
Exchange Rates						
CZK/EUR Average	24.321	25.261	3.9%	24.348	25.170	3.4%
CZK/EUR EOP	24.345	25.640	5.3%	24.345	25.640	5.3%

Financials (EUR Thousands)	December 31, 2011	June 30, 2012	% Change
Total Assets	302,943	322,696	6.5%
Total Equity	130,764	139,365	6.6%
Total Borrowings[1]	125,738	136,215	8.3%
Net Debt/(Net Cash)[2]	119,490	128,612	7.6%
Number of Shares EOP	9,229,400	9,229,400	0%

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

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

Statement of the CEO and Member of the Board of Directors, Mr. František Řezáč

"In the second quarter of this year we achieved a year-on-year EBITDA increase of over 15%. The production from the new production line that was put into operation in the second half of last year significantly contributed to this growth. We also positively register the reversal of the unfavourable polymer price development that occurred at the start of the year. The decline in the price of our main input raw materials recorded in recent months will provide considerable support to the financial results in the third quarter. The solid operating results achieved in the first half of the year and the positive outlook for the subsequent months provide us with the opportunity to focus our efforts and resources on achieving the Company's strategic objectives.

PEGAS is now entering a very important period. Construction works on the Egyptian plant are proceeding according to our time schedule and in a few weeks time we will start installing the production technology. We are well aware that the successful execution of the Egyptian production line project will play an important role in the future development of the Company and for this reason, at the current time, this project is of the utmost priority for us."

2012 Guidance Confirmed

In the first half of 2012 the Company achieved financial results that were in line with its expectations and with the announced guidance for the entire year 2012.

During the first four months of this year polymer prices exhibited significant growth approaching the historical highs set in May last year. The growth in raw material prices negatively impacted the financial results in the second quarter. However, since May polymer prices have declined steeply and this fact will have a positive effect on the financial results in the third quarter of this year. Nevertheless, this considerable price volatility of raw materials continues to be the primary unknown variable when forecasting the Company's financial outlook.

Based on the achieved results in the first half of 2012 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 2012 and expects EBITDA to grow between 5 and 15% in 2012 compared with the result achieved in 2011.

CHAPTER 3

Interim Management Report for the First Half of 2012

3.1 Financial Results in the First Half of 2012

Revenues, Costs and EBITDA

In the first half of 2012 consolidated revenues (revenues from sales of products) reached EUR 92.3 million, up by 11.7% yoy. This increase was the result of increased volumes of sold production thanks to the new production line, which was put into operation in the second half of 2011. On the contrary, polymer prices declined almost 6% yoy.

In the second quarter of 2012 the total consolidated revenues were EUR 48.0 million, a 15.4% increase compared with the same period last year and were influenced by the above-mentioned increased production capacity in the Czech Republic.

Total consolidated operating costs without depreciation and amortization (net) went up by 11% yoy to EUR 74.7 million in the first half of 2012. In the second quarter of 2012 consolidated operating costs without depreciation and amortization (net) were EUR 39.9 million, representing an increase of 15.4% yoy. The main reason for this increase was the increased raw material consumption connected with the new production line.

In the first half of 2012 EBITDA amounted to EUR 17.6 million, up by 15% yoy. The year on year EBITDA increase was achieved namely due to the contribution of the new production line. However, the year on year comparison was negatively affected by a higher number of planned maintenance breaks and changes in inventories of finished goods.

EBITDA amounted to EUR 8.1 million in the second quarter of 2012, up by 15.2% yoy. The primary factor that lead to this increase was the already mentioned production from the new production line. On the other hand, the price pass-through mechanism had a negative effect. The second quarter of this year as well as of the previous year was negatively impacted by the price pass-through mechanism, nevertheless this year the absolute effect was greater.

In the first half of 2012 the EBITDA margin was 19.1%, which is 0.6 percentage points higher than in the same period in 2011. In the second quarter of 2012 the EBITDA margin was 16.9%, same as in the same period last year.

Operating Costs

Total raw materials and consumables used in the first half of 2012 amounted to EUR 70.3 million, an 11.1% yoy increase. In the second quarter of 2012 this item reached EUR 37.6 million, an increase of 15.3% yoy. The main factor was the increased raw material consumption connected with the new production line.

In the first half of 2012 total staff costs amounted to EUR 4.3 million, an increase of 0.9% yoy. In the first half of 2012 total staff costs denominated in CZK, excluding the share option plan, increased by 10.3% yoy due to an increased number of employees needed for the new production line and the indexation of wages. However, in the first half of this year the depreciation of the CZK against the EUR and the revaluation of the share option plan to fair value pushed staff costs down.

In the second quarter, staff costs fell by 2.7% to EUR 2.2 million. Total staff costs in the second quarter of 2012 denominated in Czech crowns and without the revaluation of the share option plan increased by 13.5% yoy due to the above mentioned reasons.

Other operating expenses (net) reached EUR 0.1 million in the first half of 2012 compared to an income of EUR 0.2 million achieved last year. Other operating expenses (net) reached EUR 0.1 million in the second quarter of 2012 compared to an income of EUR 0.3 million achieved last year.

Depreciation and Amortization

Consolidated depreciation and amortization reached EUR 6.2 million in the first half of 2012, up by 45.6% yoy. In the second quarter of 2012, consolidated depreciation and amortization amounted to EUR 3.1 million, up by 45.1% yoy. The increase in depreciation and amortization resulted from the launch of the ninth production line and the depreciation of related production technologies and buildings.

Profit from Operations

In the first half of 2012, profit from operations (EBIT) amounted to EUR 11.4 million, up by 3.4% over the same period in 2011. The increased profit from operations was positively affected by the growth of EBITDA and negatively affected by a higher level of depreciation and amortization.

