

This Prospectus replaces and supercedes the Prospectus dated December 1, 2006



*(a public limited liability company (société anonyme), incorporated under the laws of the Grand Duchy of Luxembourg, having its registered office at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg, Grand Duchy of Luxembourg and registered with the Luxembourg trade and companies register under number B.112.044)*

#### Offering of ordinary shares with a nominal value of €1.24 each

Based on this document (the "Prospectus"), up to 5,284,250 ordinary shares (the "Offer Shares", which expression shall also include, where the context permits, ordinary shares offered pursuant to the Over-allotment Option defined below) in the share capital, consisting of ordinary shares of nominal value €1.24 each (the "Shares"), of PEGAS NONWOVENS SA (the "Company"), a public limited liability company (*société anonyme*), incorporated under the laws of the Grand Duchy of Luxembourg ("Luxembourg"), having its registered office at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg, Luxembourg and registered with the Luxembourg trade and companies register under number B.112.044 are being offered, including up to 2,020,000 newly issued Shares offered for subscription by the Company and up to 3,264,250 existing Shares (including up to 689,250 existing Shares offered pursuant to the over-allotment Option defined below) are being offered for sale by Pamplona Capital Partners I, LP (the "Selling Shareholder"), a partnership organised under the laws of the Cayman Islands, with its address at the offices of M&C Corporate Services Limited, P.O. Box 309GT, Uglund House, George Town, Grand Cayman. The Offer Shares being offered in this offering (the "Offering") constitute a majority interest in the Company. Prior to the Offering, the Selling Shareholder held 97.5% of the share capital of the Company. The Offering will consist of a public offering in the Czech Republic and Poland, and an international offering by way of a private placement to certain institutional investors outside the Czech Republic and Poland, where such an offering may be lawfully conducted.

**The Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act") or with any securities regulatory authority of any state or any jurisdiction in the United States and subject to certain exceptions, may not be offered or sold within the United States except in certain transactions exempt from or not subject to the registration requirements of the US Securities Act. See "Selling Restrictions".**

The Shares are being offered, as specified in this Prospectus, subject to cancellation or modification of the Offering and subject to certain other conditions.

The Prospectus constitutes a prospectus in the form of a single document within the meaning of Directive 2003/71/EC of the European Parliament and of the Council of the European Union (the "Prospectus Directive") and the Luxembourg act dated July 10, 2005 relating to prospectuses for securities, implementing the Prospectus Directive into Luxembourg law (the "Prospectus Act 2005"), and has been prepared in accordance with the Prospectus Act 2005. The *Commission de surveillance du secteur financier* (the "CSSF"), in its capacity as competent authority in the Grand Duchy of Luxembourg under the Prospectus Act 2005, has approved this document as a prospectus. The Company will be authorised to carry out the Offering (i) to the public in the Czech Republic, once the Czech National Bank (the "CNB"), which is the competent authority in the Czech Republic, has received from the CSSF this Prospectus, a certificate of approval of this Prospectus (in accordance with article 19 of the Prospectus Act 2005 and article 18 of the Prospectus Directive), and a summary of this Prospectus in the Czech language (and after the summary in the Czech language has been made available to the public), which is equivalent to authorising the Offering to the public in the Czech Republic, and (ii) to the public in Poland, once the Polish Commission for Financial Supervision (the "KNF"), which is the competent authority in Poland, has informed the Company that the CSSF has provided the KNF with a certificate of approval of this Prospectus (in accordance with article 19 of the Prospectus Act 2005 and article 18 of the Prospectus Directive), and a summary of this Prospectus in the Polish language (and after the summary in the Polish language has been made available to the public) which is equivalent to authorising the Offering to the public in Poland.

**See "Risk Factors" beginning on page 9 of this Prospectus for a description of factors to be taken into account when considering whether to invest in the Shares.**

Prior to the Offering, there was no public market for the Shares. Based on this Prospectus, application has been or will be made to admit and list all of the Shares, including the Offer Shares, to trading on each of the Prague Stock Exchange (the "PSE") and the Warsaw Stock Exchange (the "WSE") (collectively, the "Admission"). The date on which official trading of the Shares on the PSE and the WSE will commence is expected to be on or about December 21, 2006 (the "Listing Date"). Payment for the Offer Shares and settlement of the Offering is expected to be made on or about December 19, 2006 (the "Settlement Date"). Prospective investors may subscribe or purchase the Offer Shares during a period which is expected to commence on or about December 5, 2006 and is expected to end on or about December 14, 2006 (the "Subscription Period"). The offer price per Offer Share (the "Offer Price") will not exceed €50.00. The Offer Price and the final number of the Offer Shares will be determined jointly by the Company and the Selling Shareholder upon recommendation of the managers named herein (the "Managers") after termination of the Subscription Period on or about December 15, 2006, based on interest from investors and will be announced in a press release and in the same manner as this Prospectus. If the Offering is cancelled or postponed prior to the Settlement Date, all subscriptions for the Offer Shares will be disregarded, any allotments made will be deemed null and void, and any subscription payments made will be returned without interest or other compensation. All dealings in the Offer Shares prior to settlement and delivery and during conditional trading on the PSE are at the sole risk of the parties concerned.

All of the Shares are in registered form. Shareholders in the Company may hold them, either by being directly entered into the Share register kept in Luxembourg at the Company's registered office, or in book entry form with a bank or professional securities depository or other qualified financial intermediary, which will hold them through Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") or Euroclear Bank S.A./N.V. as operator of the Euroclear system ("Euroclear"), either directly as a participant of such system or indirectly through such a participant, or through Univyc a.s. ("UNIVYC") and its participants or Krajowy Depozyt Papierow Wartosciowych S.A. ("NDS") and its participants.

As the final Offer Price and number of Offer Shares are not determined at the date of the Prospectus, the final Offer Price and the number of Offer Shares will, in accordance with article 10 of the Prospectus Act 2005, be filed with the CSSF and published on the website of the Company ([www.pegas.lu](http://www.pegas.lu)) and on the websites of the financial intermediaries [www.ingsecurities.pl](http://www.ingsecurities.pl), [www.ing.cz](http://www.ing.cz), [www.csas.cz](http://www.csas.cz) and [www.brokerjet.com](http://www.brokerjet.com) on or about December 15, 2006 in accordance with article 16 of the Prospectus Act 2005.

In connection with the Offering, the Selling Shareholder will grant ING Bank N.V., London Branch ("ING"), on behalf of the Managers, an option (the "Over-allotment Option"), exercisable for 30 days after the announcement of the Offer Price, to make available up to an additional 689,250 existing Shares representing up to 15 per cent. of the aggregate number of Offer Shares available in the Offering (before any exercise of the Over-allotment Option) at the Offer Price to cover over-allotments, if any, made in connection with the Offering and to cover short positions resulting from stabilisation transactions. Such stabilisation shall be conducted in accordance with the rules set out in the European Commission Regulation (EC) No. 2273/2003 of December 22, 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments.

**Offer Price: To be determined**

Based on the Maximum Price and assuming that all Offer Shares are placed, the total amount of the Offering is expected to be up to €264,212,500. ING Bank N.V., organizační složka (Prague Branch) and ING Securities SA will act as listing agents (the "Listing Agents") for the listing of the Shares on the PSE and the WSE, respectively. ING Bank N.V., London Branch is the Global Coordinator and Bookrunner of the Offering.

The Company will only receive the net proceeds from the sale of up to 2,020,000 newly issued Shares offered by it, and will not receive any proceeds from the sale of existing Shares by the Selling Shareholder.

**Global Coordinator, Lead Manager and Bookrunner**

**ING**

**Co-Lead Manager**

**Česká spořitelna, a.s.**

**The date of this Prospectus is December 4, 2006.**

## IMPORTANT INFORMATION

**Prospective investors are expressly advised that an investment in the Offer Shares entails financial risk and that they should therefore read this Prospectus entirely and, in particular “Risk Factors”, when considering an investment in the Offer Shares. The contents of this Prospectus are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice and not rely on the information contained in this Prospectus.**

No person is or has been authorised to give any information or to make any representation in connection with the Offering, other than as contained in this Prospectus, and, if given, or made, any other information or representation must not be relied upon as having been authorised by us, or by the Managers.

### **Responsibility for this Prospectus**

The Company accepts responsibility for the information contained in this Prospectus. To the best of our knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import. The delivery of this Prospectus at any time after the date hereof will not, under any circumstances, create any implication that there has been no change in our affairs since the date hereof. Neither the Managers nor the legal advisers to the Company accept responsibility whatsoever for the contents of this Prospectus, or for its transaction, or for any other statement made or purported to be made by any of them or on their behalf in connection with us. The Managers and the legal advisers to the Company accordingly disclaim all and any liability whether arising in tort or contract which they might otherwise have in respect of this Prospectus or any such statement.

By admitting the Shares to trading on the main market of the Prague Stock Exchange, the Prague Stock Exchange does not assume any liability in connection with or arising out of the Shares.

### **Notice to Prospective Investors**

The distribution of this Prospectus and the Offering of the Offer Shares in certain jurisdictions may be restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to sell, or an invitation to purchase, any of the Offer Shares offered hereby in any jurisdiction in which such offer or invitation would be unlawful. Persons in possession of this Prospectus are required to inform themselves about and to observe any such restrictions, including those set out under “*Selling Restrictions*”. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

As a condition to a purchase of any Offer Shares in the Offering, each purchaser will be deemed to have made, or in some cases be required to make, certain representations and warranties, which will be relied upon by us, the Managers and others. We reserve the right, in our sole and absolute discretion, to reject any purchase of Offer Shares that we, the Managers or any agents believe may give rise to a breach or a violation of any law, rule or regulation. See “*Selling Restrictions*”.

The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any State securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

### **Presentation of Financial and Other Information**

In this Prospectus, the “PEGAS Group”, the “Group”, “we”, “us” and similar terms refer to PEGAS NONWOVENS SA and its subsidiaries, unless the context requires otherwise.

This Prospectus includes (i) the audited consolidated financial statements of PEGAS a.s., as at and for each of the three years ended December 31, 2005, 2004 and 2003, (ii) the unaudited condensed consolidated financial statements of PEGAS NONWOVENS s.r.o. as at and for the six months ended June 30, 2006, with comparative statements of income, cash flows and changes in equity for PEGAS a.s. for the six months ended June 30, 2005 and the comparative balance sheet of PEGAS a.s. as at December 31, 2005, (iii) the audited consolidated financial statements of the Company as at and for the year ended December 31, 2005 and (iv) the unaudited consolidated financial statements of the Company as at and for the six months ended June 30, 2006.

Our Company, PEGAS NONWOVENS SA, whose previous name was Pamplona PE Holdco 2 S.A., was incorporated on November 18, 2005, and consequently has only a limited operating history. In addition, both the Company and its directly held subsidiary, CEE Enterprise a.s., serve only as holding companies, with the

exception of an SAP computer software license held by CEE Enterprise a.s., which is that subsidiary's sole operating asset. Apart from that license, our operating assets are held entirely by PEGAS NONWOVENS s.r.o. and its three wholly-owned subsidiaries, PEGAS — DS a.s., PEGAS — NT a.s. and PEGAS — NW a.s.

