PEGAS NONWOVENS SA

Half Year Report 2011

AUGUST 25, 2011

PEGAS
NONWOVENS
every single detail

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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 20 years become the second largest European producer of spunmelt nonwovens based on 2010 annual production capacity. Currently PEGAS operates eight production lines in two production plants and a new production line is now being put into operation. The total annual production capacity of the Company is approximately 70,000 tonnes of nonwoven textiles and after the launch of the ninth production line its capacity will increase to 90,000 tonnes. PEGAS consists of a parent holding company in Luxembourg and five operating companies, PEGAS NONWOVENS s. r. o., PEGAS – DS a. s., PEGAS-NT a. s., PEGAS – NW a. s. and PEGAS – NS a. s., all located in the Czech Republic. Within the scope of the international expansion of PEGAS NONWOVENS SA a new company PEGAS NONWOVENS International s. r. o was established in 2010 and subsequently PEGAS NONWOVENS EGYPT LLC in June 2011, which will invest in the Egyptian production capacity. As at June 30, 2011 PEGAS had 423 employees.

100 % of shares in PEGAS are listed on the Prague Stock Exchange and on the Warsaw Stock Exchange and are held by institutional and retail investors. As at June 30, 2011 the management of the Company jointly owned a 0.9 % stake of the total share capital.

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

CHAPTER 2

First Half 2011 Key Figures

Financials (EUR Thousands)	Three Months to June 30			Six Months to June 30		
	2010	2011	% Change	2010	2011	% Change
Revenues	34,405	41,572	20.8 %	68,807	82,589	20.0 %
EBITDA	7,460	7,032	(5.7 %)	16,302	15,286	(6.2 %)
Profit from Operations (EBIT)	3,317	4,917	48.2 %	8,085	11,057	36.8 %
Net Profit for the Period	1,781	4,412	147.7 %	9,443	10,796	14.3 %
CAPEX	683	4,975	628.4 %	5,577	19,652	252.4 %
Ratios						
EBITDA Margin	21.7 %	16.9 %	(4.8 pp)	23.7 %	18.5 %	(5.2 pp)
Operating Profit (EBIT) Margin	9.6 %	11.8 %	2.2 pp	11.8 %	13.4 %	1.6 pp
Net Profit Margin	5.2 %	10.6 %	5.4 pp	13.7 %	13.1 %	(0.6 pp)
CAPEX as % of Revenues	2.0 %	12.0 %	10.0 pp	8.1 %	23.8 %	15.7 pp
Total Production Output (in tonnes net of scrap)	17,523	17,546	0.1 %	34,374	34,848	1.4 %
Number of Employees – End of Period (EOP)	387	423	9.3 %	387	423	9.3 %
No. of Employees during Period (Average)	378	404	6.9 %	380	401	5.5 %
Exchange Rates						
CZK/EUR Average	25.589	24.321	(5.0 %)	25.727	24.348	(5.4 %)
CZK/EUR EOP	25.695	24.345	(5.3 %)	25.695	24.345	(5.3 %)

Financials (EUR Thousands)	Dec 31, 2010	June 30, 2011	% Change
Total Assets	251,221	300,050	19.4 %
Total Equity	129,041	143,378	11.1 %
Total Borrowings[1]	96,238	110,032	14.3 %
Net Debt/(Net Cash)[2]	91,553	106,234	16.0 %
No. Shares EOP	9,229,400	9,229,400	0 %

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

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

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

At present, PEGAS is going through a very important period with many projects underway.

We are in the final stages of putting a new production line into operation. For PEGAS, this line represents the most state-of-the-art technology to date. Apart from increasing commercial capacity that will positively impact financial results in the second half of the year, we also expect the production line to strengthen our position as one of the technological leaders in the industry. It will also help us in the completion of several projects focused on technologically advanced materials that are planned for commercialisation in 2013 and 2014.

An important challenge, but also a significant opportunity for PEGAS will be the recently announced construction of a production plant in Egypt. We are now working on the individual project stages including final negotiations with our customer about the conditions of future cooperation. Also in connection with this project, we completed the process of refinancing our bank loan in June. The new EUR 180 million loan facility will enable the Company to execute the planned investment projects without having to amend its progressive dividend policy. Therefore, at the end of July we were able to announce a dividend payment of EUR 1.00 per share.