In the second quarter of 2012, profit from operations (EBIT) increased by 2.3% to EUR 5.0 million.

Financial Income and Costs

In the first half of 2012 foreign exchange changes and other financial income/(expense) (net) represented a gain of EUR 1.4 million, down by 57.4% yoy. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The year on year change of this item resulted from the development of the CZK/EUR FX rate and from the subsequent unrealized FX changes related to the revaluation of the balance sheet items denominated in EUR (particularly bank debt and inter-company loans). In the second quarter of 2012 foreign exchange changes and other financial income/(expense) (net) represented an expense of EUR 3.8 million, compared with a gain of EUR 1.1 million in the same period last year.

Interest expenses (net) related to debt servicing amounted to EUR 2.3 million in the first half, a 12% increase compared with the same period in 2011. The increase in interest expenses was caused by an increased draw down of the loan facility in connection with the financing of the construction of new production facilities in the Czech Republic and Egypt.

In the second quarter of 2012, interest expenses (net) related to debt servicing amounted to EUR 1.3 million, a 0.6% increase compared with the same period last year.

Corporate Income Tax

In the first half of 2012 income tax amounted to EUR 1.4 million, down by 8.1% yoy. The Company recorded income tax also due to unrealized FX gains resulting from the revaluation of the bank debt and the inter-company loan. The total amount represents tax payable; changes in deferred tax were negligible in the first half of this year.

In the second quarter of 2012 income tax amounted to a EUR 0.5 million gain for the Company, compared with an expense of EUR 0.3 million in the same period last year. The gain in the second quarter of this year resulted from the fact that foreign exchange losses were booked in this period.

Net Profit

In the first half of 2012 net profit reached EUR 9.1 million, down by 15.5% yoy, primarily due to lower unrealized foreign exchange gains. In the second quarter of 2012, the Company recorded a net profit of EUR 0.4 million, down by 89.8% compared with the same period in 2011. This decrease was caused by unrealized foreign exchange differences in the compared periods (including their effect on income tax).

CAPEX and Investments

In the first half of 2012 consolidated capital expenditures represented EUR 27.4 million, up by 39.4% over the same period last year. Capital expenditures related to the construction of the Egyptian production plant represented EUR 12.2 million of this amount. Final payments for the already commissioned ninth production line added up to EUR 13.1 million and maintenance CAPEX was EUR 2.1 million.

In the second quarter of 2012 total consolidated capital expenditure amounted to EUR 19.2 million, up by 285.1% over the same period last year. Of this amount, the capital expenditures related to the ninth production line in the Czech Republic amounted to EUR 12.2 million and expenditures related to the Egyptian project amounted to EUR 7.0 million.

The Company continues to expect that in 2012, total capital expenditure will not exceed EUR 46 million (at the constant exchange rate of CZK/EUR 24.50).

Cash and Indebtedness

The total amount of consolidated financial debt (both short-term and long-term) as at June 30, 2012 was EUR 136.2 million, an 8.3% increase compared with December 31, 2011. Net Debt as at June 30, 2012 reached EUR 128.6 million, up by 7.6% when compared with December 31, 2011. The increase in debt is connected to the investments into the expansion of production capacities. As at June 30, 2012 the Net Debt/EBITDA ratio was 3.35x.

3.2 Business Overview of the First Half 2012

In the first half of 2012 the total production output (net of scrap) reached 42,686 tonnes, up by 22.5% compared with the first half of 2011. In the second quarter of 2012 the Company produced 21,612 tonnes, up by 23.2% over the same period last year.

In the first half of 2012 the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 86.9% share of total revenues, i.e. remained practically unchanged when compared with the 86.3% share in the first half of 2011. The high share of products in this category confirms the important position that the Company has in this market. In the second quarter of 2012 the share of revenues from sales of nonwoven textiles for the hygiene industry on total revenues was 87.3%, up by 1.3 percentage points compared with the same period last year.

Revenues from sales of standard (commodity) textiles for hygiene products reached EUR 63.0 million in the first half of 2012, an increase of 13.9% compared with the first half of 2011. In the first half of 2012 the share of revenues from sales of standard textiles for the hygiene industry represented a 68.2% share of total revenues, an increase of 1.3 percentage points compared with the first half of 2011. In the second quarter of 2012 this share decreased slightly to 67.7%. In the first half of 2012 the revenues from sales of light-weight and bi-component materials reached EUR 17.2 million, a 7.6% increase compared with the first half of 2011. The share of revenues from sales in this product category of total revenues in the first half of 2012 amounted to 18.7% and in the second quarter of 2012 this share grew to 19.6%.

Revenues from sales of non-hygiene products (for construction, agriculture and medical) amounted to EUR 12.1 million in the first half 2012, an increase of 7.0% yoy. The share of sales of non-hygiene products on total revenues was 13.1% in the first half of 2012 and reached 12.7% in the second quarter of this year.

The geographical distribution of its markets[3], confirms the Company's steady focus on sales to the broader European area. In the first half of 2012 revenues from sales to Western Europe amounted to EUR 44.2 million, which represented a 47.9% share of total revenues, compared with a 53.6% share in the same period in 2011. In this period revenues from sales to Central and Eastern Europe and Russia amounted to EUR 42.4 million and represented a 45.9% share of total revenues. Revenues from sales to other territories amounted to EUR 5.7 million and represented a 6.2% share of total revenues.

3.3 Investment in Egypt

In June 2011, the Company announced its plan to build a new production plant in Egypt. This decision was made on the basis of successful negotiations with a major customer, who showed interest in deliveries of nonwoven textiles to their production plants in the Middle East. The decision was also supported by the growth potential of this market.