PEGAS NONWOVENS s.r.o., formerly ELK INVESTMENTS s.r.o., was a special purpose vehicle acquired by the Company through CEE Enterprise a.s. in November 2005 for the acquisition of PEGAS a.s. It was established in 2003. In April 2006, ELK INVESTMENTS s.r.o. changed its name to PEGAS NONWOVENS s.r.o. and PEGAS a.s. was merged into it, with PEGAS NONWOVENS s.r.o. being the surviving entity. Since December 2005, we have owned all of the share capital of CEE Enterprise a.s. and PEGAS NONWOVENS s.r.o. except for a minority interest in CEE Enterprise a.s. held by certain members of the Group's management, which was converted in November 2006 into a shareholding in the Company. PEGAS NONWOVENS s.r.o. had no trading or operational assets or liabilities and had never conducted operations relating to our core business prior to the merger with PEGAS a.s. As a result of the merger, PEGAS NONWOVENS s.r.o. acquired all of the former assets, liabilities and business activities of PEGAS a.s. Accordingly, the consolidated historical financial information included in this Prospectus as at and for the years ended December 31, 2005, 2004 and 2003 relates to PEGAS a.s. (apart from the balance sheet of the Company as at December 31, 2005, which is also included in this Prospectus), as we believe that such financial information fairly presents the financial condition and results of operations of our business for those periods.

Because PEGAS NONWOVENS s.r.o. assumed all of the assets, liabilities and business operations of PEGAS a.s. prior to June 2006, we have presented the consolidated results of operations of PEGAS NONWOVENS s.r.o. for the six months ended June 30, 2006, together with the results of the Company for that same period. For comparison purposes, we also present the results of operations of PEGAS a.s. for the same period in the prior year. Prospective investors are cautioned that the financial information of the Company and PEGAS NONWOVENS s.r.o. for the six months ended June 30, 2006 reflect a number of accounting differences resulting from the acquisition of PEGAS a.s., and you should therefore not place undue reliance on the comparability of such financial information when viewed in light of the results of operations of PEGAS a.s. for the six months ended June 30, 2005.

Our audited consolidated financial statements for PEGAS a.s. and PEGAS NONWOVENS SA have been prepared by us and audited by KPMG Česká republika s.r.o. In addition, this Prospectus contains unaudited interim consolidated financial information derived from the unaudited interim consolidated income statement of PEGAS a.s. for the six months ended June 30, 2005, and the unaudited interim consolidated financial statements of PEGAS NONWOVENS s.r.o. and PEGAS NONWOVENS SA as at and for the six months ended June 30, 2006, which have been subjected to limited review procedures by KPMG Česká republika Audit s.r.o.

Unless otherwise indicated or another source of information is mentioned, all financial information included in this Prospectus is derived from or reconciled to the audited consolidated financial statements of PEGAS a.s. or PEGAS NONWOVENS SA or the unaudited consolidated financial statements of PEGAS NONWOVENS s.r.o., PEGAS a.s. or PEGAS NONWOVENS SA.

We have historically prepared our consolidated accounts for PEGAS a.s. and PEGAS NONWOVENS s.r.o. in accordance with Czech accounting principles. The financial information of those companies included in this Prospectus has been restated in accordance with International Financial Reporting Standards ("IFRS"). Financial statements of PEGAS NONWOVENS SA have been prepared in accordance with IFRS.

The consolidated financial statements included in the Prospectus are presented in euro. All Group companies, except for the Company, prepare their accounts using Czech crowns as their functional currency, while the Company prepares its accounts using euro as its functional currency. Following the listing of our Shares, the Company will be required to produce consolidated financial statements prepared in accordance with IFRS and presented in euro.

Certain figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row.

In this Prospectus, references to "Euros" or "€" are to the lawful currency of the European Economic and Monetary Union, of which Luxembourg is a member. References to "CZK" and "Czech crowns" are to the lawful currency of the Czech Republic, and references to "PLN" and "Polish zloty" are to the lawful currency of Poland. References herein to "tonnes" refer to metric tonnes.

## **Market, Economic and Industry Data**

All references to market, economic or industry data, statistics and forecasts in this Prospectus consist of estimates compiled by professionals, organisations, analysts, publicly available information or our knowledge of our sales and markets. The reports used include a report by L.E.K., a management consulting firm. L.E.K. does not assume any responsibility for any information included in this Prospectus derived from their report. Industry publications generally state that their information is obtained from sources they believe reliable but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions. We have relied on the accuracy of such data and statements without carrying out an independent verification thereof and therefore cannot guarantee their accuracy and completeness.

In this Prospectus, we make certain statements regarding our competitive position and market leadership. We believe these statements to be true based on market data and industry statistics regarding the competitive position of certain of our competitors. The information in this Prospectus that has been sourced from third parties has been accurately reproduced and, as far as we are aware and able to ascertain from the information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

## **Documents Incorporated by Reference**

No documents or content of any website are incorporated by reference in this Prospectus or enumerate the documents or information that are incorporated by reference in this Prospectus.

## **Forward-looking Statements**

*This Prospectus includes forward-looking statements.* Such items in this Prospectus include, but are not limited to, statements under “*Risk Factors*”, “*Our Business*”, “*Industry Overview*” and “*Operating and Financial Review and Prospects*”. Such statements can be generally identified by the use of terms such as “believes”, “expects”, “may”, “will”, “should”, “would”, “could”, “plans”, “anticipates” and comparable terms and the negatives of such terms. By their nature, forward-looking statements involve risk and uncertainty, and the factors described in the context of such forward-looking statements in this Prospectus could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about our Group, including, among other things:

- our ability to develop and expand our business;
- our ability to keep up with new technologies and expand into new markets;
- our ability to reduce costs;
- overall economic conditions in the Czech Republic;
- political and economic conditions in the countries outside the Czech Republic in which we operate, particularly in Europe;
- volatility in the world’s securities markets;
- the effects of regulation (including tax regulations) in the Czech Republic;
- capital spending and financial resources;
- our future revenues; and
- other factors described under “*Risk Factors*”.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Prospectus might not occur. Any statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future.

Prospective investors are cautioned not to place undue reliance on such forward-looking statements, which are based on facts known to us only as of the date of this Prospectus.

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## SUMMARY

*This summary should be read as an introduction to this Prospectus and contains information included elsewhere in this Prospectus. It is expressly pointed out that this summary is not exhaustive and does not contain all information which is of importance to prospective investors. Reading this summary should in no way be considered a substitute for reading this Prospectus in its entirety. Prospective investors should read this Prospectus thoroughly and completely, including the "Risk Factors", any supplements to this Prospectus required under applicable laws and our consolidated financial statements, financial information and related notes, before making any decision with respect to investing in the Shares. No civil liability will attach to us in respect of this summary (including financial highlights) or any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.*

### **Summary of Our Business and Financial Results**

We are a leading European producer of nonwoven textiles (i.e. textiles made from polymer filaments that are bonded together using pressure and heat) for use primarily in the personal hygiene market. We supply our customers with spunbond and meltblown polypropylene- and polypropylene/polyethylene- ("PP" and "PP/PE") based 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. As at June 30, 2006, we believe that the PEGAS Group was Europe's second-largest producer, in terms of output, of PP- and PP/PE-based spunbond and meltblown (together, "spunmelt") nonwovens, with a market share of approximately 11% of the European installed PP- and PP/PE-based spunmelt nonwoven textile production capacity. We believe we have a market share of approximately 19% by volume of our core market of PP- and PP/PE-based spunmelt nonwovens destined for European manufacturers of personal hygiene products. We are also one of the few producers in the world of bicomponent ("BiCo") spunmelt products, which are manufactured from both polypropylene and polyethylene.

Our Group consists of a parent holding company in Luxembourg, a holding company in the Czech Republic and four operating companies in the Czech Republic. Our operating companies are based in two production facilities in the south east of the Czech Republic between the cities of Brno and Vienna, located approximately 100 kilometres apart. The original site in Bučovice has three production lines and our main site located outside Znojmo has four production lines.

### ***Our Strategy***

Our strategic objective is to participate fully in the growth of the personal hygiene nonwovens market in Europe (especially in Central and Eastern Europe and Russia), the Middle East and North Africa. We intend to achieve our objective principally through the following strategies.

### ***Remain one of the European nonwoven technology leaders***

*Investment in Technologically Advanced Machinery:* Since commencing operations, we have consistently focused on acquiring the most technically advanced machinery available in the market. Advanced machinery facilitates our ability to produce large quantities of high-quality, advanced nonwoven textiles meeting the increasingly demanding technical and performance characteristics required by our clients. We intend to continue this trend by continuing to invest in advanced machinery in order to maintain a competitive advantage over other manufacturers of spunmelt nonwovens.

*Technical Expertise:* We consistently strive to maintain the highest levels of technical and engineering capabilities through training and constant review of our production facilities. We believe this is one of our principal strengths and is the reason clients often turn to us to address particularly difficult production requirements. We will continue to invest in maintaining this technical advantage.

*Cooperation with Customers and Suppliers:* The production of spunmelt nonwoven textiles is constantly developing. Manufacturers can no longer simply produce nonwoven textiles but must be able to assist clients in developing advanced materials. We intend to continue the cooperation with our clients, machinery manufacturers and raw materials suppliers in order to remain at the forefront of technical developments in our industry and in order to supply our clients with the highest quality products.

### *Remain a leader in “difficult to manufacture” specialty products*

There is strong competition among manufacturers of products using spunmelt nonwovens, especially in the hygiene sector. Our customers require constant improvement in the technical qualities of the nonwoven textiles we produce, especially in terms of weight per square metre and performance, in order to maintain a competitive advantage in the market. We believe we have a strong track record in assisting our clients in developing and producing these “difficult to manufacture” products which, we believe, has had a significant positive impact on our sales. We intend to continue this focus in order to remain one of the producers of choice for our customers.

### *Maintain superior financial performance*

We will maintain our focus on our financial performance and intend to achieve superior results by growing volume through capital investment and close relationships with customers. We intend to maintain margins through focusing on costs and on manufacturing specialty nonwovens involving more complex production processes which at the same time offer the prospect of higher margins.

### **Financial Highlights**

The following tables set forth information concerning our financial condition and results of operations, for the periods indicated, of PEGAS a.s., PEGAS NONWOVENS s.r.o. and the Company. You should be aware that the historical financial information presented in this Summary concerning our financial condition and results of operations relates to PEGAS a.s. and PEGAS NONWOVENS s.r.o., as well as to the Company, which we believe fairly presents our Group’s results of operations and our financial condition. You should read “Presentation of Financial Information” for a description of the financial information contained in this Summary and in the Prospectus. **Prospective investors are cautioned not to place undue reliance on the comparability of interim financial information for the Company, PEGAS NONWOVENS s.r.o. and PEGAS a.s.**

### *Consolidated income statement*

The table below sets forth the consolidated results of operations of (i) PEGAS a.s. for each of the three years ended December 31, 2005, 2004 and 2003, and for the six months ended June 30, 2005, (ii) PEGAS NONWOVENS s.r.o. for the six months ended June 30, 2006, and (iii) the Company for the six months ended June 30, 2006.