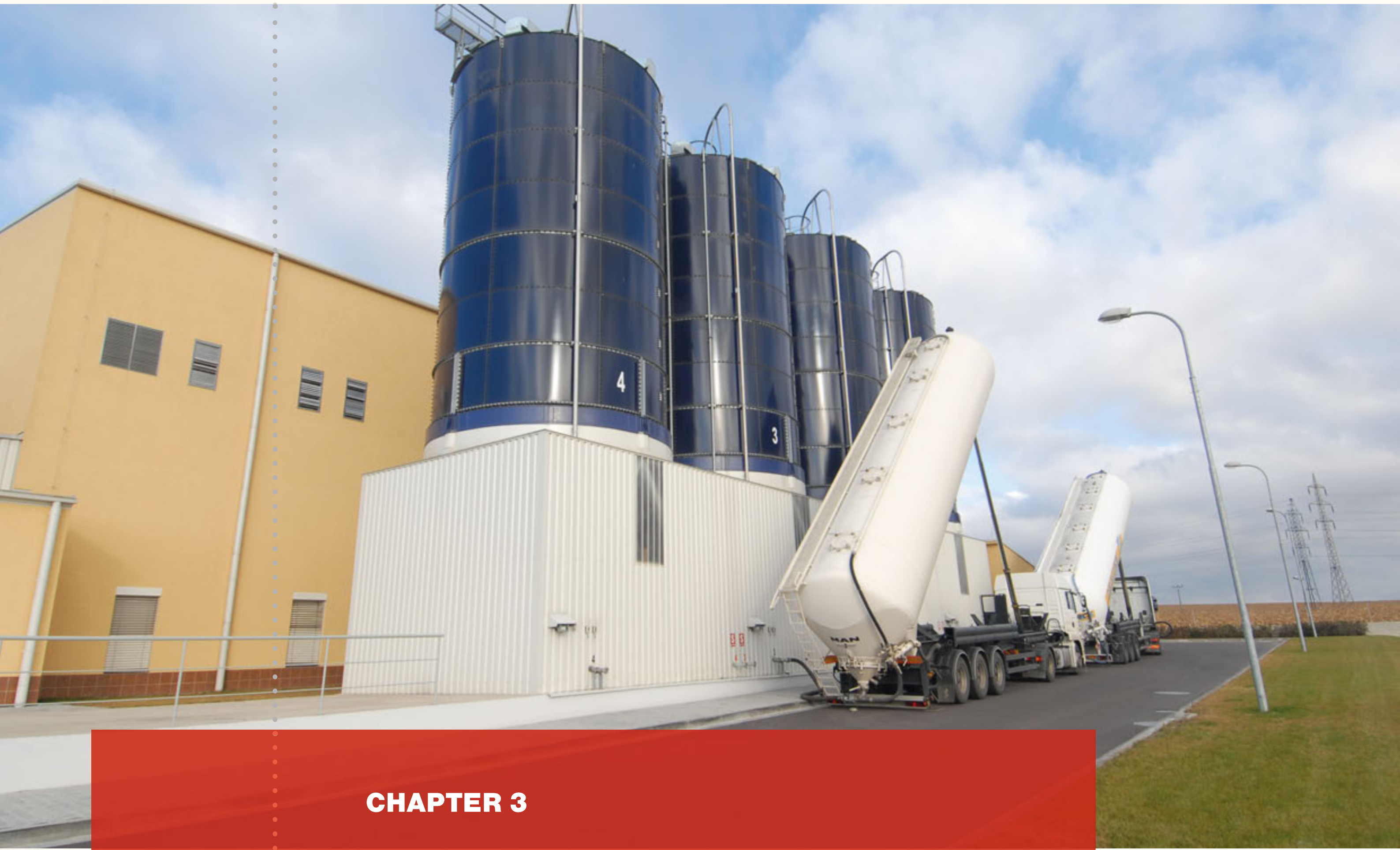
In terms of our financial performance, I am glad to be able to confirm the initial full year EBITDA guidance given in March this year, although our financial results achieved in the first half of the year were affected by significant increases in polymer prices reaching historical highs in April.

For last few weeks we have been registering a decline in prices of our main input materials and we believe that the negative impact of the price pass-through mechanism in the first half will be significantly compensated for by the end of the year. Moreover, in combination with the new capacities coming on board, the planned annual financial results will be met.

2011 Outlook Confirmed

Based on the financial and business results in the first half of this year, while taking into account the launch of the new production line in the third quarter and the developments in the European nonwovens market including the anticipated developments in the polymer market, the Company confirms its previous outlook for EBITDA in 2011.

In the short term, operating results may be affected by the developments in polymer prices. The effect of the delay of the price pass-through mechanism into the prices of the final products has had a very negative effect on the first half of this year. Polymer prices have significantly declined in the past few weeks and this fact will positively affect the financial results in the third quarter. However, the considerable price volatility of raw materials continues to be an uncertain factor when forecasting the Company’s financial outlook.



CHAPTER 3

Management Report for the First Half of 2011

3.1 Financial Results in the First Half of 2011

Revenues, Costs and EBITDA

In the first half of 2011 consolidated revenues (revenues from sales of products) reached EUR 82.6 million, up by 20% yoy. A key role in the development of revenues was played by the continued grown in polymer price indices. When compared to the average prices in the first half of 2010, polymer prices rose by more than 20% yoy.

In the second quarter of 2011, the total consolidated revenues were EUR 41.6 million, a 20.8% increase compared with the same period last year. Revenues were influenced by the growth in the input material prices described above.

Total consolidated operating costs without depreciation and amortization (net) went up by 28.2% yoy to EUR 67.3 million in the first half of 2011. In the second quarter of 2011 consolidated operating costs without depreciation and amortization (net) were EUR 34.5 million, representing an increase of 28.2% yoy. As with the revenues, the main reason of the annual increase in both semi-annual and quarterly operating costs was the above mentioned growth of polymer prices.

In the first half of 2011 EBITDA amounted to EUR 15.3 million, down by 6.2% yoy. The decline in EBITDA in the first half of this year is the result of the higher negative effect of the delay in the material price pass-through mechanism compared with the same period in 2010 and the increase in staff costs expressed in EUR.

EBITDA amounted to EUR 7.0 million in the second quarter of 2011, down by 5.7% yoy. The main reason for the year on year EBITDA decline is the increase in staff costs expressed in EUR resulting from the appreciation of the CZK against the EUR, the hiring of new employees for the ninth production line and the revaluation of the share option plan to fair value.

In the first half of 2011 the EBITDA margin was 18.5%, which is 5.2 percentage points lower than in the same period in 2010. In the second quarter of 2011 the EBITDA margin was 16.9%, which is a decline of 4.8 percentage points yoy.