In the medium-term horizon PEGAS plans to build two production lines in Egypt. The first line should have a capacity of approximately 20 thousand tonnes (depending on the product portfolio) and it is expected to be put into operation during the second half of 2013. If the market conditions in the region are positive, the Company expects to expand the plant by a second production line in the years 2015-2016, which would increase the total capacity of the Egyptian plant to 45-50 thousand tonnes.

The construction of the first production line is proceeding according to the planned time schedule. At the beginning of the year building works commenced on the production and warehouse building. The installation of production technology will commence in the fourth quarter of 2012.

3.4 Research & Development

The development of new applications and products is a key component of the current and future strategy of the Company. This platform is supported by a team of technical engineers, who are dedicated to product development, customer and technology support.

Work teams are active in several different areas, which are divided into industrial and hygiene applications, with the main focus on the hygiene field as the key driver for the most

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

important projects at the Company. From a technological standpoint, the technical department has two primary objectives:

1) to improve quality, performance and production efficiency of standard products,
2) to develop products with added value through the use of current and new technologies.

In the technology field, PEGAS is continuing in the commercialisation of ultra light-weight materials produced on its newest production lines. The latest production technology installed in 2011 confirmed the expected parameters of the produced materials and in the future it should make it possible for the Company to bring to market new technological designs and products, which will continue to support the leading position of PEGAS in the area of technology and special products.

Furthermore, PEGAS is actively working on developing nonwoven textiles that will be fine, drapeable and have pleasant touch and feel, and textiles with increased stretchability and increased protective properties. When the development of such products is complete and they are put into commercial production they can bring the customer a range of advantages.

In order to better utilise its production lines and accelerate the development of its projects, PEGAS utilises several pilot lines, which are made available under special agreements at the suppliers' sites. All projects are related either to new technologies themselves or to the utilisation of newly developed raw materials in technologies or projects, which are designed directly for specific customers. These are projects on which all three parties work together and thereby cover the entire supply chain.

3.5 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 leadership in spunmelt nonwoven textiles for disposable hygiene products in Europe, and
3) deliver solid financial performance

PEGAS intends to achieve its strategy principally through the following goals:

Continue investing into technologically advanced production capacity: PEGAS will strive to install state-of-the-art production capacities ahead of its European competitors. The ninth production line was launched in the second half of 2011 in Znojmo and a new production line is being built in Egypt.

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 competition. 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 Europe's largest producer of bicomponent spunmelt nonwovens with extensive experience in the design and production of ultra-lightweight materials.

Maintain industry leading financial performance: The main objective of PEGAS is to grow with its main market 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.

3.6 Risk Factors

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

MARKETING AND SALES

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

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

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

PRODUCTION

Any disruption to PEGAS production facilities would have a materially adverse effect on the Company's business. PEGAS is dependent on one manufacturer for its production 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.

Production equipment of other producers may prove to be more efficient and develop faster than the production equipment installed at PEGAS production facilities.

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 materially adverse impact on the Company's financial condition and results of operations, although a polymer price increase is by large transferred to customer prices.

RESEARCH AND DEVELOPMENT

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

INTERNATIONAL EXPANSION

PEGAS is facing risks associated with potential acquisitions, investments, strategic partnerships or other ventures.

LEGAL AND INTELLECTUAL PROPERTY

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

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

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

FINANCE

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

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

There is a risk that the fluctuations in the value of the CZK against the EUR could adversely affect the Company's profitability.

Most of PEGAS's operating subsidiaries avail themselves of tax benefits offered by the Czech government. Hence, the Company's profitability could decrease owing to any adverse change in general tax policies or if the tax benefits were reduced or withdrawn.

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

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

SECURITY, ENVIRONMENT AND SAFETY

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

KEY PERSONNEL AND TECHNICAL EXPERTISE

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

PEGAS may not be able to hire and retain sufficient numbers of qualified professional personnel because these 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 will not incite random acts of violence or continue perpetrating them or that the government will continue to be able to maintain 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.

CHAPTER 4

Shares and Shareholders Structure

Shareholders Structure as at June 30, 2012

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

Source: Company Data

The total stake held by the management of the Company as at June 30, 2012 was 0.9% and has not changed since the end of 2011.

During the first six months ending June 30, 2012 the Company did not receive any notification from shareholders about an acquisition or change of a major holding in the share capital and the total voting rights attached to the shares issued by the Company.

On July 23, 2012 the Company received a shareholder notification that as at July 20, 2012 Wood & Company Funds SICAV PLC with headquarters at Level 6, The Mall Offices, Floriana, FRN 1470, Malta, held 1,386,491 shares in PEGAS NONWOVENS SA, representing a 15.02% share of share capital and voting rights in the Company. Prior to July 20, 2012 Wood & Company Funds SICAV PLC held 1,376,491 shares of the Company, representing 14.91% of the share capital and voting rights of the Company.

Share Price and Trading Development in the First Half of 2012[4]

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

During the first half of 2012 PEGAS shares were traded for a total value of CZK 949 million on the Prague Stock Exchange and for a total value of PLN 0.2 million on the Warsaw Stock Exchange. The lowest trading price during the first 6 months of 2012 was CZK 416 and PLN 63.3 and the highest CZK 461 and PLN 78.9 on the Prague and Warsaw Stock Exchanges respectively.

