



HALF YEAR REPORT 2014

PEGAS NONWOVENS SA | 28 AUGUST 2014

PEGAS NONWOVENS SA

Half Year Report 2014

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01



Introduction

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

Since its foundation in 1990, the Company has grown to become the largest producer of spunmelt nonwovens in the EMEA region based on 2013 annual production capacity. Currently, PEGAS operates nine production lines in the Czech Republic and one production line in Egypt, which started commercial operation in 2013. The total annual installed production capacity of the Company is presently up to 90 thousand tonnes of nonwoven textiles in the Czech Republic and up to 20 thousand tonnes in Egypt. PEGAS consists of a parent holding company in Luxembourg and four operating companies, PEGAS NONWOVENS s.r.o., PEGAS-NT a.s., PEGAS – NW a.s. and PEGAS – NS a.s., all located in the Czech Republic. In 2010, PEGAS NONWOVENS International s.r.o. was established as a special purpose company for the execution of potential investment opportunities and this was followed by the establishment of PEGAS NONWOVENS EGYPT LLC in June 2011, a company that executed the investment construction in Egypt. As at 30 June 2014, PEGAS had 579 employees.

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

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

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First Half 2014 Key Figures

| Financials (EUR Thousands) | Three Months to 30 June | | | Six Months to 30 June | | |
|--|-------------------------|--------|-----------|-----------------------|---------|-----------|
| | 2013 | 2014 | % Change | 2013 | 2014 | % Change |
| Revenues | 48,119 | 52,586 | 9.3% | 98,052 | 111,415 | 13.6% |
| EBITDA | 9,099 | 9,884 | 8.6% | 19,160 | 22,136 | 15.5% |
| Profit from Operations (EBIT) | 6,234 | 6,187 | (0.8%) | 13,406 | 14,771 | 10.2% |
| Net Profit for the Period | 3,748 | 4,997 | 33.3% | 6,729 | 10,533 | 56.5% |
| CAPEX | 14,299 | 453 | (96.8%) | 31,991 | 1,539 | (95.2%) |
| Ratios | | | | | | |
| EBITDA Margin | 18.9% | 18.8% | (0.1 pp) | 19.5% | 19.9% | 0.4 pp |
| Operating Profit (EBIT) Margin | 13.0% | 11.8% | (1.2 pp) | 13.7% | 13.3% | (0.4 pp) |
| Net Profit Margin | 7.8% | 9.5% | 1.7 pp | 6.9% | 9.5% | 2.6 pp |
| CAPEX as % of Revenues | 29.7% | 0.9% | (28.8 pp) | 32.6% | 1.4% | (31.2 pp) |
| Total Production Output (in tonnes net of scrap) | 21,847 | 24,685 | 13.0% | 43,252 | 49,563 | 14.6% |
| Number of Employees - End of Period (EOP) | 571 | 579 | 1.4% | 571 | 579 | 1.4% |
| Number of Employees during Period (Average) | 555 | 566 | 2.0% | 524 | 568 | 8.4% |
| Exchange Rates | | | | | | |
| CZK/EUR Average | 25.831 | 27.447 | 6.3% | 25.699 | 27.444 | 6.8% |
| CZK/EUR at EOP | 25.950 | 27.450 | 5.8% | 25.950 | 27.450 | 5.8% |

| Financials (EUR Thousands) | 31 December 2013 | 30 June 2014 | % Change |
|-------------------------------|------------------|--------------|----------|
| Total Assets | 356,742 | 350,020 | (1.9%) |
| Total Equity | 125,633 | 125,200 | (0.3%) |
| Total Borrowings ¹ | 162,386 | 154,899 | (4.6%) |
| Net Debt ² | 149,323 | 145,236 | (2.7%) |
| Number of Shares at EOP | 9,229,400 | 9,229,400 | — |

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

² Calculated as total borrowings minus cash and cash equivalents.

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

“In the second quarter of this year, we increased EBITDA by almost 9% to EUR 9.9 million. Of course, the contribution of the new Egyptian production line was the key driver of this growth. Thus far, we are very happy with the achieved production results in Egypt and we can already say that the Egyptian production line is able to achieve comparable production parameters to those that we are accustomed at our Czech facilities. Personally, I am also very satisfied with the development of the product portfolio, where, in the first half of this year, we confirmed the previously indicated trend of a growing share of technologically advanced materials.

With respect to the achieved operating parameters, I can confirm that we have met our expectations in the area of sales, where inventories of finished products were built-up, thus enabling more effective planning of our production schedule. In the area of production, we still see certain opportunities for improvement, which, together with the other mentioned factors, give us sufficient confidence that we will meet our full year guidance as well as solid prospects from the longer term perspective”.

2014 Outlook Confirmed

In the first half of 2014, the Company achieved financial results that are in line with the announced outlook for the entire year 2014.

Based on the results achieved in the first half of 2014 and respecting the developments in the European and Middle Eastern nonwoven textile markets, including the expected development in the polymer market, the Company confirms its previously announced outlook for 2014 and expects this year's EBITDA to grow between 12 and 22% compared with the result achieved in 2013 (EUR 38.6 million).

The Company estimates that in 2014, total capital expenditure will not exceed EUR 12 million (at the constant exchange rate of CZK/EUR 27).

03



Interim Management Report
for the First Half of 2014

3.1 Financial Results in the First Half of 2014

Revenues, Costs and EBITDA

In the first half of 2014, consolidated revenues (revenues from sales of products) reached EUR 111.4 million, up by 13.6% yoy. In the second quarter of this year, the total consolidated revenues were EUR 52.6 million, a 9.3% increase compared with the same period last year. The year-on-year revenue growth was the result of increased sales levels of finished products on the back of production from the new production line in Egypt. The change in the price of polymers had a minimal effect on the year-on-year comparison.

Total consolidated operating costs without depreciation and amortization (net) went up by 13.2% yoy to EUR 89.3 million in the first half of 2014. In the second quarter of 2014, consolidated operating costs without depreciation and amortization (net) were EUR 42.7 million, representing an increase of 9.4% yoy. The main reason for the increase was the higher consumption of input materials resulting from the higher sales levels and rising polymer prices.

In the first half of 2014, EBITDA amounted to EUR 22.1 million, up by 15.5% yoy. The EBITDA increase was achieved namely due to the contribution of the new Egyptian production plant. The result was also supported by a weaker CZK/EUR exchange rate. The polymer price pass-through mechanism had a negative effect on the year-on-year comparison. The results in the first half are in line with the guidance range announced at the beginning of the year, when the Company indicated a year-on-year increase in EBITDA of 12% to 22%.

EBITDA amounted to EUR 9.9 million in the second quarter of 2014, up by 8.6% yoy, for the same reasons as indicated above. In the second quarter, EBITDA was affected by an increase in inventories.