Operating Costs

Total raw materials and consumables used in the first half of 2011 amounted to EUR 63.3 million, a 28.3% yoy increase. In the second quarter of 2011 this item reached EUR 32.6 million, an increase of 28.8% yoy. The key driver was the previously stated increase in polymer prices.

In the first half of 2011 total staff costs amounted to EUR 4.3 million, an increase of 18.4% yoy. In the second quarter staff costs grew by 22.8% to EUR 2.2 million. The increase in staff costs expressed in EUR in the first half and also in the second quarter of this year was significantly influenced by the appreciation of the CZK against the EUR and likewise the revaluation of the share option plan to fair value. Total staff costs in the first half and also in the second quarter expressed in CZK, excluding the revaluation of the share option plan, increased by 8.4% yoy, resp. by 6.4% due to the increased number of employees needed for the new production line and the indexation of wages. A significant portion of staff costs connected with the hiring of new employees was compensated for by a subsidy for the establishment of new jobs that was a component of the awarded investment incentives. These subsidies are booked in the item Other operating income (net).

In the first half of 2011 Other operating income (net) amounted to EUR 0.2 million, down by 41.9 % yoy. In the second quarter of 2011 Other operating income (net) amounted to EUR 0.3 million, up by 54.4 % over last year namely as a result of the subsidy for the establishment of new jobs for the ninth production line.

Amortization and Depreciation

Consolidated depreciation and amortization reached EUR 4.2 million in the first half of 2011, down by 48.5 % yoy. In the second quarter of 2011, consolidated depreciation and amortization amounted to EUR 2.1 million, down by 49 % yoy.

As of January 1, 2011 the Company has implemented a change (extension) to the useful lifetime of production technology. Therefore, the amortization and depreciation amount cannot be compared year on year. The prolongation of the estimated useful lifetime will cause the depreciation and amortization expense to decrease in 2011 by approximately EUR 6.7 million. On the other hand, the yoy appreciation of the CZK against the EUR negatively affected the depreciation and amortization item.

Profit from Operations

In the first half of 2011 Profit from operations (EBIT) amounted to EUR 11.1 million, up by 36.8 % over the same period in 2010, namely on the basis of the here mentioned changes to the amortization and depreciation of production technology.

In the second quarter of 2011 profit from operations (EBIT) increased by 48.2 % to EUR 4.9 million.

Financial Income and Costs

In the first half of 2011 Foreign exchange changes and other financial income/(expense) (net) represented a gain of EUR 3.3 million, up by 0.2 % 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 2011 foreign exchange changes and other financial income/(expense) (net) represented an gain of EUR 1.1 million, compared with a loss of EUR 1.0 million in the same period last year.

Interest expenses (net) related to debt servicing amounted to EUR 2.1 million in the first half, a 29.6 % increase compared with the same period in 2010. The reason for this increase was the write off of a part of the arrangement fee for the previous bank loan from 2007. The fee was linearly accrued in interest expenses for the entire duration of the loan contract and in connection with the debt refinancing the Company wrote off the residual value of EUR 0.6 million.

In the second quarter of 2011, interest expenses (net) related to debt servicing amounted to EUR 1.3 million, a 62.8 % increase compared with the same period last year resulting from the write off of the arrangement fee for the previous bank loan.

The interest from the increased draw down of the loan facility for the purpose of the construction of the ninth production line is capitalised as part of the cost of this production line.

Income Tax

In the first half of 2011 income tax amounted to EUR 1.5 million, up by 309.1 % over the same period in 2010. The Company recorded income tax due to unrealized FX gains resulting from the revaluation of the bank debt and the inter-company loan and also from the expiry of the investment incentives for the subsidiary PEGAS – DS a. s. The total amount represents the tax payable, changes in deferred tax were negligible in the first half of this year.

In the second quarter of 2011 income tax expense amounted to EUR 0.3 million compared with an income of 0.3 million in the same period last year.

Net Profit

In the first half of 2011 Net profit reached EUR 10.8 million, up by 14.3 % yoy, primarily due to lower depreciation and amortisation. In the second quarter of 2011 the Company achieved a net profit of EUR 4.4 million, up by 147.7 % over the same period in 2010 due to the effect of lower depreciation and amortization and higher FX gains (including their effect on income tax).

CAPEX

In the first half of 2011 consolidated capital expenditures represented EUR 19.7 million, up by 252.4 % over the same period last year. The higher capital expenditure primarily represents the expenditures for the new production line project in the Czech Republic. In the first half of the year initial investments were also made into the planned construction of the production plant in North Africa.

In the second quarter of 2011 total consolidated capital expenditure amounted to EUR 5.0 million, up by 628.4 % over the same period last year.

In connection with the announcement of the new production plant in North Africa the Company is changing its CAPEX outlook for 2011. Now the Company estimates that in 2011 the total capital expenditure will not exceed EUR 42 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, 2011 was EUR 110 million, a 14.3 % increase compared with December 31, 2010. Net Debt as at June 30, 2011 reached EUR 106.2 million, up by 16 % when compared with December 31, 2010. The increase in debt is related to the increased draw down of the loan facility for the purpose of the construction of the ninth production line. As at June 30, 2011 the Net Debt/EBITDA ratio was 3.1x.

On June 8, 2011 PEGAS signed a contract for a 5-year non-amortising loan for the amount of EUR 180 million. The loan will be used to finance new capital expenditures and to refinance the previous loan facility. The new loan facility is comprised of a revolving loan up to the amount of EUR 165 million and an overdraft facility up to the amount of EUR 15 million. The interest rate is based on the EURIBOR interest rate and an interest margin based on the actual Net Debt/EBITDA ratio of the Company. The loan conditions do not require any compulsory repayments of principal during the duration of the loan.