	For the six months ended June 30,			For the year ended December 31,		
	2006 <sup>(1)</sup>	2006 <sup>(2)</sup>	2005 <sup>(3)</sup>	2005 <sup>(3)</sup>	2004 <sup>(3)</sup>	2003 <sup>(3)</sup>
	(unaudited)	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
	€ thousands					
Revenue . . . . .	60,065	60,065	52,828	109,491	72,819	67,368
Raw materials and consumables used	(36,865)	(36,866)	(30,173)	(63,296)	(40,770)	(36,787)
Staff costs . . . . .	(2,462)	(2,462)	(2,233)	(4,669)	(3,899)	(3,481)
Depreciation and amortisation expense . . . . .	(6,153)	(6,153)	(4,970)	(9,910)	(7,546)	(7,132)
Other operating income/(expense) (net) . . . . .	5,126	5,123	(259)	(846)	1,167	(671)
<b>Profit from operations . . . . .</b>	<b>19,711</b>	<b>19,707</b>	<b>15,193</b>	<b>30,770</b>	<b>21,771</b>	<b>19,297</b>
Finance costs . . . . .	(8,075)	(7,196)	(71)	(158)	(438)	(955)
<b>Profit before tax . . . . .</b>	<b>11,636</b>	<b>12,511</b>	<b>15,122</b>	<b>30,612</b>	<b>21,333</b>	<b>18,342</b>
Income tax expense . . . . .	(723)	(713)	(1,880)	(3,975)	(3,312)	(1,352)
<b>Profit after tax . . . . .</b>	<b>10,913</b>	<b>11,798</b>	<b>13,242</b>	<b>26,637</b>	<b>18,021</b>	<b>16,990</b>
Minority interest . . . . .	(273)	0	0	0	0	0
<b>Net profit for the year . . . . .</b>	<b>10,640</b>	<b>11,798</b>	<b>13,242</b>	<b>26,637</b>	<b>18,021</b>	<b>16,990</b>

(1) PEGAS NONWOVENS SA

(2) PEGAS NONWOVENS s.r.o.

(3) PEGAS a.s.



### Consolidated balance sheet

The table below sets forth the consolidated balance sheet of (i) PEGAS a.s. as at December 31, 2005, 2004 and 2003, (ii) PEGAS NONWOVENS s.r.o. as at June 30, 2006, and (iii) the Company as at December 31, 2005 and June 30, 2006.

	As at June 30,		As at December 31,			
	2006 <sup>(1)</sup> (unaudited)	2006 <sup>(2)</sup> (unaudited)	2005 <sup>(1)</sup> (audited) € thousands	2005 <sup>(3)</sup> (audited)	2004 <sup>(3)</sup> (audited)	2003 <sup>(3)</sup> (audited)
<b>Assets</b>						
<i>Non-current assets</i>						
Property, plant and equipment . . . . .	111,133	111,133	111,113	93,439	101,528	78,386
Intangible assets . . . . .	<u>80,435</u>	<u>80,435</u>	<u>78,973</u>	<u>192</u>	<u>260</u>	<u>303</u>
	191,568	191,568	190,086	93,631	101,788	78,689
<i>Current assets</i>						
Inventories . . . . .	7,379	7,379	8,622	8,508	5,496	4,540
Trade and other receivables . . . . .	24,777	24,776	23,785	25,101	15,005	10,523
Bank balances and cash . . . . .	<u>28,292</u>	<u>28,171</u>	<u>27,034</u>	<u>25,366</u>	<u>5,810</u>	<u>2,913</u>
	60,448	60,326	59,441	58,975	26,311	17,976
<b>Total assets . . . . .</b>	<b><u>252,016</u></b>	<b><u>251,894</u></b>	<b><u>249,527</u></b>	<b><u>152,606</u></b>	<b><u>128,099</u></b>	<b><u>96,665</u></b>
<b>Equity and Liabilities</b>						
<i>Capital and reserves</i>						
Share capital . . . . .	125	126	125	6,335	6,335	6,335
Capital reserve . . . . .	4,432	0	4,432	3,301	2,780	2,380
Translation reserve . . . . .	(22)	0	(4)	9,080	3,750	(1,473)
Accumulated profits/(losses) . . . . .	<u>9,201</u>	<u>10,504</u>	<u>(1,367)</u>	<u>105,431</u>	<u>79,315</u>	<u>61,694</u>
	13,736	10,630	3,186	124,147	92,180	68,936
Minority interest . . . . .	345					
<i>Non-current liabilities</i>						
Bank loans — due after one year . . . . .	152,958	138,272	157,268	0	998	2,996
Deferred tax liabilities . . . . .	14,124	14,124	13,910	9,681	8,430	7,633
Other payables due after one year . . . . .	<u>37,611</u>	<u>55,954</u>	<u>37,224</u>	<u>69</u>	<u>125</u>	<u>182</u>
	204,693	208,350	208,402	9,750	9,553	10,811
<i>Current liabilities</i>						
Trade and other payables . . . . .	18,737	18,420	21,670	16,691	23,803	6,522
Tax liabilities . . . . .	0	0	19	18	566	669
Bank overdrafts and loans . . . . .	14,250	14,250	16,250	2,000	1,997	9,727
Provisions . . . . .	<u>255</u>	<u>244</u>				
	33,242	32,914	37,939	18,709	26,366	16,918
<b>Total equity and liabilities . . . . .</b>	<b><u>252,016</u></b>	<b><u>251,894</u></b>	<b><u>249,527</u></b>	<b><u>152,606</u></b>	<b><u>128,099</u></b>	<b><u>96,665</u></b>

(1) PEGAS NONWOVENS SA

(2) PEGAS NONWOVENS s.r.o.

(3) PEGAS a.s.

### Consolidated statement of cash flows

The table below sets forth the summary consolidated statement of cash flows of (i) PEGAS a.s. for the years ended December 31, 2005, 2004 and 2003, and the six months ended June 30, 2005, (ii) PEGAS NONWOVENS s.r.o. for the six months ended June 30, 2006, and (iii) the Company for the six months ended June 30, 2006.

	For the six months ended June 30,			For the year ended December 31,		
	2006 <sup>(1)</sup> (unaudited)	2006 <sup>(2)</sup> (unaudited)	2005 <sup>(3)</sup> (unaudited)	2005 <sup>(3)</sup> (audited)	2004 <sup>(3)</sup> (audited)	2003 <sup>(3)</sup> (audited)
	€ thousands					
Net cash flow from operating activities . . . . .	13,254	13,300	11,509	31,593	28,775	16,774
Cash flow used in investment activities . . . . .	(4,171)	(4,171)	(6,361)	(11,042)	(16,150)	(4,738)
Cash flow used in financing activities	(7,825)	(7,705)	(998)	(995)	(9,728)	(12,453)
<b>Net increase /(decrease) in cash and cash equivalents . . . . .</b>	<b><u>1,258</u></b>	<b><u>1,424</u></b>	<b><u>4,150</u></b>	<b><u>19,556</u></b>	<b><u>2,897</u></b>	<b><u>(417)</u></b>

- (1) PEGAS NONWOVENS SA
- (2) PEGAS NONWOVENS s.r.o.
- (3) PEGAS a.s.

### Risk Factors

Before investing in the Offer Shares, prospective investors should consider carefully, together with the other information contained in this Prospectus, certain risk factors pertaining to the Company and to our operating companies domiciled in the Czech Republic and to an investment in the Offer Shares, set out in the section “Risk Factors”.

Our business, results of operations and financial condition may be adversely affected by the following risks:

- *A small number of customers account for a significant percentage of our total sales, and the loss of one or more of them could significantly affect our revenues and profitability.*
- *We may be unable to raise additional capital to fund growth of our operations.*
- *Any disruption to our production facilities would have a material adverse effect on our business.*
- *Our success depends on the steady supply and transportation of our products from our plants to our customers, which are subject to various uncertainties and risks.*
- *We depend on external suppliers for key raw materials.*
- *Increases in the cost of raw materials and electricity could have a material adverse impact on our financial condition and results of operations.*
- *We are dependent on one manufacturer for the equipment and technical support in our production lines.*
- *Our new production line, scheduled for installation in 2007, may not be installed on schedule, and may not operate in accordance with our expectations.*
- *We operate in a highly competitive market and the emergence of new competitors could adversely affect our sales.*
- *Our competitors may have access to more and cheaper sources of capital allowing them to modernise and expand their operations more quickly and giving them a substantial competitive advantage over us.*
- *We face risks associated with potential acquisitions, investments, strategic partnerships or other ventures, including whether we can identify opportunities, complete the transactions and integrate the other parties into our business.*
- *We may be unable to implement our strategy, and the plans we execute may not produce the results we intend.*
- *We may be in breach of intellectual property rights of others.*
- *Our indebtedness could adversely affect our financial condition and results of operations.*
- *Fluctuations in the value of the Czech crown against the euro could adversely affect our profitability.*

- *We may not be able to reconfigure our production lines on a timely basis in order to respond to changing demand for particular kinds of spunmelt nonwovens.*
- *Evolving standards for the production of nonwoven textiles, changes in product preferences of customers and the introduction of new products may affect our ability to compete.*
- *Our operating subsidiaries avail themselves of tax benefits offered by the Czech government. Our profitability could decrease owing to any adverse change in general tax policies or if the tax benefits were reduced or withdrawn.*
- *Compliance with, and changes in, safety, health and environmental laws and regulations may adversely affect our results of operations and our financial condition.*
- *Our insurance coverage may not adequately protect us against possible risk of loss.*
- *The loss of the services of our key management personnel could adversely affect our business.*
- *We may not be able to hire and retain sufficient numbers of qualified professional personnel that we need to succeed because these personnel are limited in number and are in high demand.*
- *The Selling Shareholder will continue to exercise significant control over us, and its interests may differ from ours and those of our other shareholders.*
- *Our operations expose us to financial and operating uncertainty and subject us to government laws and regulations that may adversely affect our results of operations and our financial condition.*
- *Non-Luxembourg or non-Czech investors may have problems with enforcement of judgments against us.*
- *Adverse outcomes in litigation to which we are a party could harm our business and prospects.*
- *Your shareholding, voting rights and the earnings per Share may be diluted.*
- *We may decide not to pay dividends.*
- *We may be unable to list our shares on the WSE or the PSE.*
- *Trading in our Shares on the WSE or the PSE may be suspended.*
- *Our Shares may be excluded from trading on the WSE or the PSE.*
- *Our Shares may be subject to market price volatility and the market price of the Shares may decline disproportionately in response to adverse developments that are unrelated to our operating performance.*
- *The WSE and the PSE are substantially smaller and less liquid than securities markets in certain other countries, such as that in the United Kingdom.*
- *There was no prior market for the Shares and therefore there can be no assurance regarding the future development of such market.*
- *The settlement scheme to accommodate the transfers of shares between the PSE and WSE may be discontinued.*
- *We are established and organized under Luxembourg law.*
- *Risks arising directly from political, economic, social, or other developments in the Czech Republic may have an adverse effect on the market value and liquidity of the Shares.*
- *Our Company may become subject to Luxembourg insolvency proceedings.*

### **Recent Developments**

In December 2005, we completed the acquisition of 100% of the share capital and voting rights of our operating subsidiary, PEGAS a.s. In order to facilitate the acquisition, we acquired CEE Enterprise a.s., a joint stock company incorporated in the Czech Republic, which in turn acquired ELK INVESTMENTS s.r.o., a private limited liability company incorporated in the Czech Republic, which served as the vehicle for the acquisition of PEGAS a.s. In January 2006, our management acquired an aggregate 2.5% participation in the share capital of CEE Enterprise a.s., which was subsequently exchanged for a 2.5% participation in PEGAS NONWOVENS SA. In May 2006, ELK INVESTMENTS s.r.o. changed its name to PEGAS NONWOVENS s.r.o., and PEGAS a.s. was merged into PEGAS NONWOVENS s.r.o. Before the merger, one share in PEGAS a.s. was transferred from ELK INVESTMENT s.r.o. to the Company. Therefore, after the merger, PEGAS NONWOVENS s.r.o. had two shareholders, CEE Enterprise a.s. and the Company. In November 2006, CEE Enterprise a.s. acquired the share in PEGAS NONWOVENS s.r.o. from the Company.