In the first half of 2014, the EBITDA margin was 19.9%, which is 0.4 percentage points higher than in the same period in 2013. The EBITDA margin in the second quarter of 2014 amounted to 18.8%, which is 0.1 percentage points below the previous year.

Operating Costs

Total raw materials and consumables used in the first half of this year amounted to EUR 83.8 million, a 13.7% yoy increase. In the second quarter of 2014, this item reached EUR 39.8 million, an increase of 9.9% compared with the same period in the previous year. The primary factor driving year-on-year growth was the increased consumption of input materials connected with production at the Egyptian plant and rising polymer prices.

In the first half of 2014, total staff costs amounted to EUR 5.0 million, a decrease of 0.1% yoy. The weakened exchange rate of the Czech crown induced by the intervention of the Czech National Bank at the end of 2013 had a positive effect on the year-on-year comparison of staff costs expressed in EUR. Total staff costs denominated in local currencies, i.e. in Czech crowns and Egyptian pounds without the revaluation of the share option plan increased in the first half of 2014 by 6.9%. This increase was affected by an increase in employee numbers at the Egyptian plant and the recruitment of employees related to an implementation of an additional quality control system in the Czech Republic.

In the second quarter, staff costs fell by 9.3% to EUR 2.3 million as a result of the revaluation of the option plan to fair value and the weakening of the CZK/EUR exchange rate.

Other operating expenses (net) reached EUR 0.5 million in the first half of this year compared to an expense of EUR 0.2 million in 2013. In the second quarter of 2014, Other operating expenses (net) amounted to EUR 0.6 million.

Depreciation and Amortization

Consolidated depreciation and amortization amounted to EUR 7.4 million in the first half of 2014, up by 28.0% yoy. In the second quarter of 2013, consolidated depreciation and amortization amounted to EUR 3.7 million, up by 29.0% yoy. The increase in depreciation and amortization was caused by the inclusion of the new Egyptian production line into the Company's assets.

Profit from Operations

In the first half of 2014, profit from operations (EBIT) amounted to EUR 14.8 million, up by 10.2% over the same period in 2013.

In the second quarter of 2014, profit from operations (EBIT) when compared on a year-on-year basis remained at a level of EUR 6.2 million.

Financial Income and Costs

In the first half of 2014, foreign exchange changes and other financial income/expense (net) amounted to an income of EUR 1.1 million compared to an expense of EUR 3.4 million achieved in the same period last year. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The year-on-year change of this item resulted from the development of the CZK/EUR and USD/EUR FX rates, which led to subsequent unrealized FX changes related to the revaluation of balance sheet items denominated in EUR (in particular bank debt and intra-company loans including intra-company loans to the subsidiary in Egypt). In the second quarter of 2014, FX gains and other financial income/expense (net) represented an income of EUR 1.5 million.

Interest expenses (net) related to debt servicing amounted to EUR 4.2 million in the first half, a 98.3% increase compared with the same period in 2013. In the second quarter of 2014, interest expenses (net) related to debt servicing amounted to EUR 2.1 million, a 90.4% increase compared with the same period last year. The reason for the year-on-year growth of interest expenses was the termination of the inclusion of interest expenses in the acquisition price of the Egyptian plant resulting from the line being put into operation.

Income Tax

In the first half of 2014, income tax amounted to EUR 1.1 million, down by 3.8% yoy. The current tax payable was EUR 1.2 million (in 2013 it was EUR 1.0 million), while changes in deferred tax represented an income of EUR 0.1 million. Current income tax in this period grew due to the unrealized foreign exchange changes in the compared periods.

In the second quarter of 2014, income tax amounted to EUR 0.6 million, compared with EUR 1.1 million in the same period last year. In the second quarter of 2014, current income tax amounted to EUR 0.6 million, while changes in deferred tax were negligible.

Net Profit

In the first half of 2014, net profit reached EUR 10.5 million, up by 56.5% yoy primarily due to the reported unrealized foreign exchange changes in the compared periods. Interest expenses had the opposite effect on net profit, which as a result of the Egyptian plant being put into operation, were now fully reflected in the Company's results. In the second quarter of 2014, the Company recorded a net profit of EUR 5.0 million, up by 33.3% compared with the same period in 2013. The increase in net profit in this period is the result of the same factors that acted on the year-on-year increase in net profit in the half year comparison.

CAPEX and Investments

In the first half of 2014, consolidated capital expenditures represented EUR 1.5 million, a decline of 95.2% compared to the same period last year. In the second quarter of 2014, total consolidated capital expenditures amounted to EUR 0.5 million, down by 96.8% over the same period last year. In 2014, capital expenditures represent maintenance CAPEX.

The Company estimates that in 2014 the total capital expenditure will not exceed EUR 12 million (at the constant exchange rate of CZK/EUR 27).

Cash and Indebtedness

The total amount of consolidated financial debt (both short-term and long-term) as at 30 June 2014 was EUR 154.9 million, a 4.6% decrease compared with 31 December 2013. Net Debt as at 30 June 2014 reached EUR 145.2 million, down by 2.7% compared with 31 December 2013. As at 30 June 2014, the Net Debt/EBITDA ratio was 3.5x.

3.2 Business Overview of the First Half 2014

In the first half of 2014, the total production output (net of scrap) reached 49,563 tonnes, up by 14.6% compared with the first half of 2013. In the second quarter of 2014, the Company produced 24,685 tonnes, up by 13.0% over the same period last year. The higher production in 2014 was bolstered by the production from the Egyptian plant.

In the first half of 2014, the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 87.2% share of total revenues, indicating a minor year-on-year decline. The high share of products in this category confirms the important position that the Company has in this market. In the second quarter of 2014, the share of revenues from sales of nonwoven textiles for the hygiene industry on total revenues was 86.7%, 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 60.1 million in the first half of 2014, a decrease of 5.6% compared with the first half of 2013. In the first half of 2014, the share of revenues from sales of standard textiles for the hygiene industry represented a 54.0% share of total revenues, a decrease of 11 percentage points compared with the first half of 2013. In the second quarter of 2014, this share decreased slightly to 53.7%. In the first half of 2014, the revenues from sales of light-weight and bi-component materials reached EUR 37.0 million, a 57.0% increase compared to the first half of 2013. The share of revenues from sales in this product category of total revenues in the first half of 2014 amounted to 33.2% and in the second quarter of 2014 this share fell to 33.0%.

In the first half of 2014, revenues from sales of non-hygiene products (for construction, agriculture and medical) amounted to EUR 14.3 million, an increase of 32.3% yoy. The share of sales of non-hygiene products on total revenues was 12.8% in the first half of 2014 and reached 13.3% in the second quarter of this year.