3.2 Business Overview of the First Half 2011

In the first half of 2011, the total production output (net of scrap) reached 34,848 tonnes, up by 1.4% compared with the first half of 2010. In the second quarter of 2011 the Company produced 17,546 tonnes, up by 0.1% over the same period last year.

In the first half of 2011, the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 86.3% share of total revenues, which represents a slight decrease compared with an 87.3% share in the first half 2010. The high share of products in this category confirms the important position that the Company has in this market. In the second quarter of 2011 the share of revenues from sales of nonwoven textiles for the hygiene industry on total revenues was 86.0%, down by 1.5 percentage points compared with the same period last year.

Revenues from sales of standard (commodity) textiles for hygiene products reached EUR 55.3 million in the first half of 2011, an increase of 20.5% compared to the first half of 2010. In the first half of 2011 the share of revenues from sales of standard textiles for the hygiene industry represented a 66.9% share of total revenues, an increase of 0.2 percentage points compared to the first half of 2010. In the second quarter of 2011 this share increased slightly to 67.2%. In the first half of 2011, the revenues from sales of light-weight and bi-component materials reached EUR 16.0 million, a 12.5% increase compared to the first half of 2010. The share of revenues from sales in this product category of total revenues in the first half of 2011 amounted to 19.4% and in the second quarter of 2011 this share declined slightly to 18.8%.

Revenues from sales of non-hygiene products (for construction, agriculture and medical) amounted to EUR 11.3 million in the first half 2011, an increase of 30.0% yoy. The share of sales of non-hygiene products on total revenues was 13.7% in the first half of 2011 and reached 14.0% 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 2011 revenues from sales to Western Europe amounted to EUR 44.3 million, which represented a 53.6% share of total revenues, compared with a 59.8% share in the same period in 2010. In this period revenues from sales to Central and Eastern Europe and Russia amounted to EUR 35.4 million and represented a 42.9% share of total revenues. Revenues from sales to other territories amounted to EUR 2.9 million, and represented a 3.5% share of total revenues.

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

3.3 Announcement of Investment into a New Production Plant in North Africa

On June 1, 2011 the Company announced its plan to build a new production plant in Egypt. In connection with this plan, PEGAS established a new subsidiary PEGAS NONWOVENS EGYPT LLC with an initial share capital equivalent to EUR 1.7 million. The investment and the establishment of the company is the result of successful negotiations with a major customer, who showed interest in deliveries of nonwoven textiles to its production plants in the Middle East and it is also based on the growth potential of this market. The definitive confirmation that the investment will go ahead is subject to the conclusion of a contract with the customer, which should take place in the coming months.

In the first phase, the value of the investment in Egypt is planned in the range of EUR 55–60 million.

PEGAS has signed a contract for the purchase of land to be used for the construction of the plant with the Industrial Development Group, a developer for the industrial zone at the City of 6th October near Cairo. The area of the land parcel is 42 thousand square meters.

In the medium-term horizon PEGAS NONWOVENS 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 course of the second half of 2013. If the market conditions in the region are favourable, 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. Approximately 80 new employees are expected to be hired for the new production line.

The PEGAS NONWOVENS Egyptian project will be headed by Mr. Philippe Ehret, who has extensive experience in the area of nonwoven textile production and project management. Recently Mr. Ehret managed a successful project for the construction of a nonwoven textile production plant in Saudi Arabia.

In June 2011 the Company refinanced its bank loan thereby securing finances for international expansion.

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 strategy is supported by a team of technical specialists, who are dedicated to product development, customer support and making technological modifications to the production lines. This team has been built over a period of more than 10 years and specialises in several different areas, which are principally divided into industrial and hygiene applications, with the main focus on applications in the hygiene segment as this is the key focus area for the majority of the Company's important projects.

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.

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 added value products for its customers.

In the area of technologies, PEGAS is continuing in the commercialisation of ultralight materials produced on the newest production line. This new production line has confirmed the expected parameters of the produced materials and its overall production efficiency. PEGAS intends to continue in this direction also in respect to the new production line, which will be put into operation in the second half of 2011. Furthermore, the new production line will enable the company to bring new technological designs to the market and support PEGAS's position as a technology leader.

PEGAS also actively cooperates with several institutions, which supplement the research resources of the Company. There are several universities and R&D centres, mainly in the Czech Republic and Slovakia and also in Western Europe. They offer the Company special support in specialised and sophisticated laboratory resources.

With the objective of utilising production capacities and accelerating development projects, PEGAS takes advantage of several pilot projects, which are prepared under special contractual condition with key partners. All projects are connected either directly to new technologies or to the utilisation of newly developed raw materials on technologies or to projects that are directly focused on specific customers. They are projects, where all three parties work together covering the entire supply chain.

3.5 Strategy

The strategic focus of the Company in 2011 and in the future will be 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 returns to its shareholders

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

Continue investing into technologically advanced production capacity: PEGAS will strive to install state-of-the-art production capacities ahead of its main European competitors. The ninth production line is now being put into operation.

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 and supply its customers with the highest quality products and regularly develop new materials.

Focus on technologically advanced products: PEGAS is Europe's largest producer of bi-component 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, 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. The aim of the Company is be able to supply its key customers in the main geographic areas of their manufacturing demand. In connection with this strategy, in June 2011 the Company announced its plan to build production lines in North Africa.

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

PRODUCTION

Any disruption to PEGAS production facilities would have a 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.

Machinery from other producers may prove more efficient and develop faster than the machinery supplier of PEGAS.