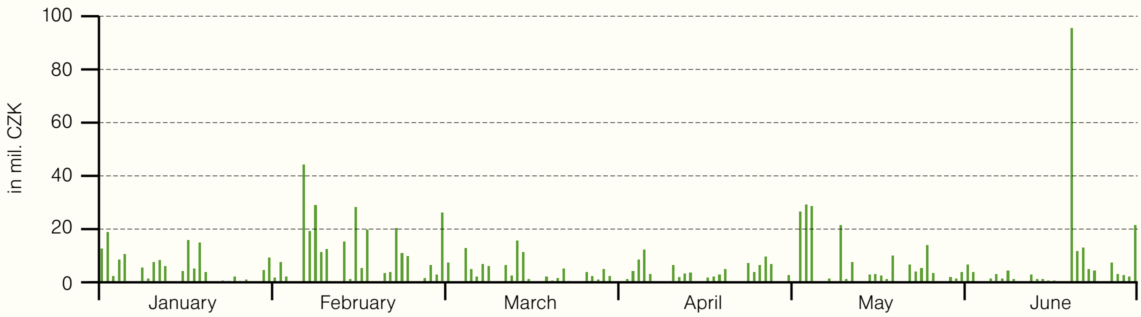
The closing price on June 30, 2012 was CZK 429 on the Prague Stock Exchange and PLN 63.5 on the Warsaw Stock Exchange and market capitalization reached CZK 4.0 billion (based on the Prague Stock Exchange quote).

[4] Sources: PSE and WSE websites

Share Price Development of PEGAS on the Prague Stock Exchange (January 1, 2012—June 30, 2012)

Share Price

Volumes



Source: PSE

CHAPTER 5

Dividend Policy and Declaration of Dividend

The Annual General Meeting of PEGAS NONWOVENS SA held on June 15, 2012 in Luxembourg, approved the proposed pay out of a dividend in the amount of EUR 9,690,870, i.e. EUR 1.05 per share. The source of the dividend payout will be 2011 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 October 19, 2012 and the dividend payment date was set to October 30, 2012.

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

CHAPTER 6

Related Party Transactions

Remuneration of Executive and Non-executive Directors

PEGAS NONWOVENS SA signed service agreements with its executive and non-executive directors.

The executive directors receive the remuneration for their services from the subsidiaries of the Company.

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

Cash-settled Share-based Payment

In 2007, the Company entered into a Share price bonus scheme for its Senior Management and Board Members. The scheme is realized through Phantom options.

The Annual General Meeting held on June 15, 2007 approved the grant of an aggregate amount of 230,735 phantom options to six senior executive managers and two non-executive directors, for no consideration. The Grant date of the phantom options was May 24, 2007. Each phantom option, when exercised, granted the manager the right to receive cash calculated as closing price of one Company share on the Prague stock exchange (the PSE) (or other market if the PSE trading is discontinued) on the day preceding the day of exercise of the phantom option less CZK 749.20 representing the offer price at the time of the initial public offering of the shares of PEGAS NONWOVENS S.A. (the IPO price). 25% of the phantom options vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on December 18, 2007 and the last options vesting on December 18, 2010.

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

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

Total number of issued phantom shares was 356,839 as at June 30, 2012.

No phantom shares were exercised in the first half of 2012. The fair value of the phantom options as at June 30, 2012 was EUR 274 thousand.

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.
- Basis for the bonus calculation is EBITDA calculated in accordance with Czech GAAP as the consolidated profit of the Group adjusted for certain extraordinary items, gains or losses specified further in the document, which was approved at the AGM.
- If achieved EBITDA is equal to Budgeted EBITDA, the paid bonus will be the Target bonus. If the achieved EBITDA is below or above the Budgeted EBITDA, the amount of the target bonus will be decreased or increased up to the amount of a maximum bonus in accordance with criteria set for each year by the Board of Directors.

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

CHAPTER 7

Corporate Governance

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 original WSE Corporate Governance Rules adopted by the Company during the IPO were amended based on Resolution No. 13/1171/2007 of the Warsaw Stock Exchange Supervisory Board dated July 4, 2007 concerning amendment of the WSE Rules.

The Company has decided to observe the majority of the WSE Corporate Governance Rules. For more detailed information see 2011 Annual Report.

Annual General Meeting of June 15, 2012

At PEGAS's AGM which was held in Luxembourg on June 15, 2012, all of the resolutions that were subject to shareholder approval were adopted. The adopted resolutions were the following:

1) Election of the Bureau of the Meeting.
2) Presentation and discussion of the report of the auditors regarding the statutory accounts and the consolidated accounts for the financial year ended December 31, 2011 and of the reports of the Board of Directors of PEGAS on the statutory accounts and the consolidated accounts for the financial year ended December 31 2011.
3) Approval of the statutory accounts and the consolidated accounts for the financial year ended December 31, 2011.
4) Allocation of the net results of the financial year ended December 31, 2011 and the dividend payout in the amount of EUR 9,690,870, i.e. EUR 1.05 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 December 31, 2011.
6) Appointment of members of the Board of Directors of PEGAS.
7) Appointment of a Luxembourg independent auditor ("réviseur d'entreprises") to review the statutory accounts and the consolidated accounts as at December 31, 2012.
8) Approval of a remuneration policy for non-executive directors for the financial year 2012.
9) Approval of a remuneration policy for executive directors for the financial year 2012.
10) Miscellaneous.

Out of the 9,229,400 ordinary shares of PEGAS, 3,308,223 ordinary shares, representing 35.84% (rounded up) of all issued shares of PEGAS in nominal value EUR 1.24 per share, were present or duly represented or had duly voted by correspondence at the AGM.