The geographical distribution of its markets³, confirms the Company's steady focus on sales to the broader European area. In the first half of 2014, revenues from sales to Western Europe amounted to EUR 36.6 million, which represented a 32.8% share of total revenues, compared with a 37.8% share in the same period in 2013. In this period, revenues from sales to Central and Eastern Europe and Russia amounted to EUR 54.7 million and represented a 49.1% share of total revenues. Revenues from sales to other territories amounted to EUR 20.1 million, and represented a 18.1% share of total revenues.

3.3 Investment in Egypt

As a result of successful negotiations with a major customer, who expressed interest in deliveries of nonwoven textiles to their production plants in the Middle East, and based on the growth potential of this market, in 2011, the Company took the decision to build a new production plant in Egypt.

According to the initial concept the Company assumes to build two production lines in Egypt. The first line that was put into operation during the course of the third quarter of 2013, has an annual production capacity of approximately 20 thousand tonnes (depending on the product portfolio). If the market conditions in the region are positive, the Company expects to expand the plant in 2016, which would increase the total capacity of the Egyptian plant to 40–45 thousand tonnes.

3.4 Research & Development

The development of new applications, products and the optimisation of technologies and materials are some of the key components 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.

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

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

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

In the technology field, PEGAS is continuing in the commercialisation of ultra light-weight materials produced on the latest production line. The production line has confirmed the expected parameters of the produced materials as well as its overall production efficiency.

³ The geographical breakdown is based on the location of delivery.

Apart from ultra-lightweight materials, PEGAS is actively contributing to the development of nonwovens with excellent touch, bulkiness and softness. These materials are already successfully commercialised and bring many advantages to customers. Further development in this area will be focused on the so-called 3D structure of nonwoven textiles.

An additional research area is the utilisation of non-traditional polymers that are not based on regular crude oil derivatives. PEGAS is currently investigating the potential feasibility of using biopolymers on its modern spunmelt lines.

Another future direction could be found through the examination of possible ways to commercialise modified meltblown technology for the production of nano fibres.

PEGAS cooperates with many institutions, which provide positive support for the Company's research, especially in the areas of modelling the structure of the nonwoven fabric. There are several universities and R&D centres, mainly in the Czech Republic and Slovakia, and also in Western Europe, which offer the Company special support in various specialised fields and/or highly sophisticated lab resources.

In order to better utilise its production lines and accelerate the development of its projects, PEGAS uses several pilot lines, which are made available under certain agreements at 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. There are several projects where all three parties cooperate, and thereby involve the whole 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 the EMEA region, and
- 3) deliver solid returns to its shareholders.

PEGAS intends to meet this strategy principally through achieving the following goals:

Investments into technologically advanced production capacity: PEGAS will strive to install state-of-the-art production capacities in the EMEA region. The last production line in Znojmo was launched in the second half of 2011 and the new production line in Egypt started production in 2013.

Maintain close relationships with customers and suppliers: PEGAS will continue to work together with its clients, machinery manufacturers and raw material suppliers to develop new research and development projects 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 and commercialise new materials.

Focus on technologically advanced products: PEGAS is the largest producer of bi-component spunmelt nonwovens in the EMEA region with extensive experience in the design and production of ultra-lightweight materials. During 2012 and 2013, the Company successfully commercialised new materials with exceptional properties.

Maintain industry leading financial performance: The main objective of PEGAS is to grow with its key market and to achieve high operating margins relative to its competitors. PEGAS generates significant cash flows from its operating activities, 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 introduction of new capacities by one of the existing competitors in the hygiene segment could adversely affect sales and margins.

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

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

PRODUCTION

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

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

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

PEGAS depends on external suppliers for key raw materials, therefore increases in the cost of raw materials, electricity and other consumables could have a fundamentally adverse impact on the Company's financial condition and results of operations, despite the fact that polymer price increases are transferred to customer prices.

RESEARCH AND DEVELOPMENT

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

POTENTIAL EXPANSION

PEGAS is facing risks associated with potential acquisitions, investments, strategic partnerships or other ventures, including opportunity identification, risk of the completion of the transaction and the integration of other parties into PEGAS's business.

LEGAL AND INTELLECTUAL PROPERTY

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

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

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

FINANCE

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

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

There is a risk that the fluctuations in the value of the Czech koruna against the Euro could adversely affect the Company's profitability.

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

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

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

SECURITY, ENVIRONMENT AND WORKPLACE SAFETY

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

KEY PERSONNEL AND TECHNICAL EXPERTISE

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

PEGAS may not be able to hire and retain sufficient numbers of qualified professional personnel of which there is a limited number on the market.

OWNERSHIP CHANGES

PEGAS is 100% free float and its ownership structure is very fragmented. 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.