The Company's competitors may have access to more and cheaper sources of capital allowing them to modernize 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 faces risks associated with its acquisitions, investments, strategic partnerships or other types of ventures. These also include the questions, whether the Company is able to identify certain opportunities, complete given opportunities and integrate other parties into the Group.

The ability of the Company to achieve the planned revenues from these transactions depends to a great extent on its ability to quickly and effectively integrate new operations with existing ones and to manage a larger number of subsidiaries. Possible acquisitions and investments present a number of risks, such as for example the risk that a given investment will not be profitable or that it will not generate the expected cash and that the Company will not be able to expand its current company infrastructure and so support the integration of the new operations into the Group. On entering new markets where it does not have relevant experience, the Company may face unforeseeable difficulties. The Company may not receive approval from anti-monopoly authorities in the case of a potential acquisition. The failure of acquisitions or investments may lead to a reduction in the growth and profitability of the Company.

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

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

SECURITY, ENVIRONMENT AND SAFETY

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

KEY PERSONNEL AND TECHNICAL EXPERTISE

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

CHAPTER 4

Shares

and Shareholders Structure

Shareholders Structure as of June 30, 2011

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, 2011 was 0.9 % and has not changed since the end of 2010.

On March 18, 2011 the company received a shareholder announcement stating that clients and funds of Templeton Asset Management Ltd., an indirect subsidiary of Franklin Resources Inc., held as at March 17, 2011 a total of 903,059 shares of PEGAS NONWOVENS SA (managed by the custodian Banque Generale Du Lux a Fortis Banque Luxembourg), representing 9.78 % of the share capital and voting rights of the Company. Prior to March 17, 2011 the clients and funds of Templeton Asset Management Ltd. held 928,659 shares of the Company, representing 10.06 % of the share capital and voting rights of the Company.

On June 16, 2011 the Company received a shareholder announcement stating that funds managed by AEGON Hungary Fund Management Co. as at June 7, 2011 held 67,321 shares of PEGAS NONWOVENS SA, representing 0.73 % of the share capital and voting rights of the Company. Prior to June 7, 2011 funds managed by AEGON Hungary Fund Management Co. held 469,027 shares of the Company, representing 5.08 % of the share capital and voting rights of the Company.

During the first six months ending June 30, 2011 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 2011[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 of 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 2011 PEGAS shares were traded for a total value of CZK 789 million on the Prague Stock Exchange and for a total value of PLN 1.12 million on the Warsaw Stock Exchange. The lowest trading price during the first six months of the year was CZK 426 and PLN 69.75 and the highest CZK 473 and PLN 76.5 on the Prague and Warsaw Stock Exchanges respectively.

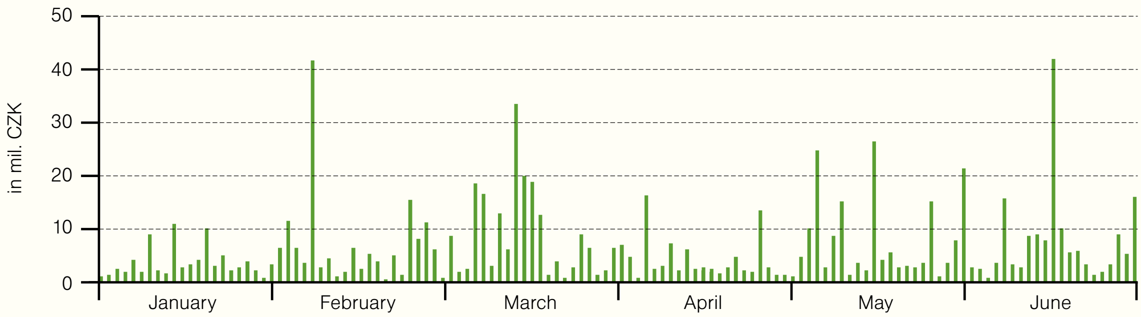
The closing price on June 30, 2011 was CZK 471 on the Prague Stock Exchange and PLN 75.75 on the Warsaw Stock Exchange and market capitalization reached CZK 4.3 billion (based on the Prague Stock Exchange quote).

[4] Sources: PSE and WSE websites

Share Price Development of PEGAS on the Prague Stock Exchange (January 1, 2011—June 30, 2011)

Share Price

Volumes



Source: PSE

CHAPTER 5

Dividend Policy

and Declaration of Dividend

On July 18, 2011 the Board of Directors of PEGAS NONWOVENS SA approved a dividend payment to the Company's shareholders in the total amount of EUR 9,229,400, representing EUR 1.00 per share (for a total of 9,229,400 shares). 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, NDS or by other systems) was set to October 20, 2011 and the dividend payment date was set to October 27, 2011. This dividend will be paid from the share premium account of the Company and its payment doesn't require the approval of the General Meeting of Shareholders.

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 has been set by the Company.

CHAPTER 6

Related Party Transactions

Remuneration of Executive and Non-executive Directors

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

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

Cash-settled Share-based Payment

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

The Annual General Meeting held on June 15, 2007 approved the grant of an aggregate amount of 230,735 phantom options to six senior executive managers and two non-executive directors, for no consideration. The Grant date of the phantom options was May 24, 2007. Each phantom option, when exercised, granted the manager the right to receive cash calculated as the closing price of one Company share on the Prague stock exchange (the PSE) (or other market if the PSE trading is discontinued) on the day preceding the day of 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 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 of December 15, 2009 increased by 10%, and the closing price of one PEGAS's share on the day preceding the day of exercise of the phantom option on the PSE (or other market if the PSE trading is discontinued). 25% of phantom options (i.e. 57,684 options) will vest yearly, with the first options vesting on December 18, 2010 and the last options vesting on December 18, 2013, whereas the first options vesting on December 18, 2010 will fully replace the last options of current share price bonus plan, approved at the AGM in 2007, vesting at the same date.