Board of Directors Structure as at June 30, 2012

BOARD OF DIRECTORS PEGAS NONWOVENS SA

Name	Age	Position / Function	Business Address	Function Period in H1 2012
František Řezáč	38	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	Jan 1, 2012 – Jun 30, 2012
František Klaška	55	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	Jan 1, 2012 – Jun 30, 2012
Marian Rašík	41	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	Jan 1, 2012 – Jun 30, 2012
Marek Modecki	53	Non-executive Director, Chairman of the Board	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	Jan 1, 2012 – Jun 30, 2012
Jan Sýkora	40	Non-executive Director	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	May 7, 2012 – Jun 30, 2012
Neil J. Everitt	51	Non-executive Director	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	Jan 1, 2012 – Mar 29, 2012

On March 29, 2012 the tenure period of non-executive director Mr. Neil J. Everitt expired and he decided to no longer seek renewal of his mandate.

The Annual General Meeting held on June 15, 2012 in Luxembourg approved to re-elect non-executive director and Chairman of the Board of Directors of PEGAS, Mr. Marek Modecki for a period ending at the PEGAS Annual General Meeting in 2014.

The Annual General Meeting agreed to confirm the co-optation of Mr. Jan Sýkora dated May 7, 2012 as a non-executive director of PEGAS and in this way to conclusively approve his appointment. Mr. Jan Sýkora is appointed for a period ending at the PEGAS Annual General Meeting in 2014.

There were no further personnel changes to the Company's Board of Directors during the first half of 2012.

Group Entities

For the purpose of translating the registered capital of Czech subsidiaries, the exchange rates of CZK/EUR 25.64 and USD/EUR 1.2593, effective as at June 30, 2012 were used.

Company Name	Acquisition/ Registration Date	Share in the Subsidiary	Registered Capital (in CZK ths, in USD ths)	Registered Capital (in EUR ths)	Number and Nominal Value of Shares
PEGAS NONWOVENS s.r.o.[5]	Dec 5, 2005	100 %	CZK 3,633 thousand	142 thousand	100% share at the value of CZK 3 633 ths
PEGAS-NT a.s.	Dec 14, 2005	100 %	CZK 550,000 thousand	21,451 thousand	54 shares with a nominal value of CZK 10,000 ths per share and 10 shares with a nominal value of CZK 1,000 per share
PEGAS – NW a.s.	Dec 14, 2005	100 %	CZK 650,000 thousand	25,351 thousand	64 shares with a nominal value of CZK 10,000 ths per share and 10 shares with a nominal value of CZK 1,000 per share
PEGAS – NS a.s.[6]	Dec 3, 2007	100 %	CZK 105,000 thousand	4,095 thousand	5 shares with a nominal value of CZK 1,000 ths per share and 10 shares with a nominal value of CZK 10,000 per share.
PEGAS NONWOVENS International s.r.o.[7]	Oct 18, 2010	100 %	CZK 200 thousand	8 thousand	100% share at the value of CZK 200 ths
PEGAS NONWOVENS EGYPT LLC[8]	Jun 6, 2011	100 %	USD 8,000 thousand	6,353 thousand	100% share at the value of USD 8,000 ths

[5] PEGAS NONWOVENS s.r.o. was registered on November 14, 2003 as ELK INVESTMENTS s.r.o. in 2006. 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 January 1, 2006. PEGAS a.s. was deleted from the Commercial Register on May 12, 2006. CEE Enterprise a.s. merged with PEGAS NONWOVENS s.r.o. with effect from January 1, 2007. CEE Enterprise a.s. was deleted from the Commercial Register on August 20, 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 (as at January 1, 2011).

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

[7] PEGAS NONWOVENS International s.r.o was established as a purpose company created for the purpose of executing potential future investments.

[8] PEGAS NONWOVENS EGYPT LLC was established for the purpose of executing the construction of a new production plant in Egypt.

CHAPTER 8

Interim Consolidated Financial Statements of PEGAS NONWOVENS SA for the Six Months Ended June 30, 2012

8.1 Condensed Consolidated Statement of Comprehensive Income for the six Months Ended June 30, 2012 and June 30, 2011

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

	Six Month Period Ending		
	June 30, 2011 (Unaudited)	June 30, 2012 (Unaudited)	% Change
Revenues	82,589	92,269	11.7%
Raw materials and consumables used	(63,283)	(70,282)	11.1%
Staff costs	(4,267)	(4,304)	0.9%
Other operating income/(expense) (net)	247	(97)	n/a
EBITDA	**15,286**	**17,586**	**15.0%**
Depreciation and amortization expense	(4,229)	(6,157)	45.6%
Profit from operations	**11,057**	**11,429**	**3.4%**
FX gains and other financial income	7,260	6,509	(10.3%)
FX losses and other financial expenses	(3,917)	(5,085)	29.8%
Interest income	14	2	(85.7%)
Interest expense	(2,096)	(2,333)	11.3%
Profit before tax	**12,318**	**10,522**	**(14.6%)**
Income tax (expense)/income	(1,522)	(1,398)	(8.1%)
Net profit after tax	**10,796**	**9,124**	**(15.5%)**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	667	(1,611)	n/a
Changes in translation reserves	2,874	1,088	(62.1%)
Total comprehensive income for the period	**14,337**	**8,601**	**(40.0%)**
Net earnings per share			
Basic net earnings per share (EUR)	1.17	0.99	(15.4%)
Diluted net earnings per share (EUR)	1.17	0.99	(15.4%)