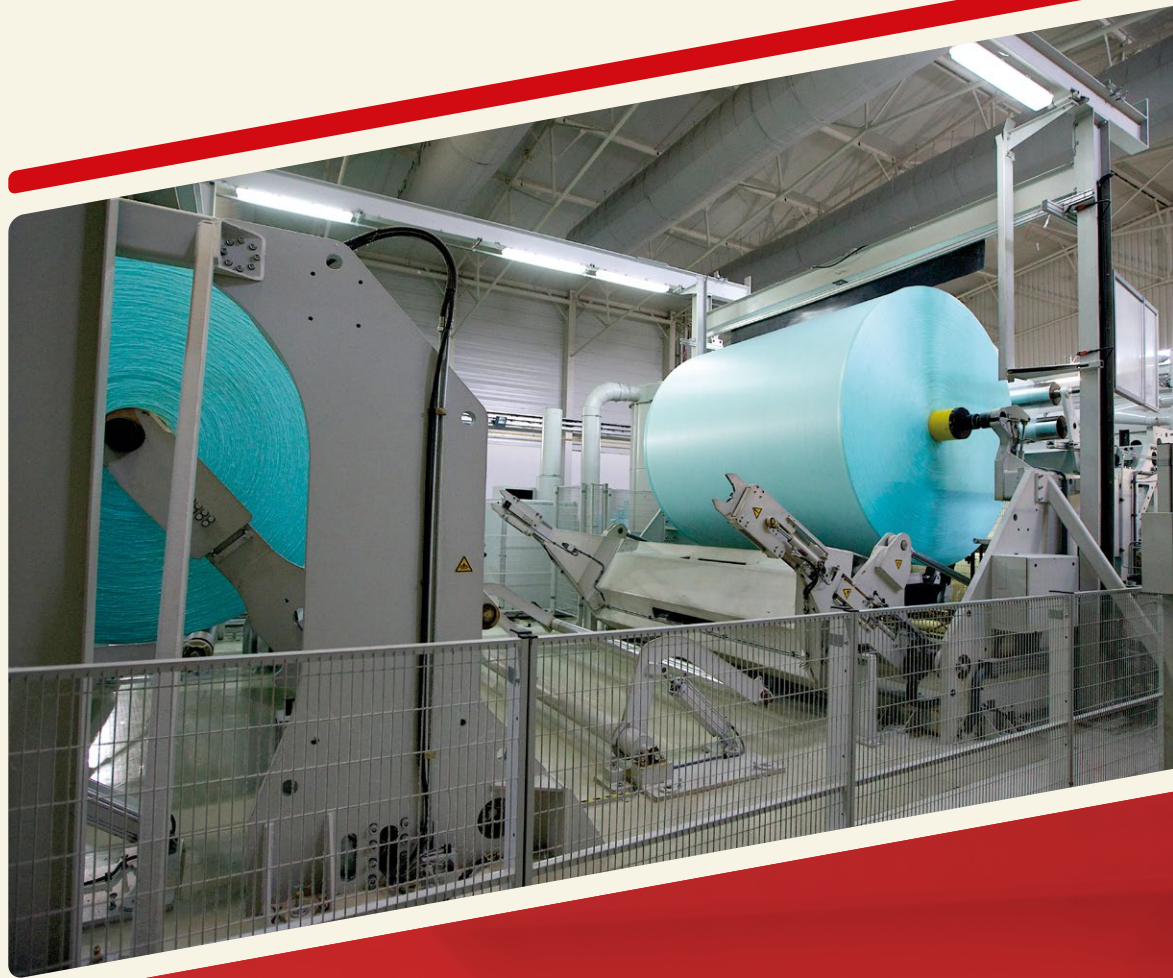
RISK FACTORS RELATED TO THE INVESTMENT IN EGYPT

Investments in developing markets such as Egypt are usually accompanied by a higher level of risk than investments in 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 also been the target of random terrorist attacks. It cannot be guaranteed that extremists or terrorist groups will not incite or continue performing random acts of violence in Egypt, or that the government will continue to be relatively capable of maintaining the current level of order and stability in the country.

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

04



Shares and Shareholder Structure

Shareholder Structure as at 30 June 2014

| | |
|--|------|
| Institutional and retail Investors (together free float) | 100% |
| of which senior management of the Company | 0.7% |

Source: Company Data

The total stake held by the management of the Company as at 30 June 2014 was 0.7% and has not changed since the end of 2013.

On 22 January 2014, the Company received a notification that as of 20 January 2014, Genesis Asset Managers, LLP with headquarters at 1209 Orange Street, Wilmington, Delaware, 19801, USA, held 343,315 shares in PEGAS NONWOVENS SA, constituting 3.72% of the share capital and of the total voting rights attached to the shares issued by the Company. Prior to 20 January 2014, Genesis Asset Managers, LLP held 561,200 shares of the Company, representing 6.08% of the share capital and voting rights of the Company.

Apart from this notification, during the first six months of 2014, 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 2014⁴

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 19 March 2007 part of the PX index, which covers the shares of all major issuers on the Prague Stock Exchange.

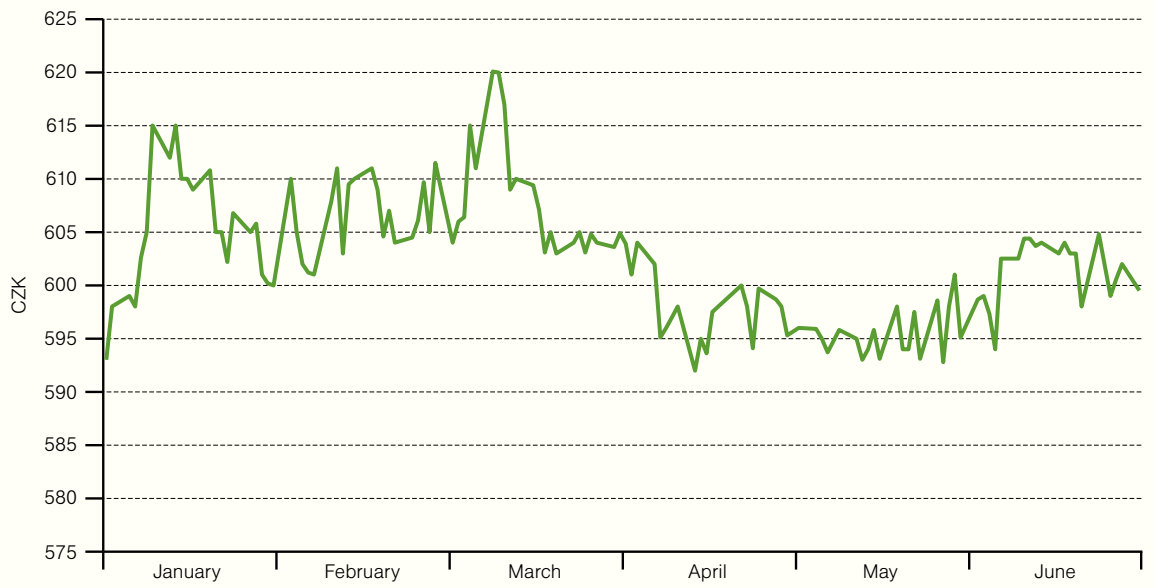
During the first half of 2014, PEGAS shares were traded for a total value of CZK 696 million on the Prague Stock Exchange and for a total value of PLN 0.7 million on the Warsaw Stock Exchange. The lowest trading price during the first 6 months of 2014 was CZK 592 and PLN 83 and the highest CZK 620.10 and PLN 100.90 on the Prague and Warsaw Stock Exchanges respectively.

The closing price on 30 June 2014 was CZK 599.50 on the Prague Stock Exchange and PLN 92.45 on the Warsaw Stock Exchange and market capitalisation reached CZK 5.5 billion (based on the Prague Stock Exchange quote).

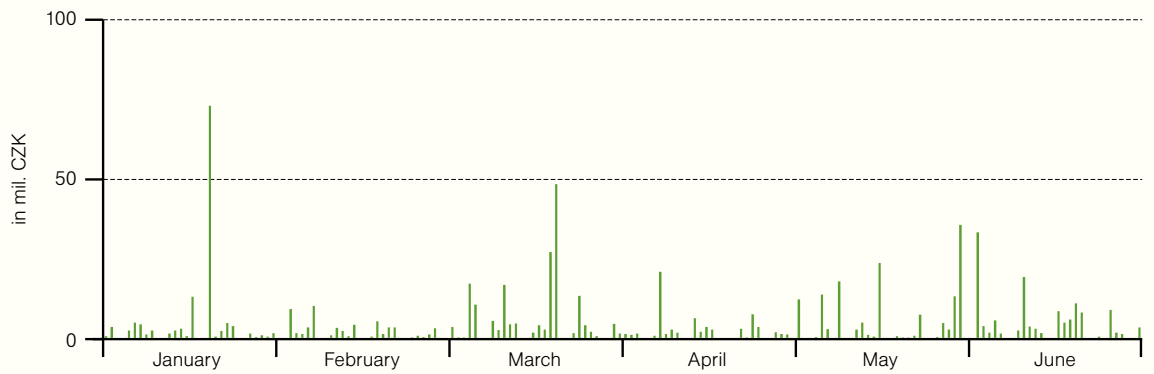
⁴ Source: PSE and WSE websites

Share Price Development of PEGAS on the Prague Stock Exchange (from 1 January 2014 to 30 June 2014)

Share Price



Trading Volumes



Source: PSE

05



Dividend Policy and
Declaration of Dividend

The Annual General Meeting of PEGAS NONWOVENS SA held on 16 June 2014 in Luxembourg, approved the proposed payout of a dividend in the amount of EUR 10,152,340, i.e. EUR 1.10 per share. The source of the dividend payout will be 2013 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 17 October 2014 and the dividend payment date was set to 29 October 2014.