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

Total number of issued phantom shares was 356,839 as of June 31, 2011.

No phantom shares were exercised in the first half of 2011. The fair value of the phantom options as at June 30, 2011 was EUR 592 thousand.

Management Bonus Scheme

The AGM approved the principles of the bonus scheme in 2008 targeted to the senior management of the Company for 2008 and for subsequent financial years.

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 for 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

Annual General Meeting of June 15, 2011

At PEGAS's AGM which was held in Luxembourg on June 15, 2011, 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, 2010 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, 2010.
3) Approval of the statutory accounts and the consolidated accounts for the financial year ended December 31, 2010.
4) Allocation of the net results of the financial year ended December 31, 2010.
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 Dec 31, 2010.
6) Appointment of a Luxembourg independent auditor ("réviseur d'entreprises") to review the statutory accounts and the consolidated accounts as at Dec 31, 2011.
7) Approval of a remuneration policy for non-executive directors for the financial year 2011.
8) Approval of a remuneration policy for executive directors for the financial year 2011.
9) Granting authority to the Board of Directors to acquire shares of PEGAS.
10) Miscellaneous.

Out of the 9,229,400 ordinary shares of PEGAS, 2,832,427 ordinary shares, representing 30.69% (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, 2011

BOARD OF DIRECTORS PEGAS NONWOVENS SA

Name	Age	Position / Function	Business Address	Function Period in H1 2011
František Řezáč	37	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	Jan 1, 2011 – Jun 30, 2011
František Klaška	54	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	Jan 1, 2011 – Jun 30, 2011
Marian Rašík	40	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	Jan 1, 2011 – Jun 30, 2011
Marek Modecki	52	Non-Executive Director, Chairman of the Board	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	Jan 1, 2011 – Jun 30, 2011
Neil J. Everitt	50	Non-Executive Director	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	Jan 1, 2011 – Jun 30, 2011

There were no personnel changes to the Company's Board of Directors during the first half of 2011.

Group Entities

To translate the share capital of Czech subsidiaries, the CZK/EUR 24.345 and CZK/USD 16.845 rates of exchange issued by Czech National Bank effective on June 30, 2011 were used.

Company	Acquisition/ Registration Date	Share in the Subsidiary	Share Capital (in ths. CZK, in ths. USD)	Share Capital (in ths. EUR)	Number and Nominal Value of Shares
PEGAS NONWOVENS s. r. o.[5]	Dec 5, 2005	100 %	3,633 thousand CZK	149	100% share at the value of CZK 3 633 ths.
PEGAS – DS a. s.	Dec 14, 2005	100 %	800,000 thousand CZK	32,861	64 shares at nominal value of CZK 10,000 ths. per share and 64 shares at CZK 2,500 ths. per share
PEGAS-NT a. s.	Dec 14, 2005	100 %	550,000 thousand CZK	22,592	54 shares at nominal value of CZK 10,000 ths. per share and 10 shares at CZK 1,000 ths. per share
PEGAS – NW a. s.	Dec 14, 2005	100 %	650,000 thousand CZK	26,700	64 shares at nominal value of CZK 10,000 ths. per share and 10 shares at CZK 1,000 ths. per share
PEGAS – NS a. s.[6]	Dec 3, 2007	100 %	105,000 thousand CZK	4,313	5 shares at nominal value of CZK 1,000 ths. per share and 10 shares at CZK 10,000 ths. per share
PEGAS NONWOVENS International s.r.o.[7]	Nov 5, 2010	100 %	200 thousand CZK	8	100% share at the value of CZK 200 ths.
PEGAS NONWOVENS EGYPT LLC[8]	Jun 6, 2011	100 %	USD 2,500 thousand	1,730	100% share at the value of USD 2,500 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.

[6] PEGAS – NS a. s. was established by the Company in December 2007 for the purpose of a new production line project. On November 26, 2010 PEGAS – NS a. s. increased its share capital from CZK 5,000 ths. to CZK 105,000 ths.

[7] PEGAS NONWOVENS International s. r. o. was established as a 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, 2011

8.1 Condensed Consolidated Statement of Comprehensive Income for the six Months Ended June 30, 2011 and June 30, 2010

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, 2010 (Unaudited)	June 30, 2011 (Unaudited)	% Change
Revenues	68,807	82,589	20.0 %
Raw materials and consumables used	(49,326)	(63,283)	28.3 %
Staff costs	(3,604)	(4,267)	18.4 %
Other operating income/(expense) (net)	425	247	(41.9 %)
EBITDA	**16,302**	**15,286**	**(6.2%)**
Depreciation and amortization expense	(8,217)	(4,229)	(48.5 %)
Profit from operations	**8,085**	**11,057**	**36.8%**
FX gains and other financial income	6,106	7,260	18.9 %
FX losses and other financial expenses	(2,769)	(3,917)	41.5 %
Interest income	1	14	n/a
Interest expense	(1,608)	(2,096)	30.3 %
Profit before tax	**9,815**	**12,318**	**25.5 %**
Income tax – (expense)/income net	(372)	(1,522)	309.1 %
Net profit after tax	**9,443**	**10,796**	**14.3 %**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	(1,245)	667	n/a
Changes in translation reserves	2,381	2,874	20.7 %
Total comprehensive income for the period	**10,579**	**14,337**	**35.5 %**
Net earnings per share			
Basic net earnings per share (EUR)	1.02	1.17	
Diluted net earnings per share (EUR)	1.02	1.17	