8.2 Condensed Consolidated Statement of Comprehensive Income for the Three Months Ended June 30, 2012 and June 30, 2011

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

	Three Month Period Ending		
	June 30, 2011 (Unaudited)	June 30, 2012 (Unaudited)	% Change
Revenues	41,572	47,967	15.4%
Raw materials and consumables used	(32,640)	(37,626)	15.3%
Staff costs	(2,232)	(2,171)	(2.7%)
Other operating income/(expense) – net	332	(72)	n/a
EBITDA	**7,032**	**8,098**	**15.2%**
Depreciation and amortization expense	(2,115)	(3,069)	45.1%
Profit from operations	**4,917**	**5,029**	**2.3%**
FX gains and other financial income	2,650	(1,590)	n/a
FX losses and other financial expenses	(1,549)	(2,189)	41.3%
Interest income	5	1	(80.0%)
Interest expense	(1,307)	(1,311)	0.3%
Profit before tax	**4,716**	**(60)**	**n/a**
Income tax (expense)/income	(304)	509	n/a
Net profit after tax	**4,412**	**449**	**(89.8%)**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	18	(804)	n/a
Changes in translation reserves	847	(3,269)	n/a
Total comprehensive income for the period	**5,277**	**(3,624)**	**n/a**
Net earnings per share			
Basic net earnings per share (EUR)	0.48	0.05	(89.6%)
Diluted net earnings per share (EUR)	0.48	0.05	(89.6%)

8.3 Condensed Consolidated Statement of Financial Position as at June 30, 2012, December 31, 2011 and June 30, 2011

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

	June 30, 2011 (Unaudited)	December 31, 2011 (Audited)	June 30, 2012 (Unaudited)
ASSETS			
Non-current assets			
Property, plant and equipment	146,409	151,826	160,133
Long term intangible assets	228	452	452
Goodwill	95,302	89,927	90,489
Total non-current assets	**241,939**	**242,205**	**251,074**
Current assets			
Inventories	17,961	17,624	18,518
Trade and other payables	36,352	36,866	45,501
Cash and cash equivalents	3,798	6,248	7,603
Total current assets	**58,111**	**60,738**	**71,622**
Total assets	**300,050**	**302,943**	**322,696**
TOTAL EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	11,444	11,444	11,444
Share premium	9,078	--	--
Legal reserves	7,360	6,942	7,895
Translation reserves	9,512	4,244	5,332
Cash flow hedging	(90)	(1,377)	(2,988)
Retained earnings	106,074	109,511	117,682
Total share capital and reserves	**143,378**	**130,764**	**139,365**
Non-current liabilities			
Bank loans	102,374	125,512	131,673
Other payables	99	55	79
Deferred tax liabilities	11,213	12,337	11,977
Total non-current liabilities	**113,686**	**137,904**	**143,729**
Current liabilities			
Trade and other payables	35,328	33,954	35,012
Tax liabilities	–	95	48
Bank current liabilities	7,658	226	4,542
Total current liabilities	**42,986**	**34,275**	**39,602**
Total liabilities	**156,672**	**172,179**	**183,331**
Total equity and liabilities	**300,050**	**302,943**	**322,696**

8.4 Condensed Consolidated Statement of Cash Flows for the six Months Ended June 30, 2012 and June 30, 2011

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

	Six Month Period Ending	
	June 30, 2011 (Unaudited)	June 30, 2012 (Unaudited)
Profit before tax	**12,318**	**10,522**
Adjustment for:		
Amortization and depreciation	4,229	6,157
Foreign exchange (gains)	(2,412)	1,034
Interest expense	2,096	2,333
Fair value changes of interest rate swap	667	(1,611)
Other financial income/(expense)	(36)	(432)
Cash flows from operating activities		
Decrease/(increase) in inventories	(2,788)	(799)
Decrease/(increase) in receivables	(4,175)	(8,557)
Increase/(decrease) in payables	1,451	13,956
Income tax paid	(3,486)	(1,927)
Net cash from operating activities	**7,864**	**20,676**
Cash flows used in investment activities		
Purchases of property, plant and equipment	(19,652)	(27,393)
Net cash flows used in investment activities	**(19,652)**	**(27,393)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	12,188	9,684
Increase/(decrease) in long term payables	(4)	24
Interest paid	(1,319)	(2,068)
Other financial income/(expense)	36	432
Net cash flows from financing activities	**10,901**	**8,072**
Cash and cash equivalents at the beginning of the period	**4,685**	**6,248**
Net increase (decrease) in cash and cash equivalents	**(887)**	**1,355**
Cash and cash equivalents at June 30	**3,798**	**7,603**

8.5 Condensed Consolidated Statement of Changes in Equity in the First Six Months as at June 30, 2012 and as at June 30, 2011

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

	Share Capital	Share Premium	Legal Reserves	Cash Flow Hedging	Translation Reserves	Retained Earnings	Total Equity Attributable to Equity Holders of the Company	Minority Interests	Total Equity
As at January 1, 2011	**11,444**	**9,078**	**6,034**	**(757)**	**6,638**	**96,604**	**129,041**	**–**	**129,041**
Distribution	–	–	–	–	–	–	**–**	–	**–**
Other comprehensive income for the period	–	–	–	667	2,874	–	**3,541**	–	**3,541**
Net profit for the period	–	–	–	–	–	10,796	**10,796**	–	**10,796**
Reserves created from retained earnings	–	–	1,326	–	–	(1,326)	**–**	–	**–**
As at June 30, 2011	**11,444**	**9,078**	**7,360**	**(90)**	**9,512**	**106,074**	**143,378**	**–**	**143,378**
As at January 1, 2012	**11,444**	**–**	**6,942**	**(1,377)**	**4,244**	**109,511**	**130,764**	**–**	**130,764**
Distribution	–	–	–	–	–	–	**–**	–	**–**
Other comprehensive income for the period	–	–	–	(1,611)	1,088	–	**(523)**	–	**(523)**
Net profit for the period	–	–	–	–	–	9,124	**9,124**	–	**9,124**
Reserves created from retained earnings	–	–	953	–	–	(953)	**–**	–	**–**
As at June 30, 2012	**11,444**	**–**	**7,895**	**(2,988)**	**5,332**	**117,682**	**139,365**	**–**	**139,365**