## Summary of the Offering

<b>The Issuer</b> .....	PEGAS NONWOVENS SA, having its registered office at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg, Luxembourg and registered with the Luxembourg trade and companies register under number B.112.044.
<b>Legal Form</b> .....	A public limited liability company ( <i>société anonyme</i> ), incorporated under the laws of Luxembourg.
<b>Main Activity of the Company</b> .....	The main activity of the Company is the holding and management of the holding of 100% of the capital of CEE Entreprise a.s., which itself holds 100% of PEGAS NONWOVENS s.r.o.
<b>The Offering</b> .....	The Offering comprises the offer of up to 5,284,250 Shares, including (i) the offer by the Company of up to 2,020,000 Shares to be newly issued in the Company's share capital (referred to as the "New Shares"), (ii) the offer by the Selling Shareholder of up to 2,575,000 Shares, (referred to as the "Sale Shares") to be offered by the Selling Shareholder, and (iii) if exercised, up to an additional 689,250 existing Shares under the Over-allotment Option (referred to as "Over-allotment Shares"), by way of a public offering in the Czech Republic and Poland and an international private placement to institutional investors in certain jurisdictions outside the Czech Republic and Poland. The New Shares, the Sale Shares and the Over-allotment Shares are collectively referred to as the Offer Shares.
<b>The Selling Shareholder</b> .....	Pamplona Capital Partners I, LP that as of the date of this Prospectus holds 97.5% of the issued and outstanding share capital in the Company. After the Offering, the Selling Shareholder will continue to own approximately 49.4% of our issued and outstanding Shares (or 42.1% if the Over-allotment Option is exercised in full). See "Principal Shareholders".
<b>Shares Outstanding</b> .....	Our issued and outstanding share capital as of the date of this Prospectus is €9,200,056, divided into 7,419,400 Shares, each with a nominal value of €1.24. See "Description of Our Shares".
<b>Offer Shares</b> .....	Shares of the Company of nominal value €1.24 each. The final number of Offer Shares sold will be determined and announced by us and the Selling Shareholder upon recommendation of the Managers after termination of the Subscription Period, on or about December 15, 2006, based on interest from investors and will be announced in a manner required by applicable laws, as well as market practices in the Czech Republic, Poland and Luxembourg.
<b>Subscription Period</b> .....	The period which is expected to commence on or about December 5, 2006 and is expected to end on or about December 14, 2006.
<b>Offer Price</b> .....	The Offer Price will be determined and announced by us and the Selling Shareholder upon recommendation of the Managers after termination of the Subscription Period on or about December 15, 2006 based on interest from investors and will be announced in a manner required by applicable laws, as well as market practices in the Czech Republic, Poland and Luxembourg. The Offer Price will not be higher than €50.00 per Share.

It is expected that NFF LP Inc., an affiliate of EMF Luxembourg S.A. which holds a warrant comprising the right to acquire our Shares, will be offered a guaranteed allocation of up to approximately 200,000 of Shares held by the Selling Shareholder, at a purchase price equal to the nominal value per Share. You should read "Business — Financing Agreements" and "Principal Shareholders".

<b>Allotment Date</b> .....	Allotment will occur promptly following the Subscription Period, and is expected to take place on or about December 15, 2006, subject to acceleration or extension of the timetable for the Offering at the discretion of the Company and the Selling Shareholder.
<b>Over-allotment Option</b> .....	The Selling Shareholder will grant to the Global Coordinator and Bookrunner the Over-allotment Option, exercisable for 30 days after the announcement of the Offer Price, to purchase up to an additional 689,250 Shares representing up to 15 per cent. of the aggregate number of Offer Shares available in the Offering (before any exercise of the Over-allotment Option) at the Offer Price to cover over-allotments, if any, made in connection with the Offering and to cover short positions resulting from stabilisation transactions. See “ <i>Placing and Underwriting</i> ”.
<b>Free Float</b> .....	Following the completion of the Offering, the free float (i.e. excluding Shares held by the Selling Shareholder and our management) of the Shares is expected to be approximately 48.7% and 56% if the Over-allotment Option is exercised, provided that all Shares offered are sold.
<b>Listing and Trading</b> .....	Application has been made to list all of our Shares on the PSE and the WSE. Trading of the Shares on the PSE and the WSE is expected to commence on or around December 21, 2006. We intend to apply to the PSE for conditional trading of the Shares, which is expected to commence on or about December 15, 2006. Prior to the Offering, there was no public market for our Shares.
<b>Dividends</b> .....	All Shares, including the Offer Shares, carry full dividend rights if and when declared from the date the holder acquires such shares. See “ <i>Dividend Policy</i> ”.
<b>Taxation</b> .....	Dividends with respect to the Offer Shares will generally be subject to Luxembourg withholding tax currently at a rate of 20% of the gross dividends. This tax may be reduced or eliminated pursuant to an applicable tax treaty or pursuant to Luxembourg tax laws.
<b>Delivery, Settlement and Payment</b> .....	All of the Shares are in registered form. Shareholders in the Company may hold them, either by being directly entered into the share register kept in Luxembourg at the Company’s registered office, or in book entry form with a bank or professional securities depository or other qualified financial intermediary, which will hold them through Clearstream, Luxembourg or Euroclear, either directly as a participant of such system or indirectly through such a participant or through UNIVYC and its participants or the NDS and its participants. Delivery of the Shares is expected to be made on or about December 21, 2006 upon payment of the total Offer Price, through the facilities of UNIVYC and the NDS and their existing links with Clearstream, Luxembourg. See “ <i>The Offering and Plan of Distribution</i> ”.
<b>Common depository</b> .....	Upon issue, the Shares which are to be held in book entry form through Clearstream, Luxembourg or Euroclear will be registered in the name of Fortis Banque Luxembourg S.A., a public limited liability company ( <i>société anonyme</i> ), having its registered office at 50, avenue J.F. Kennedy, L-2951 Luxembourg and registered with the Luxembourg Trade and Companies register under number B.6481 ( <i>Fortis</i> ), acting as common depository in the name and on behalf of Clearstream, Luxembourg or Euroclear, in the share register kept at the Company’s registered office.
<b>Voting Rights</b> .....	Each Share entitles its holder to one vote at our General Meeting of Shareholders.

<b><i>Use of Proceeds</i></b> .....	Net proceeds from the Offer Shares offered and sold by the Company will accrue to the Company, whereas proceeds from the sale of Offer Shares by the Selling Shareholder will accrue to the Selling Shareholder. See “ <i>Use of Proceeds</i> ”.
	The Company intends to use the net proceeds from the Offer Shares offered by it to repay the Mezzanine Facility Agreement to Nomura International PLC and the preferred equity certificates to Pamplona Capital Partners I, LP, and to pay certain fees and expenses associated with the Offering. See “ <i>Business — Financing Agreements</i> ”.
<b><i>Underwriting</i></b> .....	We and the Selling Shareholder plan to enter on the Allotment Date into an underwriting agreement (the “Underwriting Agreement”) pursuant to which the Managers will commit, subject to certain other conditions, to procure subscribers for the Offer Shares at the Offer Price. Failing the procurement of such subscribers or payment of the Offer Price, ING Bank N.V., London Branch and Česká spořitelna, a.s. shall for themselves subscribe for and pay for the Offer Shares.
<b><i>Lock-up</i></b> .....	The Company, the Selling Shareholder and certain members of our management have agreed, for a period of 180 days from the Settlement Date, not to sell any Shares or conclude any transaction whose economic effect would be similar to the effect of selling Shares, except as part of the Offering or with the consent of the Global Coordinator and Bookrunner.
<b><i>Form of Shares</i></b> .....	All the Shares are in registered form.
<b><i>Share Trading Information</i></b> .....	ISIN Code: LU 0275164910 Common Code: 027516491
<b><i>Global Coordinator and Bookrunner</i></b> ..	ING Bank N.V., London Branch as Lead Manager
<b><i>Czech and Polish Managers</i></b> .....	ING Bank N.V., organizační složka (Prague Branch) and ING Securities S.A., respectively.
<b><i>Co-Lead Manager</i></b> .....	Česká spořitelna, a.s.
<b><i>Czech and Polish Listing Agents</i></b> .....	ING Bank N.V., organizační složka (Prague Branch) and ING Securities S.A., respectively.
<b><i>Selling Restrictions</i></b> .....	The Offer Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or any jurisdiction in the United States and subject to certain exceptions, may not be offered or sold within the United States (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the US Securities Act. See “ <i>Selling Restrictions</i> ”.

## RISK FACTORS

*Prospective investors in the Shares should carefully consider the following risks, as well as other information contained in this Prospectus before deciding to invest in any of the Shares. Our business, financial condition and results of operations have been, and could be, materially adversely affected by the following risks. If any of the following risks actually occurs, the value and trading price of the Shares could decline and investors could lose all or part of their investment.*

*Described below are the risks and uncertainties we believe are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties, including those we currently are not aware of or currently deem immaterial, may also result in decreased revenues, increased expenses or other events that could result in a decline in the value of the Shares.*

### **Risks Relating to our Group**

***A small number of customers account for a significant percentage of our total sales, and the loss of one or more of them could significantly affect our revenues and profitability.***

In 2005, our top five customers accounted for approximately 84% of our total sales, and our largest customer accounted for approximately 57% of our total sales. For the six months ended June 30, 2006, these proportions were 81% and 52%, respectively. We remain, and are likely to remain, dependent on a small number of customers. Our reliance on a small number of significant customers means that we may have reduced bargaining power and may have to accept lower prices, provide incentives or extend terms of payment to such customers. In addition, the number of large personal hygiene product manufacturers who are our potential customers is limited. We do not have agreements which extend beyond 12 months with any of our key customers. There can be no assurance that we can retain our key customers, and a loss of any of them would have a material adverse effect on our revenues and financial condition. Moreover, if our principal customers were to consolidate, their bargaining power could further increase, thus increasing pressure on nonwoven manufacturers such as us to reduce prices, provide incentives and/or extend terms of payment to compete for business.