8.2 Condensed Consolidated Statement of Comprehensive Income for the Three Months Ended June 30, 2011 and June 30, 2010

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, 2010 (Unaudited)	June 30, 2011 (Unaudited)	% Change
Revenues	34,405	41,572	20.8 %
Raw materials and consumables used	(25,342)	(32,640)	28.8 %
Staff costs	(1,818)	(2,232)	22.8 %
Other operating income/(expense) (net)	215	332	54.4 %
EBITDA	**7,460**	**7,032**	**(5.7 %)**
Depreciation and amortization expense	(4,143)	(2,115)	(49.0 %)
Profit from operations	**3,317**	**4,917**	**48.2 %**
FX gains and other financial income	(685)	2,650	n/a
FX losses and other financial expenses	(364)	(1,549)	325.5 %
Interest income	–	5	n/a
Interest expense	(800)	(1,307)	63.4 %
Profit before tax	**1,468**	**4,716**	**221.3 %**
Income tax (expense)/income net	313	(304)	n/a
Net profit after tax	**1,781**	**4,412**	**147.7 %**
Other comprehensive income			
Net value gain/(loss) on cash flow hedges	(122)	18	n/a
Changes in translation reserves	(920)	847	n/a
Total comprehensive income for the period	**739**	**5,277**	**614.1 %**
Net earnings per share			
Basic net earnings per share (EUR)	0.19	0.48	
Diluted net earnings per share (EUR)	0.19	0.48	

8.3 Condensed Consolidated Statement of Financial Position as of June 30, 2011, December 31, 2010 and June 30, 2010

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, 2010 (Unaudited)	December 31, 2010 (Audited)	June 30, 2011 (Unaudited)
ASSETS			
Non-current assets			
Property, plant and equipment	109,537	107,713	146,409
Intangible assets	198	219	228
Goodwill	90,295	92,583	95,302
Total non-current assets	**200,030**	**200,515**	**241,939**
Current assets			
Inventories	13,328	14,741	17,961
Trade and other payables	28,719	31,280	36,352
Cash and cash equivalents	630	4,685	3,798
Total current assets	**42,677**	**50,706**	**58,111**
Total assets	**242,707**	**251,221**	**300,050**
TOTAL EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	11,444	11,444	11,444
Share premium	17,846	9,078	9,078
Legal reserves	6,034	6,034	7,360
Translation reserves	4,584	6,638	9,512
Other changes in equity	(1,064)	(757)	(90)
Retained earnings	85,008	96,604	106,074
Total share capital and reserves	**123,852**	**129,041**	**143,378**
Non-current liabilities			
Bank loans	94,033	95,450	102,374
Other payables	40	103	99
Deferred tax liabilities	10,895	10,686	11,213
Total non-current liabilities	**104,968**	**106,239**	**113,686**
Current liabilities			
Trade and other payables	12,845	13,419	35,328
Tax liabilities	1,042	1,734	–
Bank current liabilities	–	788	7,658
Total current liabilities	**13,887**	**15,941**	**42,986**
Total liabilities	**118,855**	**122,180**	**156,672**
Total equity and liabilities	**242,707**	**251,221**	**300,050**

8.4 Condensed Consolidated Statement of Cash Flows for the six Months Ended June 30, 2011 and June 30, 2010

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, 2010 (Unaudited)	June 30, 2011 (Unaudited)
Profit before tax	**9,815**	**12,318**
Adjustment for:		
Amortization and depreciation	8,217	4,229
Foreign exchange (gains)	(1,121)	(2,412)
Interest expense	1,608	2,096
Fair value changes of interest rate swap	(1,245)	667
Other financial income/(expense)	34	(36)
Cash flows from operating activities		
Decrease/(increase) in inventories	733	(2,788)
Decrease/(increase) in receivables	(2,899)	(4,175)
Increase/(decrease) in payables	(1,995)	1,451
Income tax paid	(889)	(3,486)
Net cash from operating activities	**12,258**	**7,864**
Cash flows from investment activities		
Purchases of property, plant and equipment	(5,577)	(19,652)
Net cash flows from investment activities	**(5,577)**	**(19,652)**
Cash flows from financing activities		
Increase/(decrease) in bank loans	(5,155)	12,188
Increase/(decrease) in long term payables	13	(4)
Interest paid	(1,348)	(1,319)
Other financial income/(expense)	(34)	36
Net cash flows from financing activities	**(6,524)**	**10,901**
Cash and cash equivalents at the beginning of the period	**473**	**4,685**
Net increase (decrease) in cash and cash equivalents	**157**	**(887)**
Cash and cash equivalents at June 30	**630**	**3,798**

8.5 Condensed Consolidated Statement of Changes in Equity in the First Six Months as at June 30, 2011 and as at June 30, 2010

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, 2010	**11,444**	**17,846**	**4,396**	**181**	**2,203**	**77,203**	**113,273**	**–**	**113,273**
Distribution	–	–	–	–	–	–	–	–	–
Other comprehensive income for the period	–	–	–	(1,245)	2,381	–	1,136	–	1,136
Net profit for the period	–	–	–	–	–	9,443	9,443	–	9,443
Reserves created from retained earnings	–	–	1,638	–	–	(1,638)	–	–	–
As at June 30, 2010	**11,444**	**17,846**	**6,034**	**(1,064)**	**4,584**	**85,008**	**123,852**	**–**	**123,852**
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**

8.6 Selected Explanatory Notes to the Interim Consolidated Financial Statements for the Period Ending June 30, 2011

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

a) Basis of Preparation

These consolidated financial statements ware prepared in accordance with International Financial Reporting Standards (IFRS), and are in compliance with IAS 34 “Interim Financial Reporting” as adopted by the European Union. The condensed interim financial statements do not include all the information and disclosures required in the annual financial statements. 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, 2010.