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

06



Related Party Transactions

Remuneration of Executive and Non-executive Directors

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

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

Cash-settled Share-based Payment

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

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

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

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.

As at 30 June 2014, the total number of issued phantom shares was 356,839.

No phantom shares were exercised in the first half of 2014. The fair value of the phantom options as at 30 June 2014 was EUR 1,069 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.
- The 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 management or the non-executive directors.

07



Corporate Governance

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

The Company has decided to observe the majority of the Warsaw Stock Exchange Corporate Governance Rules. Further information can be found in the 2013 Annual Report.

Annual General Meeting of 16 June 2014

At PEGAS's AGM which was held in Luxembourg on 16 June 2014, the resolutions from 1 to 10 that were subject to shareholder approval were adopted.

Resolutions 11 to 14 were subsequently adopted at an extraordinary general meeting held on 21 July 2014.

The agenda of the annual and extraordinary general meetings was as follows:

- 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 31 December 2013 and of the reports of the Board of Directors of PEGAS on the statutory accounts and the consolidated accounts for the financial year ended 31 December 2013.
- 3) Approval of the statutory accounts and the consolidated accounts for the financial year ended 31 December 2013.
- 4) Allocation of the net results of the financial year ended 31 December 2013 and the dividend payout in the amount of EUR 10,152,340, i.e. EUR 1.10 per share.
- 5) Discharge of the liability of the members of the Board of Directors and the auditors of PEGAS for, and in connection with, the financial year ended 31 December 2013.
- 6) Reappointment of Mr. Marek Modecki and Mr. Jan Sýkora as members of the PEGAS Board of Directors.
- 7) Appointment of a Luxembourg independent auditor ("réviseur d'entreprises") to assess the statutory accounts and the consolidated accounts for the financial year ending 31 December 2014.
- 8) Approval of the remuneration policy for members of the Board of Directors without executive authority for the financial year 2014.
- 9) Approval of the remuneration policy for members of the Board of Directors with executive authority for the financial year 2014.
- 10) Approval of a new motivational scheme for the benefit of the members of senior management and members of the Board of Directors at PEGAS in the form of an issuance of new PEGAS warrants.
- 11) Conversion into 230,735 warrants of the existing 230,735 options granted under a phantom options scheme that was established in 2010 by PEGAS for the benefit of various members of senior management and the members of the Board

of Directors of PEGAS, without any consideration being owed to PEGAS by the holders of such existing options.

- 12) Issue of 230,735 warrants under the incentive scheme mentioned under item 10 and exclusion of shareholders' pre-emptive subscription rights in connection therewith.
- 13) Amendment (in the form of a replacement) of articles 5.2, 5.3, 5.4, 5.5, 6.5, 7 (in its entirety), 17.2 and 18.3 of the Articles of Association, including the introduction of new authorised capital.
- 14) Authorisation to the Board of Directors to exclude or limit shareholders' pre-emptive subscription rights with respect to the issue of new securities within the new authorised capital to be introduced under item 13 of the agenda.
- 15) Miscellaneous.

Board of Directors Structure as at 30 June 2014

BOARD OF DIRECTORS PEGAS NONWOVENS SA

| Name | Age | Position / Function | Address | Function Period in 1H 2014 |
|------------------|-----|--|---|----------------------------|
| František Řezáč | 40 | Executive Director | Přímětická 86, 669 04, Znojmo, Czech Republic | 1. 1. 2014 – 30. 6. 2014 |
| František Kláška | 57 | Executive Director | Přímětická 86, 669 04, Znojmo, Czech Republic | 1. 1. 2014 – 30. 6. 2014 |
| Marian Rašík | 43 | Executive Director | Přímětická 86, 669 04, Znojmo, Czech Republic | 1. 1. 2014 – 30. 6. 2014 |
| Marek Modecki | 55 | Non-Executive Director, Chairman of the Board | 68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg | 1. 1. 2014 – 30. 6. 2014 |
| Jan Sýkora | 42 | Non-Executive Director | 68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg | 1. 1. 2014 – 30. 6. 2014 |

The General Meeting decided to reappoint non-executive members of the Board of Directors of PEGAS, Mr. Marek Modecki and Jan Sýkora for a period ending at the PEGAS AGM in 2016.

There were no further personnel changes to the Company's Board of Directors during the first half of 2014.

Group Entities

For the purpose of translating the registered capital of Czech subsidiaries, the exchange rates of CZK/EUR 27.45 and USD/EUR 1.366, effective as at 30 June 2014 were used.

| Company Name | Acquisition/ Registration Date | Share in the Sub- sidiary | Registered Capital (in CZK ths, in USD ths) | Registered Capital (in EUR ths) | Number and Nominal Value of Shares |
|--|--------------------------------------|---------------------------------|---|---------------------------------------|---|
| PEGAS NONWO- VENS s.r.o. ⁵ | 5. 12. 2005 | 100% | CZK 3,633 thousand | 132 | 100% share at the value of CZK 3,633 thousand |
| PEGAS-NT a.s. | 14. 12. 2005 | 100% | CZK 550,000 thousand | 20,036 | 54 shares with a nominal value of CZK 10 million per share and 10 shares with a nominal value of CZK 1 million per share. |
| PEGAS - NW a.s. | 14. 12. 2005 | 100% | CZK 650,000 thousand | 23,679 | 64 shares with a nominal value of CZK 10 million per share and 10 shares with a nominal value of CZK 1 million per share. |
| PEGAS - NS a.s. | 3. 12. 2007 | 100% | CZK 650,000 thousand | 23,679 | 64 shares with a nominal value of CZK 10 million per share and 10 shares with a nominal value of CZK 1 million per share. |
| PEGAS NONWOVENS International s.r.o. ⁶ | 18. 10. 2010 | 100% | CZK 200 thousand | 7 | 100% share at the value of CZK 200 thousand |
| PEGAS NONWO- VENS EGYPT LLC ⁷ | 6. 6. 2011 | 100% | USD 23,000 thousand | 16,837 | 100% share at the value of USD 23,000 thousand |