***We may be unable to raise additional capital to fund growth of our operations.***

Our business is capital intensive. For example, we install a new production line about every three years which, at current market rates, involves costs of approximately €40 million. Our production lines also require expenditures for ancillary equipment and upgrades and so we will need additional capital to maintain and expand our business. Our ability to raise additional funding to pursue our strategy depends on our access to capital markets. At the present time, we believe that our current debt facilities and cash flows from operations should be sufficient to finance our capital requirements for the foreseeable future. However, market conditions and other factors, especially large transactions, acquisitions or capital expenditures, may cause us to seek additional financing sooner than we expect. If we fail to generate sufficient funds from operating cash flow and debt or equity financing, we may have to delay or abandon our business plans. We may have to issue additional shares leading to dilution of our shareholders, or we may have to issue shares or debt instruments with rights superior to those of holders of the Shares. If we cannot obtain adequate financing on acceptable terms, we may be unable to take advantage of opportunities or to meet unexpected financial requirements, which could adversely affect our business, financial condition and results of operations.

***Any disruption to our production facilities would have a material adverse effect on our business.***

Our sales depend to a large degree upon the continued operation of our two production plants, both located in the Czech Republic. The operation of our plants involves risks, including, among others, the breakdown, failure or substandard performance of equipment, the improper installation or operation of our equipment, extended interruptions in our electricity supply, disruption in raw material supplies, an inability to make timely repairs and failure to comply with government regulations. Any significant disruptions or reductions in our production capacity would have a material adverse effect on our business, results of operations and financial condition, including the potential claims against us for damages asserted by customers whose operations are impacted as a result of disruption in our operations.

We require a significant amount of electricity for our production facilities. Although we have a generally stable and adequate source of electricity from the Czech power grid, which supplies all of our electricity, we experience brief power outages from time to time. There can be no assurance that our operations will not face significant disruptions owing to blackouts.

***Our success depends on the steady supply and transportation of our products from our plants to our customers, which are subject to various uncertainties and risks.***

We depend primarily on road haulage to deliver our products from our manufacturing facilities to our customers. We rely on third parties to provide such services, which may not be adequate or available to support our existing and future operations. Disruptions of transportation services because of weather-related problems, strikes, lock-outs, inadequacies in the road infrastructure, or other events could impair our ability to supply our products to our customers, which would have significant adverse consequences for us. Moreover, our profitability and competitiveness with other nonwoven manufacturers could be adversely affected by increases in transportation costs. Any such disruptions or cost increases could materially and adversely affect our business, financial condition and results of operations.

***We depend on external suppliers for key raw materials.***

Our production of nonwovens depends on our ability to procure our two primary raw materials, polypropylene and polyethylene. Over the last three years, we have sourced polypropylene and polyethylene from a total of eight suppliers. The failure of our suppliers to deliver these raw materials in the necessary quantities or to adhere to delivery schedules or specified quality standards and technical specifications would adversely affect our production processes and our ability to deliver orders on time and at the desired level of quality. Disruptions in deliveries of raw materials could also arise because of weather-related problems, strikes, lock-outs, inadequacies in the road infrastructure, or other events. Finding a suitable replacement in the event one of our key suppliers were unwilling or unable to provide us with raw materials on short notice would likely take longer than our stock supply would last, resulting in disruptions in our production. Any such disruption in our raw material supplies or inability to locate substitute suppliers in a timely fashion would adversely affect our business, financial condition and results of operations.

***Increases in the cost of raw materials and electricity could have a material adverse impact on our financial condition and results of operations.***

Our primary raw materials, polypropylene and polyethylene, are petrochemical products and their prices fluctuate with changes in the underlying petrochemical market in general which can fluctuate with crude oil prices. Future price levels of raw materials will depend upon world-wide supply and demand conditions, inflation and overall economic conditions. In general, we purchase raw materials on the basis of published price indices. However, this pricing mechanism may change in the future or some suppliers may seek to move away from index-based prices.

We purchase our polymer supplies through a series of agreements with our suppliers. This practice may also change in the future. Certain of our customers, in line with other nonwoven manufacturers, have recently indicated their interest in purchasing polymer on our behalf to be used in the production of nonwovens which we supply to them. If this were to take place, these customers could increase their bargaining power with respect to our sales prices and adversely impact our results of operations.

Additionally, under the terms of our sales agreements with our principal customers, prices for our products are based on published price indices for our raw materials. Competitive pressures may prevent our passing on some or all of our higher costs to our customers through price increases. Moreover, increases in the prices we charge our customers due to increases in the costs of raw materials could result in lower demand for the end-products in which our textiles are used. Accordingly, any increase in our raw material costs could have a material adverse effect on our business, financial condition and results of operations.

The cost of the electricity we use for our operations, which in 2005 represented approximately 4.4% of our operating costs (excluding depreciation and amortisation), is relatively low compared with the electricity prices paid by our competitors. However, electricity prices in the Czech Republic are expected to rise and to reach levels generally prevailing in Germany, which will have an adverse effect on our profitability and business.

***We are dependent on one manufacturer for the equipment and technical support in our production lines.***

All of our production lines have been manufactured by Reicofil, one of the world leaders in spunmelt nonwoven technology. We continue to rely on Reicofil for some technical support in our existing facilities, and for installing future production lines. There can be no assurance that, in the future, we will be able to source equipment or receive technical support from Reicofil at economically favourable terms, or at all, which could adversely affect our production capacity, results of operations and financial condition.



***Our new production line, scheduled for installation in 2007, may not be installed on schedule, and may not operate in accordance with our expectations.***

Our new Reicofil 4 production line is scheduled to be installed in 2007. However, there can be no assurance that this production line will be installed on schedule or on budget. In addition, this production line may not be initially able to manufacture nonwovens in a manner that we expect in terms of speed or end-product quality.

***We operate in a highly competitive market and the emergence of new competitors could adversely affect our sales.***

The market for producing spunmelt nonwovens for the personal hygiene sector, our principal market, is highly competitive. There can be no assurance that new entrants or existing competitors will not attempt to compete in our market and attempt to take advantage of the same conditions, such as our favourable geographic location and low labour costs, in order to erode our market share and competitive position. The emergence of new competitors in our market could have a substantial adverse effect on our financial condition and prospects.

***Our competitors may have access to more and cheaper sources of capital allowing them to modernise and expand their operations more quickly and giving them a substantial competitive advantage over us.***

Our business requires us to be able to raise capital quickly to fund operations and to obtain financing for investments at a reasonable cost. Our competitors may have the ability to obtain more and cheaper sources of capital than us. Their access to such capital may enable them to implement operational or investment projects that could give them a competitive advantage over us and could adversely affect our results of operations and financial condition.

***We face risks associated with potential acquisitions, investments, strategic partnerships or other ventures, including whether we can identify opportunities, complete the transactions and integrate the other parties into our business.***

Our growth strategy in the future may include acquiring or entering into strategic partnerships with other nonwoven manufacturers, polymer suppliers or nonwovens customers. We may also have discussions with such companies regarding our acquiring, investing in or partnering with their businesses, products, services or technologies. We may not be able to identify and fully evaluate a suitable acquisition, investment or strategic partnership candidate, which may place us at a disadvantage if our competitors are able to grow their market share either through acquisitions or otherwise. If we do identify suitable candidates, we may not be able to complete those transactions on commercially acceptable terms or at all. If we acquire another company, we could have difficulty integrating that company's personnel, products, operations and technology with ours. In addition, the key personnel of the acquired company may decide not to work for us and its key customers may decide to terminate their agreements/existing relationships with us or reduce the volume of their purchases. Also some of our existing customers may discontinue their relationships with us. These difficulties could disrupt our ongoing business, distract our management and employees, impair our growth strategy and adversely affect our business, financial condition and results of operations.

***We may be unable to implement our strategy, and the plans we execute may not produce the results we intend.***

Our strategy envisages that we will produce and sell greater volumes of our current products as well as new products in a more efficient manner. While our strategy calls for developing and selling new, technically advanced materials, we may not be able to develop and manufacture these new materials and, if we are, we may not be able to find customers for such materials. Our ability to obtain financing to accomplish these goals will depend upon the stability of our current operations and the willingness of the market to make financing available to us. There can be no assurance that we will continue to produce the volumes of nonwovens required to maintain or increase our profitability or that we will be able to fulfil our strategy in the time period we have set for ourselves.

***We may be in breach of intellectual property rights of others.***

In the past, one of our competitors asserted that some of our production of spunmelt nonwoven textiles was in breach of its patent rights. This claim was settled between our competitor and one of our suppliers without our involvement. Our competitor's legal counsel informed us that the terms of such settlement (a copy of which we have not been provided) preclude that competitor from pursuing its claim or any future similar claims against us. However, there can be no assurance that other third parties, including our competitors, will not assert similar

claims against us. The costs of defending such claims, and the resulting liabilities if we were found to be in breach of a third party's rights, could have a material adverse effect on our business and results of operations.

***Our indebtedness could adversely affect our financial condition and results of operations.***

We have entered into agreements with certain banks and financial institutions for short term and long term borrowings. Some of these agreements contain certain covenants, such as requiring lender consent, *inter alia*, for issuance of new shares, incurring further indebtedness, creating further encumbrances on our assets, disposing of our assets, effecting any scheme of amalgamation or restructuring, undertaking guarantee obligations, declaring dividends or incurring capital expenditures beyond certain limits. In addition, certain of these borrowings may contain financial covenants, which require us to maintain, among other matters, cash flow cover covenants, profit-to-interest covenants, specified net worth to assets ratio, debt service cover ratio, fixed asset coverage ratio and maintenance of security coverage. There can be no assurance that we will be able to comply with these financial or other covenants or that we will be able to obtain the consents necessary to take the actions we believe are necessary to operate and grow our business. Breach of any such obligations or covenants will constitute an event of default which, if not cured or waived, could have a material adverse effect on us, insofar as such default would:

- accelerate our indebtedness, such that we would be immediately liable for all outstanding borrowings;
- permit our lenders to enforce against us and/or our operating subsidiaries their security interests over assets that are material to our operations;
- increase our cost of refinancing such defaulted debts;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to fund future working capital, capital expenditures, research and development and other general corporate requirements;
- require us to dedicate a substantial portion of our cash flow from operations to service payments on our debt;
- limit our flexibility to react to changes in our business and the industry in which we operate;
- place us at a competitive disadvantage to any of our competitors that have less debt;
- constrain our ability to pay dividends;
- require us to meet additional financial covenants; and
- limit, along with the covenants and other restrictions currently applicable under the terms of our financings, our ability to borrow additional funds.

We cannot assure you that our business will generate cash in an amount sufficient to enable us to service our debt or to fund our other liquidity needs. In addition, we may need to refinance all or a portion of our debt on or before maturity. We cannot assure you that we will be able to refinance any of our debt on commercially reasonable terms or at all.

In addition, we have significant levels of senior debt for which full interest rate hedging is not in place. Therefore, any increase in Euribor interest rates would result in an increase in our interest expense.

***Fluctuations in the value of the Czech crown against the euro could adversely affect our profitability.***

Over 98% of our revenues are denominated in euro, while about 85% of our operating costs (excluding depreciation and amortisation) are incurred in euro. As a result, our euro and Czech crown profits will be adversely affected by a depreciation of the euro against the Czech crown.