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 2011 consolidated revenues (revenues from sales of products) reached EUR 82,589 thousand, up by 20% yoy. Total raw materials and consumables used in the same period amounted to EUR 67,303 thousand, a 28.2% yoy increase. A key role in the development of revenues was played by the continued grown of polymer price indices. When compared to the average prices in the first half of 2010, polymer prices rose by more than 20% yoy.

In the first half of 2011 EBITDA amounted to EUR 15,286 thousand, down by 6.2% yoy. The decline in EBITDA in the first half of this year is the result of the higher negative effect of the delay in the material price pass-through mechanism compared with the same period in 2010 and the increase in staff costs expressed in EUR.

In the first half of 2011 foreign exchange gains and other financial income represented a gain of EUR 7,260 thousand and foreign exchange losses and other financial expense amounted to EUR 3,917 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 2011 total consolidated capital expenditures amounted to EUR 19,652 thousand, up by 252.4 % over the previous year. Higher capital expenditures in this year are primarily connected to the construction of the new production facility.

PEGAS spent EUR 19,652 thousand as capital expenditure in the first half of 2011, mainly due to planned expenditures on the new production facility.

e) Estimates

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

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

f) Repurchases and Repayments of Debt and Equity Securities

On June 8, 2011 PEGAS signed a contract for a 5-year non-amortising loan for the amount of EUR 180 million. The loan will be used to finance new capital expenditures and to refinance the previous loan facility. The new loan financing is comprised of a revolving loan up to the amount of EUR 165 million and an overdraft facility up to the amount of EUR 15 million. The interest rate is based on the EURIBOR interest rate and an interest margin based on the actual Net Debt/EBITDA ratio of the Company. The Loan Conditions do not require any compulsory repayments of principal during the duration of the loan.

During the first six month of 2011 Company increased bank indebtedness from EUR 96,238 thousand to EUR 110,032 thousand (reduced from EUR 96,083 thousand to EUR 94,033 thousand in the first half of 2010).

No repurchases and repayments of equity securities occurred in the first half of 2011.

g) Dividend

During the interim period, no dividend was paid to the shareholders. Information related to the dividend payment in 2011 is described in note i).

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 18, 2011 the Board of Directors of PEGAS NONWOVENS SA approved a dividend payment to the Company's shareholders in the total amount of EUR 9,229,400, representing EUR 1.00 per share. The record date (i.e. the day at the end of which shares entitled to a dividend) was set to October 20, 2011 and the dividend payment date was set to October 27, 2011. This dividend will be paid from the share premium account of the Company and its payment does not require the approval of the General Meeting of Shareholders.

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, 2011.

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

On June 6, 2011 2011 PEGAS established a new subsidiary PEGAS NONWOVENS EGYPT LLC with an initial share capital of USD 2,500 thousand. This subsidiary was established for the purpose of executing the construction of a new production plant in Egypt.

k) Earnings per Share

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

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

The basic and diluted earnings per share for all periods are equal due to the fact, that the Group does not have any agreement at the balance sheet date which will cause a potential future issue of securities. No changes to the number of shares occurred during either first half of 2011 or first half of 2010.

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

2010

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

2011

	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, 2010	Jun 30, 2011	Jun 30, 2010	Jun 30, 2011
Net profit attributable to equity holders	ths. EUR	1,781	4,412	9,443	10,796
Weighted average number of ordinary shares	Number	9,229,400	9,229,400	9,229,400	9,229,400
Basic earnings per share	**EUR**	**0.19**	**0.48**	**1.02**	**1.17**

DILUTED EARNINGS PER SHARE

		Three Months Ended		Six Months Ended	
		Jun 30, 2010	Jun 30, 2011	Jun 30, 2010	Jun 30, 2011
Net profit attributable to equity holders	ths. EUR	1,781	4,412	9,443	10,796
Weighted average number of ordinary shares	Number	9,229,400	9,229,400	9,229,400	9,229,400
Diluted earnings per share	**EUR**	**0.19**	**0.48**	**1.02**	**1.17**

l) Related Party Transactions

In the first half of 2011 no new transactions were concluded between the Group and executive management or the non-executive directors.

m) Approval of the Interim Financial Statements

The interim financial statements were approved by the Board of Directors on August 15, 2011.

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

František Řezáč
Member of the Board of
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 PEGAS NONWOVENS SA,

hereby declare that, to the best of their knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true view of assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole and that the management report includes a fair view of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

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

CHAPTER 10

Contacts

PR/IR Officer

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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.

Atmospheric plasma treatment – treatment using ionised gas at high energy to achieve adhesion.

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 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.

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 specialized 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 measure 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 five production line here.

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

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.

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

CHAPTER 12

Other Information

Basic Information on the Company

NAME

PEGAS NONWOVENS SA

ADDRESS

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

REGISTRY AND REGISTRATION NUMBER

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

INCORPORATED

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

JURISDICTION

Luxembourg

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

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

The object of the Company is:

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

b) to acquire any securities and rights through participation, contribution, under-writing firm purchase or option, negotiation or in any other way and namely to acquire patents and licences, and other property, rights and interest in property as the Company shall deem fit, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as the Company may think fit, and in particular for shares or securities of any Company purchasing the same; or

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

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

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

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

Contacts