⁵ PEGAS NONWOVENS s.r.o. was registered on 14 November 2003 under the initial name of ELK INVESTMENTS s.r.o. During the course of 2006 the business name of the company was changed to PEGAS NONWOVENS s.r.o. PEGAS a.s., the subsidiary of PEGAS NONWOVENS s.r.o., was established in 1990. It merged with PEGAS NONWOVENS s.r.o. with effect from 1 January 2006. PEGAS a.s. was deleted from the Commercial Register on 12 May 2006. CEE Enterprise a.s. merged with PEGAS NONWOVENS s.r.o. with effect from 1 January 2007. CEE Enterprise a.s. was deleted from the Commercial Register on 20 August 2007. Former subsidiary PEGAS - DS a.s. ceased to exist as a result of a merger with PEGAS NONWOVENS s.r.o as its successor company.

⁶ PEGAS NONWOVENS International s.r.o. was established as a special purpose company created for the purpose of executing potential future investments.

⁷ PEGAS NONWOVENS EGYPT LLC was established for the purpose of executing the construction of a new production plant in Egypt.

08



Interim Consolidated Financial
Statements of PEGAS NONWOVENS SA
for the Six Months Ended 30 June 2014

8.1 Condensed Consolidated Statement of Comprehensive Income for the Six Months Ended 30 June 2014 and 30 June 2013

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 | | % Change |
|--|--------------------------|--------------------------|---------------|
| | 30 June 2013 (Unaudited) | 30 June 2014 (Unaudited) | |
| Revenues | 98,052 | 111,415 | 13.6% |
| Raw materials and consumables used | (73,679) | (83,806) | 13.7% |
| Staff costs | (4,998) | (4,992) | (0.1%) |
| Other operating income/(expense) - (net) | (215) | (481) | 123.7% |
| EBITDA | 19,160 | 22,136 | 15.5% |
| Depreciation and amortization expense | (5,754) | (7,365) | 28.0% |
| Profit from operations | 13,406 | 14,771 | 10.2% |
| FX gains and other financial income | 7,303 | 3,465 | (52.6%) |
| FX losses and other financial expenses | (10,671) | (2,356) | (77.9%) |
| Interest income | 20 | 17 | (15.0%) |
| Interest expense | (2,138) | (4,218) | 97.3% |
| Profit before tax | 7,920 | 11,679 | 47.5% |
| Income tax (expense)/income | (1,191) | (1,146) | (3.8%) |
| Net profit after tax | 6,729 | 10,533 | 56.5% |
| Other comprehensive income | | | |
| Net value gain/(loss) on cash flow hedges | 1,783 | 99 | (94.4%) |
| Changes in translation reserves | (3,689) | (843) | (77.1%) |
| Total comprehensive income for the period | 4,823 | 9,789 | 102.9% |
| Net earnings per share | | | |
| Basic net earnings per share (EUR) | 0.73 | 1.14 | 56.2% |
| Diluted net earnings per share (EUR) | 0.73 | 1.14 | 56.2% |

8.2 Condensed Consolidated Statement of Comprehensive Income for the Three Months Ended 30 June 2014 and 30 June 2013

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 | | % Change |
|--|---------------------------|--------------------------|---------------|
| | 30 June 2013 (Unaudited) | 30 June 2014 (Unaudited) | |
| Revenues | 48,119 | 52,586 | 9.3% |
| Raw materials and consumables used | (36,172) | (39,765) | 9.9% |
| Staff costs | (2,566) | (2,328) | (9.3%) |
| Other operating income/(expense) - net | (282) | (609) | 116.0% |
| EBITDA | 9,099 | 9,884 | 8.6% |
| Depreciation and amortization expense | (2,865) | (3,697) | 29.0% |
| Profit from operations | 6,234 | 6,187 | (0.8%) |
| FX gains and other financial income | 4,254 | 2,808 | (34.0%) |
| FX losses and other financial expenses | (4,602) | (1,357) | (70.5%) |
| Interest income | 19 | 17 | (10.5%) |
| Interest expense | (1,107) | (2,089) | 88.7% |
| Profit before tax | 4,798 | 5,566 | 16.0% |
| Income tax (expense)/income | (1,050) | (569) | (45.8%) |
| Net profit after tax | 3,748 | 4,997 | 33.3% |
| Other comprehensive income | | | |
| Net value gain/(loss) on cash flow hedges | 960 | (16) | n/a |
| Changes in translation reserves | (2,668) | (964) | (63.9%) |
| Total comprehensive income for the period | 2,040 | 4,017 | 96.9% |
| Net earnings per share | | | |
| Basic net earnings per share (EUR) | 0.41 | 0.54 | 31.7% |
| Diluted net earnings per share (EUR) | 0.41 | 0.54 | 31.7% |

8.3 Condensed Consolidated Statement of Financial Position as of 30 June 2014, 31 December 2013 and 30 June 2013

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)

| | 30 June 2013 (Unaudited) | 31 December 2013 (Audited) | 30 June 2014 (Unaudited) |
|--|--------------------------|----------------------------|--------------------------|
| ASSETS | | | |
| <i>Non-current assets</i> | | | |
| Property, plant and equipment | 194,421 | 181,584 | 176,867 |
| Long term intangible assets | 669 | 586 | 547 |
| Goodwill | 89,408 | 84,599 | 84,522 |
| Total non-current assets | 284,498 | 266,769 | 261,936 |
| <i>Current assets</i> | | | |
| Inventories | 18,305 | 32,618 | 32,692 |
| Trade and other receivables | 44,963 | 43,250 | 44,544 |
| Income tax receivable | 157 | 1,042 | 1,185 |
| Cash and cash equivalents | 9,351 | 13,063 | 9,663 |
| Total current assets | 72,776 | 89,973 | 88,084 |
| Total assets | 357,274 | 356,742 | 350,020 |
| TOTAL EQUITY AND LIABILITIES | | | |
| <i>Share capital and reserves</i> | | | |
| Share capital | 11,444 | 11,444 | 11,444 |
| Legal reserves | 8,852 | 8,733 | 9,152 |
| Translation reserves | 2,735 | (2,306) | (3,149) |
| Other changes in equity | (2,277) | (2,911) | (2,812) |
| Retained earnings | 115,872 | 110,673 | 110,565 |
| Total share capital and reserves | 136,626 | 125,633 | 125,200 |
| <i>Non-current liabilities</i> | | | |
| Bank loans | 144,865 | 146,200 | 130,913 |
| Deferred tax liabilities | 12,743 | 13,126 | 13,059 |
| Total non-current liabilities | 157,608 | 159,326 | 143,972 |
| <i>Current liabilities</i> | | | |
| Trade and other payables | 50,535 | 56,489 | 58,733 |
| Tax liabilities | 2,028 | 1,094 | 115 |
| Bank current liabilities | 10,477 | 14,200 | 22,000 |
| Total current liabilities | 63,040 | 71,783 | 80,848 |
| Total liabilities | 220,648 | 231,109 | 224,820 |
| Total equity and liabilities | 357,274 | 356,742 | 350,020 |