***We may not be able to reconfigure our production lines on a timely basis in order to respond to changing demand for particular kinds of spunmelt nonwovens.***

Our production lines are currently configured to produce particular kinds of spunmelt nonwovens (e.g. those consisting of spunbond layers only, or combinations of spunbond and meltblown layers) in quantities corresponding to our customers' demand for these particular products. Changes in demand for a particular product could require us to reconfigure our production lines in order to increase or decrease our output of such products accordingly, requiring time and expense. We may not be able to reconfigure our production lines to meet

the changing demands of our customers in a timely fashion and, as a consequence, our results of operations and our business may be adversely affected.

***Evolving standards for the production of nonwoven textiles, changes in product preferences of customers and the introduction of new products may affect our ability to compete.***

Evolving industry standards, changing customer preferences and new product innovations and production technologies have an important bearing on our business. Our success depends to a significant degree on our ability to keep pace with these changes. We may not be able successfully to address these developments or do so on a timely basis and, even if we were to do so, we cannot give any assurance that our products would be accepted in the market place. In addition, products developed by our competitors may make our products less competitive, both in terms of quality and price. Additionally, there can be no assurances that our customers will continue to use our products in the future or that current customers will continue to use polypropylene and polypropylene/polyethylene-based spunmelt nonwoven textiles at all in the future. In the event of changes in customer preferences, we may have to alter or modify our product design and production processes, invest in new technologies and capacities and/or alter our marketing and distribution strategies, any or all of which may involve significant investment of capital and management resources which, in turn, could have a material adverse effect on our financial condition and results of operations.

***Our operating subsidiaries avail themselves of tax benefits offered by the Czech government. Our profitability could decrease owing to any adverse change in general tax policies or if the tax benefits were reduced or withdrawn.***

Our operating subsidiaries benefit from incentives in the form of certain kinds of tax relief granted by the Czech government. Maintaining these tax benefits requires us to comply strictly with certain requirements, such as filing timely tax returns. Any decision by the government to reduce or eliminate the existing incentives in the case of non-compliance, or deny similar exemptions to our future operations, could adversely affect our profits after tax and cash flows. You should read “Our Business-Czech Investment Incentives”.

***Compliance with, and changes in, safety, health and environmental laws and regulations may adversely affect our results of operations and our financial condition.***

We are subject to a broad range of safety, health and environmental laws, regulations and industry standards. We have incurred, and expect to continue to incur, significant operating costs to comply with such laws and regulations. In addition, we have made and expect to incur capital expenditures on an ongoing basis to comply with safety, health and environmental laws and regulations.

Further, the adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments (including in particular new requirements imposed on us by our customers) in the future may require that we incur additional capital expenditures or incur additional operating expenses in order to maintain our current operations, curtail our production activities or take other actions that could have a material adverse effect on our financial condition, results of operations and cash flow. The costs of complying with these requirements could be significant. The measures we implement in order to comply with these new laws and regulations may not be deemed sufficient by governmental authorities and our compliance costs may significantly exceed current estimates. If we fail to meet environmental requirements, we may also be subject to administrative, civil and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against us as well as orders that could limit or halt our operations.

There can be no assurance that we will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters in the future, the costs of which could be material. Such litigation could adversely affect our cash flow, results of operations and financial condition.

***Our insurance coverage may not adequately protect us against possible risk of loss.***

Our operations are subject to risks inherent in our production processes, such as mechanical failure of equipment at our facilities and natural disasters. In addition, many of these operating and other risks may cause personal injury and loss of life, damage to or destruction of our properties and damage to the properties of others and environmental pollution, and may result in suspension of operations and the imposition of civil or criminal penalties.

Our insurance policies do not cover all risks and are subject to exclusions and deductibles. If any or all of our production facilities are damaged in whole or in part or our operations are interrupted for a sustained period, there can be no assurance that our insurance policies will be adequate to cover the losses that may be incurred as a result of such interruption or the costs of repairing or replacing the damaged facilities. If we suffer a large uninsured loss or any loss suffered by us materially exceeds our insurance coverage, our business, financial condition and results of operations may be materially and adversely affected.

***The loss of the services of our key management personnel could adversely affect our business.***

Our success depends in part on the continued services of key members of our management. If we were to lose their services, we may be unable to find and integrate replacement personnel in a timely manner and such loss could significantly impair our ability to develop and implement our business strategies. This would have a material adverse effect on our financial condition and results of operations.

***We may not be able to hire and retain sufficient numbers of qualified professional personnel that we need to succeed because these personnel are limited in number and are in high demand.***

If we fail to hire and retain sufficient numbers of qualified personnel for functions such as research and development, finance, marketing and sales and operations, our business, operating results and financial condition could be adversely affected. The success of our business will depend on our ability to identify, attract, hire, train, retain and motivate skilled personnel. There can be no assurance that we will be able successfully to attract, assimilate or retain sufficiently qualified personnel.

***The Selling Shareholder will continue to exercise significant control over us, and its interests may differ from ours and those of our other shareholders.***

Following the successful completion of our initial public offering (and assuming no exercise of the Over-Allotment Option), the Selling Shareholder will continue to own not less than 49.4% of the share capital of the Company or not less than 42.1% if the Over-allotment Option is exercised in full. As such, the Selling Shareholder will have the ability to control our business, including matters relating to any sale of all or substantially all of our assets, timing and distribution of dividends, appointment of our management and directors and change of control transactions. Such control by the Selling Shareholder may discourage others from seeking to effect such a transaction. Moreover, the Selling Shareholder may have interests that are adverse to the interests of other holders of our shares, and may take positions with which we or the other holders of our Shares do not agree.

***Our operations expose us to financial and operating uncertainty and subject us to government laws and regulations that may adversely affect our results of operations and our financial condition.***

We conduct our business in the Czech Republic and export our products principally to Europe, Russia, North America and Africa. There are a number of risks inherent in doing business in international markets, including the following:

- restrictive trade policies;
- inconsistent product regulation or policy changes by local agencies or governments;
- exchange controls and currency restrictions;
- exposure to government actions; and
- political, economic and social instability.

These and other factors may have a material adverse effect on our business, financial condition and results of operations.

***Non-Luxembourg or non-Czech investors may have problems with enforcement of judgments against us.***

PEGAS NONWOVENS SA is a public limited liability company (*société anonyme*), incorporated under the laws of Luxembourg and having its registered office in Luxembourg. The majority of the assets of our Group are, however, located in the Czech Republic. For this reason and despite the fact that Luxembourg and the Czech Republic are subject to the Regulation of the European Council of December 22, 2000 on the Jurisdiction and Enforcement in Civil and Commercial Matters, as amended, non-Luxembourg and non-Czech investors may encounter difficulties in service of process and the conduct of proceedings with respect to any of the entities

within the Group. For the same reason it may be more difficult for non-Luxembourg and non-Czech investors to enforce a judgment of their home-country courts issued against the entities within the Group than if those entities were located in that home country.

***Adverse outcomes in litigation to which we are a party could harm our business and prospects.***

We may be involved in litigation which, if determined adversely to us, could have an adverse impact on our business, our prospects and the value of our Shares.

**Risks Related to the Shares**

***Your shareholding, voting rights and the earnings per Share may be diluted.***

Your shareholding and voting rights in our Company and the earnings per Share may be diluted as a result of an issuance of additional Shares with exclusion of your pre-emptive rights.

***We may decide not to pay dividends.***

We currently do not expect to pay dividends in the medium term. Payment of any future dividends will be effectively at the discretion of our Board of Directors (as defined below) and the General Meeting of Shareholders (as defined below) (at which the Selling Shareholder may have a significant percentage of our voting shares) after taking into account various factors including our business prospects, future earnings, cash requirements, financial position, expansion plans and the requirements of Luxembourg and Czech law. Also, restrictions in our financing agreements may prevent us from paying dividends. Accordingly, investors cannot rely on dividend income from the Shares and any returns on an investment in the Shares will likely depend entirely upon any future appreciation in the price of the Shares.

***We may be unable to list our shares on the WSE or the PSE.***

The admission of our Shares to trading on the WSE and the PSE requires that the KNP and the Czech CNB receive a certificate from the CSSF confirming that this Prospectus has been approved in Luxembourg by the CSSF as competent authority in Luxembourg under the Prospectus Act 2005, that our Shares are recorded in the settlement system of NDS (for listing and trading on the WSE) and that the WSE and the PSE approve the listing and trading on those exchanges. We intend to take all the necessary steps to ensure that our Shares are admitted to trading on the WSE and the PSE as soon as possible after the Offering, at the same time. However, there is no guarantee that all of the aforementioned conditions will be met and that our Shares will be admitted to trading on the WSE and the PSE on the date expected therefore or at all.

***Trading in our Shares on the WSE or the PSE may be suspended.***

Each of the WSE and the PSE has the right to suspend trading in shares of a listed company if the company fails to comply with the respective regulations of those exchanges (such as specific disclosure requirements) or if such suspension is necessary to protect the interests of market participants or the orderly functioning of the market is temporarily endangered. There can be no assurance that trading in our Shares will not be suspended. Any suspension of trading could adversely affect our share price.

***Our Shares may be excluded from trading on the WSE or the PSE.***

If a company listed on the WSE or the PSE fails to fulfil certain requirements or obligations under the respective laws and regulations of those exchanges, and/or if the orderly stock exchange trading, the safety of trading thereon or investors' interests are endangered, the Shares can be excluded from trading on the WSE or the PSE. In particular, the Shares could be excluded from trading where, among others: (i) transferability of the Shares is restricted, (ii) if the Shares cease to exist in a book entry form (although shares in certificated form may be traded on the PSE), or (iii) upon instruction by the Polish Commission for Financial Supervision or the Czech National Bank. There can be no assurance that such a situation will not occur in relation to our Shares.

If a company listed on the WSE or the PSE fails to fulfil certain requirements under applicable laws, the relevant authorities in Poland and the Czech Republic could impose a fine on us or exclude the Shares from trading. There can be no assurance that such a situation will not occur in relation to our Shares.

***Our Shares may be subject to market price volatility and the market price of the Shares may decline disproportionately in response to adverse developments that are unrelated to our operating performance.***

Shares listed on regulated markets, which include the PSE and the WSE, have from time to time experienced significant price fluctuations that are unrelated to the operating performance of particular companies. Factors including concerns as to product quality, trading performance of our customers, fluctuations in our operating results, and general market conditions can have an adverse effect on the market price of the Shares. The market price of the Shares could be particularly volatile owing to the absence of comparable listed companies in the Czech or Polish market.

***The WSE and the PSE are substantially smaller and less liquid than securities markets in certain other countries, such as that in the United Kingdom.***

On both the PSE and the WSE, a relatively small number of companies represents a majority of the market capitalisation and trading volumes. Moreover, the total capitalisation of companies listed on, and the trading volumes of, the PSE are substantially smaller than the WSE. There is no guarantee that the Shares will be actively traded in these markets and, if they are not, this is likely to increase price volatility.

***There was no prior market for the Shares and therefore there can be no assurance regarding the future development of such market.***

The lack of a prior public market for the Shares may have a negative effect on the ability of shareholders to sell their Shares or the price at which the holders may be able to sell their Shares. If a market for the Shares were to develop, the Shares could trade at prices that may be higher or lower than the Offer Price, depending on many factors. Therefore, there can be no assurance as to the liquidity of any trading in the Shares or that an active market for the Shares will develop.