8.6 Selected Explanatory Notes to the Interim Consolidated Financial Statements for the Period Ending June 30, 2012

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

a) Basis of Preparation

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

b) Summary of Significant Accounting Policies

The same basis of preparation, accounting policies, presentation and methods of computation have been followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended December 31, 2011.

c) Disclosures on Seasonal and Economic Influences

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

d) Unusual Items Given Their Size, Nature or Frequency

In the first half of 2012 consolidated revenues (revenues from sales of products) reached EUR 92,269 thousand, up by 11.7% yoy. This increase was the result of increased volumes of sold production thanks to the new production line, which was put into operation in the second half of 2011. On the contrary, polymer prices declined almost 6% yoy.

In the first half of 2012 EBITDA amounted to EUR 17,586 thousand, up by 15% yoy. The year on year EBITDA increase was achieved namely due to the contribution of the new production line. However, the year on year comparison was negatively affected by a higher number of planned maintenance breaks and changes in inventories of finished goods.

In the first half of 2012 foreign exchange gains and other financial income represented a gain of EUR 6,509 thousand and foreign exchange losses and other financial expense amounted to EUR 5,085 thousand. These items represent realized and unrealized FX gains/losses and other financial income and expenses. The year on year change of these items resulted from the development of the CZK/EUR FX rate and from the subsequent unrealized FX changes related to the revaluation of the balance sheet items denominated in EUR (particularly bank debt and inter-company loans).

In the first half of 2012 total consolidated capital expenditures amounted to EUR 27,393 thousand, up by 39.4% over the previous year. Capital expenditures related to the construction of the Egyptian production plant represented EUR 12,204 thousand of this amount. Final payments for the already commissioned ninth production line added up to EUR 13,058 thousand and maintenance CAPEX was EUR 2,131 thousand.

e) Estimates

The preparation of interim financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors. 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.

f) Repurchases and Repayments of Debt and Equity Securities

The bank facilities used by PEGAS Group consist of a revolving credit facility of up to EUR 165 million and of an overdraft facility of up to EUR 15 million. The facilities are non-amortizing, which removes from the Company its obligations to make mandatory repayments. During the first six months of 2012 the Company increased bank indebtedness from EUR 125,738 thousand to EUR 136,215 thousand (from EUR 96,238 thousand to EUR 110,032 thousand in the first three months of 2011). The Company did not conclude any new bank facilities in the first half of 2012.

No repurchases and repayments of equity securities occurred in first half of 2012.

g) Dividend

The Annual General Meeting of the Company held on June 15, 2012 in Luxembourg, approved the proposed pay out of a dividend in the amount of EUR 9,690,870, i.e. EUR 1.05 per share.

The source of the dividend payout will be 2011 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 October 19, 2012 and the dividend payment date was set to October 30, 2012.

h) 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.

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

On July 23, 2012 the Company received a shareholder notification that as at July 20, 2012 Wood & Company Funds SICAV PLC with headquarters at Level 6, The Mall Offices, Floriana, FRN 1470, Malta, held 1,386,491 shares in PEGAS NONWOVENS SA, representing a 15.02% share of share capital and voting rights in the Company. Prior to July 20, 2012 Wood & Company Funds SICAV PLC held 1,376,491 shares of the Company, representing 14.91% of the share capital and voting rights of the Company.

The management of the Group is not aware of any other events that have occurred since the reporting date that would have any material impact on the consolidated financial statements as at June 30, 2012.

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

Based on the decision of the Annual General Meeting held on June 27, 2012, PEGAS NONWOVENS EGYPT LLC increased its registered capital from USD 5,000 thousand to USD 8,000 thousand. The increase in registered capital was performed through a cash deposit by PEGAS NONWOVENS International s.r.o.

k) Information about the Fair Value of Financial Intruments

In the period of the first six months of this year no changes occurred to the Company's open positions of financial instruments or to their valuation methodology.

As at June 30, 2012 the Company had four interest rate swaps open, these were concluded in 2009 and 2011. The fair value of these swaps as at June 30, 2012 and December 31, 2011 is presented in the following table:

Counterparty	as at December 31, 2011	as at June 30, 2012
Česká spořitelna – 2009 IRS	(586)	(222)
ING – 2009 IRS	(550)	(222)
Česká spořitelna – 2011 IRS	(313)	(1,642)
ING – 2011 IRS	(251)	(1,626)
Total	**(1,700)**	**(3,712)**

Fair value of these swaps is determined by the EUR yield curve at the balance sheet date and the discounted cash flow method. The inputs used in the fair value calculation are categorized in accordance with IFRS 7 into level 2 of fair value hierarchy, i.e. inputs other than unadjusted quoted prices in active markets, however, these inputs are observable for the assets or liability, either directly (as prices) or indirectly (derived from prices).

Fair value of the swaps as at June 30, 2012 represents a payable of the Company. Currently these swaps hedge 71.9% of the Company's debts (76.9% as at December 31, 2011).

SENSITIVITY OF THE FAIR VALUE OF INTEREST RATE SWAPS

The instantaneous and parallel increase of the yield curve by 1%, would increase the fair value of the interest rate swaps by approximately EUR 3,227 thousand as at June 30, 2012 (by approximately EUR 3,482 thousand as at December 31, 2011).