8.4 Condensed Consolidated Statement of Cash Flows for the Six Months Ended 30 June 2014 and 30 June 2013

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 | |
|---|--------------------------|--------------------------|
| | 30 June 2013 (Unaudited) | 30 June 2014 (Unaudited) |
| Profit before tax | 7,920 | 11,679 |
| Adjustment for: | | |
| Depreciation and amortization | 5,754 | 7,365 |
| Foreign exchange | (547) | (4,599) |
| Interest expense | 2,138 | 4,218 |
| Other changes in equity | 1,783 | 99 |
| Other financial income/(expense) | (292) | (131) |
| | | |
| <i>Cash flows from operating activities</i> | | |
| Decrease/(increase) in inventories | 1,546 | 2,518 |
| Decrease/(increase) in receivables | (6,582) | (3,714) |
| Increase/(decrease) in payables | (1,807) | (6,103) |
| Income tax paid | (1,065) | (1,710) |
| Net cash flows from operating activities | 8,848 | 9,622 |
| | | |
| <i>Cash flows from investment activities</i> | | |
| Purchases of property, plant and equipment | (31,991) | (1,539) |
| Net cash flows from investment activities | (31,991) | (1,539) |
| | | |
| <i>Cash flows from financing activities</i> | | |
| Increase/(decrease) in bank loans | 8,437 | (7,541) |
| Interest paid | (1,993) | (4,073) |
| Other financial income/(expense) | 292 | 131 |
| Cash flows from financing activities | 6,736 | (11,483) |
| | | |
| Cash and cash equivalents at the beginning of the period | 25,758 | 13,063 |
| Net increase (decrease) in cash and cash equivalents | (16,407) | (3,400) |
| Cash and cash equivalents at 30 June | 9,351 | 9,663 |

8.5 Condensed Consolidated Statement of Changes in Equity in the First Six Months as at 30 June 2014 and as at 30 June 2013

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 | Legal Reserves | Other Changes in Equity | Translation Reserves | Retained Earnings | Total Equity Attributable to Equity Holders of the Company |
|---|---------------|----------------|-------------------------|----------------------|-------------------|--|
| As at 1 January 2013 | 11,444 | 7,896 | (4,060) | 6,424 | 119,790 | 141,494 |
| Distribution | – | – | – | – | (9,691) | (9,691) |
| Other comprehensive income for the period | – | – | 1,783 | (3,689) | – | (1,906) |
| Net profit for the period | – | – | – | – | 6,729 | 6,729 |
| Reserves created from retained earnings | – | 956 | – | – | (956) | – |
| As at 30 June 2013 | 11,444 | 8,852 | (2,277) | 2,735 | 115,872 | 136,626 |
| as at 1 January 2014 | 11,444 | 8,733 | (2,911) | (2,306) | 110,603 | 125,563 |
| Distribution | – | – | – | – | (10,152) | (10,152) |
| Other comprehensive income for the period | – | – | 99 | (843) | – | (744) |
| Net profit for the period | – | – | – | – | 10,533 | 10,533 |
| Reserves created from retained earnings | – | 419 | – | – | (419) | – |
| As at 30 June 2014 | 11,444 | 9,152 | (2,812) | (3,149) | 110,565 | 125,200 |

8.6 Selected Explanatory Notes to the Interim Consolidated Financial Statements for the Period Ending 30 June 2014

Basis of Preparation

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

a) Summary of Significant Accounting Policies

The same basis of preparation, accounting policies, presentation and methods of computation have been followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2013.

b) 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.

c) Unusual Items Given Their Size, Nature or Frequency

In the first half of 2014, consolidated revenues (revenues from sales of products) reached EUR 111,415 thousand, up by 13.6% yoy. The year-on-year revenue growth was the result of increased sales levels of finished products on the back of production from the new production line in Egypt. The change in the price of polymers had a minimal effect on the year-on-year comparison.

In the first half of 2014, EBITDA amounted to EUR 22,136 thousand, up by 15.5% yoy. The EBITDA increase was achieved namely due to the contribution of the new Egyptian production plant. The result was also supported by a weaker CZK/EUR exchange rate. The polymer price pass-through mechanism had a negative effect on the year-on-year comparison. The results in the first half are in line with the guidance range announced at the beginning of the year, when the Company indicated a year-on-year increase in EBITDA of 12% to 22%.

In the first six months of 2014, FX gains and other financial income amounted to EUR 3,465 thousand and FX losses and other financial expenses amounted to EUR 2,356 thousand. These items represent realized and unrealized FX gains/losses and other financial income and expenses. The year-on-year change was affected by the development of the CZK/EUR and USD/EUR FX rates, which led to subsequent unrealized FX changes related to the revaluation of balance sheet items denominated in EUR (bank debt and inter-company loans including intra-company loans to the subsidiary in Egypt).

In the first half of 2014, consolidated capital expenditures represented EUR 1,539 thousand, a decline of 95.2% compared to the same period last year. In 2014, capital expenditures represent maintenance CAPEX.

d) 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.

e) 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 2014, the Company decreased its bank debt from EUR 160,400 thousand to EUR 152,913 thousand (increased from EUR 151,704 thousand to EUR 155,342 thousand in the first six months of 2013). The Company did not conclude any new bank facilities in the first half of 2014.

In the first six months of 2014, the Company did not make any repurchases or repayments of equity securities.

f) Dividend

The Annual General Meeting of the Company held on 16 June 2014 in Luxembourg, approved the payout of a dividend in the amount of EUR 10,152,340, i.e. EUR 1.10 per share.

The source of the dividend payout will be 2013 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 17 October 2014 and the dividend payment date was set to 29 October 2014.

g) 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.

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

The extraordinary general meeting held on 21 July 2014, approved the conversion of 230,735 virtual options (phantom options) granted in the period 2010-2013 by the Company to members of the Board of Directors and members of senior management and/or its affiliates collectively to 230,735 warrants. Furthermore, the meeting approved the issue of a total of 230,735 new warrants to members of the Board of Directors and members of senior management and/or its affiliates collectively, for a subscription price of CZK 5.89 per new warrant that is to be paid in cash by the directors. With regards to these warrants the meeting resolved to exclude shareholders' pre-emptive subscription rights. The exclusion of shareholders' pre-emptive subscription rights was also excluded with respect to the potential issue of new securities representing new authorised capital.