***The settlement scheme to accommodate the transfers of shares between the PSE and WSE may be discontinued.***

Although the Polish and Czech settlement systems operated by NDS and UNIVYC, respectively, and Clearstream, Luxembourg have agreed, or are expected to agree, to establish the settlement procedures allowing transfers of Shares between NDS and UNIVYC participants, they are under no obligation to perform or to continue to perform such procedures and such procedures may be discontinued at any time. In addition to a number of practical problems for investors, such a situation may limit the liquidity and have a negative impact on the efficiency of the pricing mechanisms of the secondary market of our Shares.

***We are established and organised under Luxembourg law.***

We are a company organized and existing under the laws of Luxembourg. Accordingly, our corporate structure as well as the rights and obligations of our shareholders may be different from the rights and obligations of shareholders in companies listed on the WSE or in companies listed on the PSE. The exercise of certain shareholders' rights for Czech, Polish or other non-Luxembourg investors in a Luxembourg company may be more difficult and costly than the exercise of rights in a Czech or Polish company. Resolutions of the General Meeting of Shareholders may be taken with majorities different from the majorities required for adoption of equivalent resolutions in Polish or Czech companies.

## **Risks Related to the Czech Republic**

***Risks arising directly from political, economic, social, or other developments in the Czech Republic may have an adverse effect on the market value and liquidity of the Shares.***

The Czech Republic is generally considered by international investors to be an emerging market. Results of our operations are, to a high degree, dependent on the economic development of the Czech Republic. Therefore, investing in Shares may involve a higher degree of risk than investing in the securities of issuers operating in more developed markets. Following the general elections in June 2006, no permanent government has been formed. Early elections may occur, and no assurance can be given that changes to the current government or the creation of a new government will not occur in the Czech Republic. Such events may have an adverse effect on the overall stability of the Czech Republic and subsequently on our business, prospects, financial condition or results of operations.

The Czech Republic has undergone dramatic economic reform since 1989. Public discussion continues as to the need to reform pension and healthcare systems and to balance the fiscal budget. A failure to safeguard the sustainability of the public finances could potentially destabilise the Czech Crown against foreign currencies, increase inflation and increase the borrowing costs of the Czech Republic through lower debt ratings, which may thereby adversely affect us. Even if an agreement is reached on reforms among political parties in the Czech Republic, no assurance can be given that any such reforms will not adversely affect our business, prospects, financial condition or results of operations.

### **Risks Relating Specifically to the Company**

In addition to the risks discussed above concerning both the Company and the other members of the PEGAS Group, any of which could affect the results of operations, financial position or prospects of the Company or the value of our Shares, you should also consider the following risk relating specifically to the Company.

#### ***Our Company may become subject to Luxembourg insolvency proceedings.***

Our Company is a holding company incorporated under the laws of Luxembourg, whose principal assets are its direct and indirect shareholdings in the other companies in the PEGAS Group. If our operating subsidiaries were to experience sufficiently adverse changes in their financial position or results of operations, or our Company were otherwise to become unable to pay its debts as they become due, our Company may be in a state of cessation of payments (*cessation de paiements*) and lose its commercial creditworthiness (*ébranlement de crédit*), which could result in the commencement of insolvency proceedings. Such proceedings would have a material adverse effect on the Company's business and prospects, and the value of our Shares.

## EXCHANGE RATES

Our principal internal reporting currency is Czech crowns, as all of our operations are carried out in the Czech Republic and it reflects the economic substance of the underlying events and circumstances of our Group. However, given that we are incorporated in Luxembourg, our statutory reporting currency is euro.

The following table shows, for the periods indicated, unless indicated otherwise, certain information regarding the exchange rate between Czech crowns (as a base currency) and euro, as well as Polish zloty and euro. This information is based on the official exchange rates quoted by the Czech National Bank on its website [www.cnb.cz](http://www.cnb.cz) (in case of Czech crowns) and the Polish National Bank on its website [www.nbp.gov.pl](http://www.nbp.gov.pl) (in case of Polish zloty). These rates may differ from the actual rates used in the preparation of our pro forma consolidated financial statements and other financial information appearing in this Prospectus.

Prospective investors should note that the average rates in both tables are simple arithmetic averages for each given period.

	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period End</u>
<b>CZK per 1 EUR</b>				
2003 .....	32.885	31.175	31.844	32.405
2004 .....	33.330	30.400	31.904	30.465
2005 .....	30.555	28.865	29.784	29.005
November 15, 2006 .....	29.045	27.930	28.407	28.105
<b>PLN per 1 EUR</b>				
2003 .....	4.7170	3.9773	4.3979	4.7170
2004 .....	4.9149	4.0518	4.5294	4.0790
2005 .....	4.2756	3.8223	4.0231	3.8598
November 15, 2006 .....	4.1065	3.7565	3.9070	3.8085

Source: [www.cnb.cz](http://www.cnb.cz), [www.nbp.gov.pl](http://www.nbp.gov.pl)



## SELECTED HISTORICAL FINANCIAL INFORMATION

The following tables set out consolidated balance sheet and consolidated statement of operations information relating to the Company, PEGAS a.s. and PEGAS NONWOVENS s.r.o. Such information is extracted without material adjustment from (i) the audited consolidated financial statements of PEGAS a.s., as at and for each of the three years ended December 31, 2005, 2004 and 2003, (ii) the unaudited condensed consolidated financial statements of PEGAS NONWOVENS s.r.o. as at and for the six months ended June 30, 2006, with comparative statements of income, cash flows and changes in equity for PEGAS a.s. for the six months ended June 30, 2005 and the comparative balance sheet of PEGAS a.s. as at December 31, 2005, (iii) the audited consolidated financial statements of the Company as at and for the year ended December 31, 2005 and (iv) the unaudited consolidated financial statements of the Company as at and for the six months ended June 30, 2006. You should read "Presentation of Financial Information" for a description of the financial information included in this Prospectus. Prospective investors are cautioned not to place undue reliance on the comparability of interim financial information for the Company, PEGAS NONWOVENS s.r.o. and PEGAS a.s.

Such financial statements, together with the reports of KPMG Česká republika s.r.o. dated November 22, 2006 and the accompanying notes, are included in this Prospectus, starting on page F-1. The information below should also be read in conjunction with "Operating and Financial Review and Prospects" in this Prospectus.

### Consolidated income statement

The table below sets forth the consolidated results of operations of (i) PEGAS a.s. for each of the three years ended December 31, 2005, 2004 and 2003, and for the six months ended June 30, 2005, (ii) PEGAS NONWOVENS s.r.o. for the six months ended June 30, 2006, and (iii) the Company for the six months ended June 30, 2006.

	For the six months ended June 30,			For the year ended December 31,		
	2006 <sup>(1)</sup>	2006 <sup>(2)</sup>	2005 <sup>(3)</sup>	2005 <sup>(3)</sup>	2004 <sup>(3)</sup>	2003 <sup>(3)</sup>
	(unaudited)	(unaudited) € thousands	(unaudited)	(audited)	(audited) € thousands	(audited)
Revenue . . . . .	60,065	60,065	52,828	109,491	72,819	67,368
Raw materials and consumables used	(36,865)	(36,866)	(30,173)	(63,296)	(40,770)	(36,787)
Staff costs . . . . .	(2,462)	(2,462)	(2,233)	(4,669)	(3,899)	(3,481)
Depreciation and amortisation expense . . . . .	(6,153)	(6,153)	(4,970)	(9,910)	(7,546)	(7,132)
Other operating income/(expense) (net) . . . . .	5,126	5,123	(259)	(846)	1,167	(671)
<b>Profit from operations . . . . .</b>	<b>19,711</b>	<b>19,707</b>	<b>15,193</b>	<b>30,770</b>	<b>21,771</b>	<b>19,297</b>
Finance costs . . . . .	(8,075)	(7,196)	(71)	(158)	(438)	(955)
<b>Profit before tax . . . . .</b>	<b>11,636</b>	<b>12,511</b>	<b>15,122</b>	<b>30,612</b>	<b>21,333</b>	<b>18,342</b>
Income tax expense . . . . .	(723)	(713)	(1,880)	(3,975)	(3,312)	(1,352)
<b>Profit after tax . . . . .</b>	<b>10,913</b>	<b>11,798</b>	<b>13,242</b>	<b>26,637</b>	<b>18,021</b>	<b>16,990</b>
Minority interest . . . . .	(273)	—	—	—	—	—
<b>Net profit for the year . . . . .</b>	<b>10,640</b>	<b>11,798</b>	<b>13,242</b>	<b>26,637</b>	<b>18,021</b>	<b>16,990</b>

(1) PEGAS NONWOVENS SA

(2) PEGAS NONWOVENS s.r.o.

(2) PEGAS a.s.

## Consolidated balance sheet

The table below sets forth the consolidated balance sheet of (i) PEGAS a.s. as at December 31, 2005, 2004 and 2003, (ii) PEGAS NONWOVENS s.r.o. as at June 30, 2006, and (iii) the Company as at December 31, 2005 and June 30, 2006.

	As at June 30,		As at December 31,			
	2006 <sup>(1)</sup> (unaudited) € thousands	2006 <sup>(2)</sup> (unaudited)	2005 <sup>(1)</sup> (audited)	2005 <sup>(3)</sup> (audited)	2004 <sup>(3)</sup> (audited)	2003 <sup>(3)</sup> (audited)
<b>Assets</b>						
<i>Non-current assets</i>						
Property, plant and equipment . . . . .	111,133	111,133	111,113	93,439	101,528	78,386
Intangible assets . . . . .	<u>80,435</u>	<u>80,435</u>	<u>78,973</u>	<u>192</u>	<u>260</u>	<u>303</u>
	<u>191,568</u>	<u>191,568</u>	<u>190,086</u>	<u>93,631</u>	<u>101,788</u>	<u>78,689</u>
<i>Current assets</i>						
Inventories . . . . .	7,379	7,379	8,622	8,508	5,496	4,540
Trade and other receivables . . . . .	24,777	24,776	23,785	25,101	15,005	10,523
Bank balances and cash . . . . .	<u>28,292</u>	<u>28,171</u>	<u>27,034</u>	<u>25,366</u>	<u>5,810</u>	<u>2,913</u>
	<u>60,448</u>	<u>60,326</u>	<u>59,441</u>	<u>58,975</u>	<u>26,311</u>	<u>17,976</u>
<b>Total assets . . . . .</b>	<b><u>252,016</u></b>	<b><u>251,894</u></b>	<b><u>249,527</u></b>	<b><u>152,606</u></b>	<b><u>128,099</u></b>	<b><u>96,665</u></b>
<b>Equity and Liabilities</b>						
<i>Capital and reserves</i>						
Share capital . . . . .	125	126	125	6,335	6,335	6,335
Capital reserve . . . . .	4,432	—	4,432	3,301	2,780	2,380
Translation reserve . . . . .	(22)	—	(4)	9,080	3,750	(1,473)
Accumulated profits/(losses) . . . . .	<u>9,201</u>	<u>10,504</u>	<u>(1,367)</u>	<u>105,431</u>	<u>79,315</u>	<u>61,694</u>
	13,736	10,630	3,186	124,147	92,180	68,936
Minority interest . . . . .	345	—	—	—	—	—
<i>Non-current liabilities</i>						
Bank loans — due after one year . . . . .	152,958	138,272	157,268	—	998	2,996
Deferred tax liabilities . . . . .	14,124	14,124	13,910	9,681	8,430	7,633
Other payables due after one year . . . . .	<u>37,611</u>	<u>55,954</u>	<u>37,224</u>	<u>69</u>	<u>125</u>	<u>182</u>
	204,693	208,350	208,402	9,750	9,553	10,811
<i>Current liabilities</i>						
Trade and other payables . . . . .	18,737	18,420	21,670	16,691	23,803	6,522
Tax liabilities . . . . .	—	—	19	18	566	669
Bank overdrafts and loans . . . . .	14,250	14,250	16,250	2,000	1,997	9,727
Provisions . . . . .	<u>255</u>	<u>244</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>33,242</u>	<u>32,914</u>	<u>37,939</u>	<u>18,709</u>	<u>26,366</u>	<u>16,918</u>
<b>Total equity and liabilities . . . . .</b>	<b><u>252,016</u></b>	<b><u>251,894</u></b>	<b><u>249,527</u></b>	<b><u>152,606</u></b>	<b><u>128,099</u></b>	<b><u>96,665</u></b>

(1) PEGAS NONWOVENS SA

(2) PEGAS NONWOVENS s.r.o.