The instantaneous and parallel decline of the yield curve by 1% (in parallel across the entire yield curve) would lead to a reduction of the fair value of the interest rate swaps by EUR 3,556 thousand as at June 30, 2012 (by approximately EUR 3,820 thousand as at December 31, 2011).

l) Earnings per Share

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

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

The basic and diluted earnings per share for all periods are equal due to the fact, that the Group does not have any agreement at the balance sheet date which will cause a potential future issue of securities. No changes to the number of shares occurred during either first half of 2012 or first half of 2011.

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

2011

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

2012

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

BASIC EARNINGS PER SHARE

		Three Months Ended		Six Months Ended	
		Jun 30, 2011	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012
Net profit attributable to equity holders	ths. EUR	4,412	449	10,796	9,124
Weighted average number of ordinary shares	Number	9,229,400	9,229,400	9,229,400	9,229,400
Basic earnings per share	**EUR**	**0.48**	**0.05**	**1.17**	**0.99**

DILUTED EARNINGS PER SHARE

		Three Months Ended		Six Months Ended	
		Jun 30, 2011	Jun 30, 2012	Jun 30, 2011	Jun 30, 2012
Net profit attributable to equity holders	ths. EUR	4,412	449	10,796	9,124
Weighted average number of ordinary shares	Number	9,229,400	9,229,400	9,229,400	9,229,400
Diluted earnings per share	**EUR**	**0.48**	**0.05**	**1.17**	**0.99**

m) Related Party Transactions

In the first half of 2012 no new transactions were concluded between the Group and executive management or the non-executive directors.

n) Approval of the Interim Financial Statements

The interim financial statements were approved by the Company's Board of Directors on August 29, 2012.

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

....
František Řezáč
Member of the Board of Directors
PEGAS NONWOVENS SA

CHAPTER 9

Statement of Responsible Persons

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

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

hereby declare that, to the best of their knowledge, the condensed set of 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.

....	....
Marek Modecki	František Řezáč
Chairman of the Board of Directors	*Member of the Board of Directors*
PEGAS NONWOVENS SA	*PEGAS NONWOVENS SA*

CHAPTER 10

Contacts

PR/IR Officer

PEGAS NONWOVENS
Tel.: +420 515 262 408
GSM: +420 724 311 544
iro@pegas.cz

CHAPTER 11

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) – 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.

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

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 220 member companies in 30 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 – Percentage margin calculated as 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, Czech Republic. PEGAS operates six production lines there.

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

Reicofil – Reifenhäuser REICOFIL GmbH & Co. KG is a leading nonwoven machinery manufacturer.

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

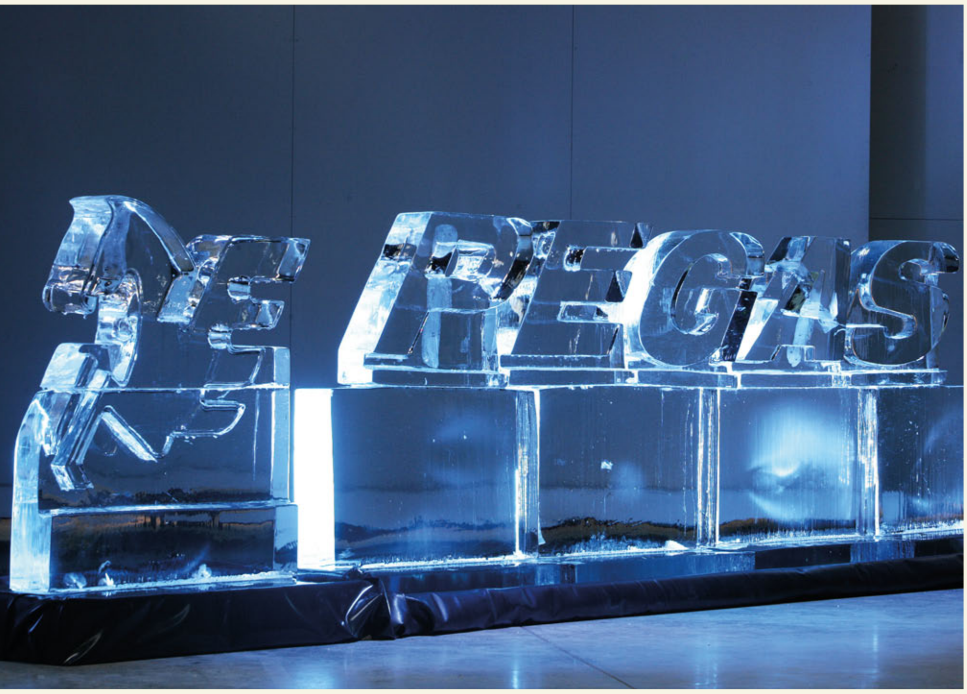
SAP – Company management information system.

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.

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



CHAPTER 12

Other Information

Basic Information on the Company

COMPANY NAME

PEGAS NONWOVENS SA

HEADQUARTERS

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

REGISTRY AND REGISTRATION NUMBER

Registered with the Luxembourg trade and companies register under number B 112.044

INCORPORATED

November 18, 2005 under the name Pamplona PE Holdco 2 SA

JURISDICTION

Luxembourg

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

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

The object of the Company is:

a) to take participation and interests, in any form whatsoever, in any commercial, industrial, financial or other, Luxembourg or foreign entities;

b) to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or in any other way and namely to acquire patents and licences, and other property, rights and interest in property as the Company shall deem fit, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part,

c) to enter into, assist or participate in financial, commercial and other transactions, and to grant assistance of the holding Company, subsidiary, or fellow subsidiary, 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; and

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

PEGAS

NONWOVENS

every single detail