The extraordinary general meeting also resolved to amend (by means of substitution with new wording) articles 5.2, 5.3, 5.4, 5.5, 6.5, 7 (in its entirety), 17.2 and 18.3 of the Articles of Association.

The management of the Group is not aware of any other events that occurred subsequent to the end of the interim period, which would have a significant effect on the consolidated financial statements as at 30 June 2014.

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

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

j) Information about the Fair Value of Financial Instruments

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

INTEREST RATE SWAPS

As at 30 June 2014, the Company had two interest rate swaps open, these were concluded in 2011 at a total nominal value of EUR 98,000 thousand. The fair value of these swaps as at 30 June 2014 and 31 December 2013 is presented in the following table:

| Counterparty | as at 31 December 2013 | as at 30 June 2014 |
|------------------|------------------------|--------------------|
| Česká spořitelna | (1,794) | (1,749) |
| ING | (1,799) | (1,755) |
| Total | (3,593) | (3,504) |

Fair value of the swaps as at 30 June 2014 represents a payable of the Company. Currently these swaps hedge 63.8% of the Company's debts (60.7% as at 31 December 2013).

SENSITIVITY OF THE FAIR VALUE OF INTEREST RATE SWAPS

A parallel increase of the yield curve by 1% would increase the fair value of the interest rate swaps by approximately EUR 1,717 thousand as at 30 June 2014 (by approximately EUR 2,168 thousand as at 31 December 2013).

An instantaneous and parallel decrease of the yield curve by 1% would lead to a reduction of the fair value of the interest rate swaps by approximately EUR 586 thousand as at 30 June 2014 (by approximately EUR 1,554 thousand as at 31 December 2013).

CURRENCY FORWARD CONTRACTS

As at 30 June 2014, the Company held six EUR/CZK currency forward contracts open at a total nominal value of EUR 6,000 thousand. Over the course of the first six months of 2014, six EUR/CZK currency forward contracts were due at a total nominal value of EUR 6,000 thousand.

The fair value of the currency forward contracts as at 30 June 2014 amounted to minus EUR 141 thousand (minus EUR 250 thousand as at 31 December 2013).

SENSITIVITY OF THE FAIR VALUE OF CURRENCY FORWARD CONTRACTS

The depreciation of the CZK against the EUR by 10% would reduce the fair value of the currency forward contracts by approximately EUR 545 thousand as at 30 June 2014 (by approximately EUR 1,066 thousand as at 31 December 2013).

The appreciation of the CZK against the EUR by 10% would increase the fair value of the currency forward contracts by approximately EUR 666 thousand as at 30 June 2014 (by approximately EUR 1,303 thousand as at 31 December 2013).

Fair value of these swaps and currency forward contracts is determined by the EUR or CZK yield curve at the balance sheet date and the discounted cash flow method. The inputs used in the fair value calculation are categorised 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).

k) 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.

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 emitted by the Company occurred during the first six months of 2014 or in the first six months of 2013.

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

2013

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

2014

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

BASIC EARNINGS PER SHARE

| | | Three Months Ended | | Six Months Ended | |
|--|------------|--------------------|--------------|------------------|--------------|
| | | 30 June 2013 | 30 June 2014 | 30 June 2013 | 30 June 2014 |
| Net profit attributable to equity holders | ths. EUR | 3,748 | 4,997 | 6,729 | 10,533 |
| Weighted average number of ordinary shares | Amount | 9,229,400 | 9,229,400 | 9,229,400 | 9,229,400 |
| Basic earnings per share | EUR | 0.41 | 0.54 | 0.73 | 1.14 |

DILUTED EARNINGS PER SHARE

| | | Three Months Ended | | Six Months Ended | |
|--|------------|--------------------|--------------|------------------|--------------|
| | | 30 June 2013 | 30 June 2014 | 30 June 2013 | 30 June 2014 |
| Net profit attributable to equity holders | ths. EUR | 3,748 | 4,997 | 6,729 | 10,533 |
| Weighted average number of ordinary shares | Amount | 9,229,400 | 9,229,400 | 9,229,400 | 9,229,400 |
| Diluted earnings per share | EUR | 0.41 | 0.54 | 0.73 | 1.14 |

l) Related Party Transactions

Except for the information above there were no other new transactions between the Group and the executive managers or the non-executive directors concluded in the first six months of 2014.

m) Approval of the Interim Financial Statements

The interim financial statements were approved by the Company's Board of Directors on 28 August 2014.



Marek Modecki
Chairman of the Board of Directors
PEGAS NONWOVENS SA



František Řezáč
Member of the Board of Directors
PEGAS NONWOVENS SA

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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 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.

28 August 2014



Marek Modecki

Chairman of the Board of Directors
PEGAS NONWOVENS SA



František Řezáč

Member of the Board of Directors
PEGAS NONWOVENS SA

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Contacts

PR/IR Officer

PEGAS NONWOVENS

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Glossary

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

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

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

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

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

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

EDANA – European Disposables and Nonwovens Association is the European Trade Association for the nonwovens and hygiene products converters industries, with around 200 member companies in 28 countries.

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

IFRS – International Financial Reporting Standards.

IPO – Initial Public Offering.

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

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

EBIT Margin – Percentage margin calculated as EBIT / Revenues.

EBITDA Margin – Percentage margin calculated as EBITDA / Revenues.

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

Meltblown Fabric – Textile produced using the meltblown process.

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

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

Polymer – Substance composed of molecules with large molecular mass composed of repeating structural units, or monomers, connected by covalent chemical bonds, i.e. a plastic.

Polypropylene/Polyethylene – Thermoplastic polymers consisting of long chains of monomers (propylene, ethylene). These polymers are naturally hydrophobic, resistant to many chemical solvents, bases and acids.

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

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.

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

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

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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

18 November 2005 under the name Pamplona PE Holdco 2 SA

JURISDICTION

Luxembourg

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

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

The object of the Company is:

- a) to take participation and interests, in any form whatsoever, in any commercial, industrial, financial or other, Luxembourg or foreign entities;
- b) to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or in any other way and namely to acquire patents and licences, and other property, rights and interest in property as the Company shall deem fit, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part,
- c) to enter into, assist or participate in financial, commercial and other transactions, and to grant assistance of the holding Company, subsidiary, or fellow entity or any other form thereof associated in any way with the Company, or the said holding Company, subsidiary of follow subsidiary, in which the Company has a direct or indirect financial interest, any assistance as, e.g., pledges, loans, advances or guarantees;
- d) to borrow and raise money in any manner and to secure the repayment of any money borrowed;
- e) to borrow funds and issue bonds and other securities;
- f) to perform any operation which is directly or indirectly related to this purpose.



 **PEGA GAS**
NON WOVENS