(3) PEGAS a.s.

## Consolidated statement of cash flows

The table below sets forth the summary consolidated statement of cash flows of (i) PEGAS a.s. for the years ended December 31, 2005, 2004 and 2003, and the six months ended June 30, 2005, (ii) PEGAS NONWOVENS s.r.o. for the six months ended June 30, 2006, and (iii) the Company for the six months ended June 30, 2006.

	For the six months ended June 30,			For the year ended December 31,		
	2006 <sup>(1)</sup> (unaudited) € thousands	2006 <sup>(2)</sup> (unaudited) € thousands	2005 <sup>(3)</sup> (unaudited)	2005 <sup>(3)</sup> (audited) € thousands	2004 <sup>(3)</sup> (audited) € thousands	2003 <sup>(3)</sup> (audited)
Net cash flow from operating activities .....	13,254	13,300	11,509	31,593	28,775	16,774
Cash flow used in investment activities .....	(4,171)	(4,171)	(6,361)	(11,042)	(16,150)	(4,738)
Cash flow used in financing activities	<u>(7,825)</u>	<u>(7,705)</u>	<u>(998)</u>	<u>(995)</u>	<u>(9,728)</u>	<u>(12,453)</u>
Net increase /(decrease) in cash and cash equivalents .....	<u>1,258</u>	<u>1,424</u>	<u>4,150</u>	<u>19,556</u>	<u>2,897</u>	<u>(417)</u>

(1) PEGAS NONWOVENS SA

(2) PEGAS NONWOVENS s.r.o.

(3) PEGAS a.s.

## Key Ratios

	For the six months ended June 30,			For the year ended December 31,		
	2006 <sup>(1)</sup> (unaudited)	2006 <sup>(2)</sup> (unaudited)	2005 <sup>(3)</sup> (unaudited)	2005 <sup>(3)</sup> (audited)	2004 <sup>(3)</sup> (audited)	2003 <sup>(3)</sup> (audited)
EBITDA margin .....	34.6% <sup>(*)</sup>	34.6% <sup>(*)</sup>	38.2%	37.2%	40.3%	39.2%
EBIT margin .....	24.4% <sup>(**)</sup>	24.4% <sup>(**)</sup>	28.8%	28.1%	29.9%	28.6%

Notes:

(1) PEGAS NONWOVENS SA

(2) PEGAS NONWOVENS s.r.o.

(3) PEGAS a.s.

EBITDA: calculated as earnings before interest expense, income tax expense, depreciation and amortisation, and minority interest.

(\*) excluding foreign exchange gains of €3,294 thousand and revaluation of interest rate swap of €1,775 thousand (see notes to the condensed consolidated interim financial statements)

EBIT: calculated as earnings before interest expense, income tax expense, and minority interest, assumed to be equal to operating profit.

(\*\*) excluding foreign exchange gains of €3,294 thousand and revaluation of interest rate swap of €1,775 thousand (see notes to the condensed consolidated interim financial statements)

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following is a discussion of our financial condition and results of operations as at and for each of the three years ended December 31, 2005, 2004 and 2003, and for the six months ended June 30, 2006 and 2005. The following discussion is based on, and should be read in conjunction with, (i) the audited consolidated financial statements of PEGAS a.s., as at and for each of the three years ended December 31, 2005, 2004 and 2003, (ii) the unaudited condensed consolidated financial statements of PEGAS NONWOVENS s.r.o. as at and for the six months ended June 30, 2006, with comparative statements of income, cash flows and changes in equity for PEGAS a.s. for the six months ended June 30, 2005 and the comparative balance sheet of PEGAS a.s. as at December 31, 2005, (iii) the audited consolidated financial statements of the Company as at and for the year ended December 31, 2005 and (iv) the unaudited consolidated financial statements of the Company as at and for the six months ended June 30, 2006.

Our Company, PEGAS NONWOVENS SA, whose previous name was Pamplona PE Holdco 2 SA, was incorporated on November 18, 2005, and consequently has only a limited operating history. In addition, both the Company and its directly held subsidiary, CEE Enterprise a.s., serve only as holding companies, with the exception of an SAP computer software license held by CEE Enterprise a.s., which is that subsidiary's sole operating asset. Apart from that license, our operating assets are held entirely by PEGAS NONWOVENS s.r.o. and its three wholly-owned subsidiaries, PEGAS — DS a.s., PEGAS — NT a.s. and PEGAS — NW a.s.

PEGAS NONWOVENS s.r.o., formerly ELK INVESTMENTS s.r.o., was a special purpose vehicle established in 2003 and acquired by the Company through CEE Enterprise a.s. in November 2005 for the acquisition of PEGAS a.s. In April 2006, ELK INVESTMENTS s.r.o. changed its name to PEGAS NONWOVENS s.r.o. and in May 2006 PEGAS a.s. was merged into it, with PEGAS NONWOVENS s.r.o. being the surviving entity. Since December 2005, we have owned all of the share capital of CEE Enterprise a.s. and PEGAS NONWOVENS s.r.o. except for a minority interest in CEE Enterprise a.s. held by certain members of the Group's management, which was converted in November 2006 into a shareholding in the Company. PEGAS NONWOVENS s.r.o. had no trading or operational assets or liabilities and had never conducted any business other than that of a holding company prior to the merger with PEGAS a.s. As a result of the merger, PEGAS NONWOVENS s.r.o. acquired all of the former assets, liabilities and business activities of PEGAS a.s. except for the SAP computer software license described above which was sold by PEGAS a.s. to CEE Enterprise a.s. before the merger. Accordingly, the consolidated historical financial information included in this Prospectus as at and for the years ended December 31, 2005, 2004 and 2003 relates to PEGAS a.s. (apart from the balance sheet of the Company as at December 31, 2005, which is also included in this Prospectus), as we believe that such financial information fairly presents the financial condition and results of operations of our business for those years.

Because PEGAS NONWOVENS s.r.o. assumed all of the assets, liabilities and business operations of PEGAS a.s. prior to June 2006, we have presented the consolidated results of operations of PEGAS NONWOVENS s.r.o. for the six months ended June 30, 2006, together with the results of the Company for that same period. For comparison purposes, we also present the results of operations of PEGAS a.s. for the same period in the prior year. **Prospective investors are cautioned that the financial information of the Company and PEGAS NONWOVENS s.r.o. for the six months ended June 30, 2006 reflects a number of accounting differences resulting from the acquisition of PEGAS a.s., and you should therefore not place undue reliance on the comparability of such financial information when compared with the results of operations of PEGAS a.s. for six months ended June 30, 2005.**

The following discussion contains forward looking statements which involve risk uncertainties and other factors. The actual results may therefore differ materially from those contained or implied by such forward looking statements. You should read "Forward Looking Statements".

When reading this discussion, you should consider that in our analysis of our financial condition and results of operations in any period subsequent to June 30, 2006, we rely entirely on internal management accounts, which are not as reliable as financial statements prepared in accordance with IFRS and which are not included in this Prospectus. In addition, such accounts have not undergone any review by independent auditors.

### Overview

#### Background

Our principal trading business commenced in 1992 and is presently a leading European producer of nonwoven textiles (i.e. textiles made from polymer filaments that are bonded together using pressure and heat) for use primarily in products manufactured for the personal hygiene market. We supply our customers with spunbond and meltblown (together, "spunmelt") polypropylene-based and bicomponent (i.e. polypropylene- and polyethyl-

ene-based) nonwoven 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. Consequently, our results depend significantly on the demand for our nonwoven textiles by European manufacturers of personal hygiene products.

In 2005, we sold a total of approximately 51,000 tonnes of nonwoven textiles, and our sales for the year 2005 were approximately €109.5 million. Approximately 89% of our sales in 2005 derived from spunmelt nonwoven textiles destined for personal hygiene applications.

## **Principal Factors and Events Affecting Our Results of Operations and Financial Condition**

### ***Investments in fixed assets***

Our business is capital intensive and requires substantial investments in our machinery in order to expand our production capacity, to keep abreast with the latest developments in spunmelt nonwoven manufacturing technology, and to maintain and upgrade our existing production lines. We install a new production line, with, depending on the configuration of such production line, a total project cost of up to approximately €40 million (at current market rates), every two to three years, and expect that our next production line (our eighth) will become operational in late 2007. Except for the last two lines, which were funded solely out of cash generated from operations, we have financed the acquisition of new production lines with a combination of bank debt and cash generated from operations.

### ***Customers***

#### **Limited number of customers**

We believe that our present customer concentration reflects the situation in the hygiene market which is divided among a small number of producers, each of which has a substantial market share. In 2005, our top five customers accounted for approximately 84% of our total sales, and our largest customer accounted for approximately 57% of our total sales. For the six months ended June 30, 2006, this proportion was 81% and 52%, respectively. We expect to increase the proportion of our sales to other customers as a result, in part, of increased production capacity with the entering into operation of our new production line.

#### **Exacting requirements of our customers**

Our success in supplying nonwoven textiles depends on a number of factors, including:

- *High quality of our nonwoven textiles* — our customers need to produce high quality products for their markets and, as a result, we are required to supply them with nonwoven textiles which meet their high quality standards.
- *Consistently reliable quality at high production volumes* — our customers operate high speed, capital-intensive machinery, where the costs of shutdowns are extremely high. We therefore must provide large quantities of our product to consistently high standards. We ensure this through rigorous testing and inspection of all products which leave our premises. This activity represents a significant cost for us and engages approximately 10% of our work force.
- *Reliable transport* — our customers require frequent and reliable delivery of our products in order to minimise their own working capital and to provide them with certainty that their production lines will not suffer shutdowns because of interrupted supply.
- *Geographic proximity* — we sell most of our products on an INCOTERMS 2000 DDU (delivery and duty unpaid) basis, whereby we pay transport and related expenses and then invoice the customer for these costs. However, in some cases, our customers prefer to arrange the transportation to their premises themselves. Because our production facilities are located in the centre of Europe, we believe this represents a significant competitive advantage when supplying manufacturers throughout Europe, including the higher growth areas of Central and Eastern Europe and Russia.
- *Modern machinery* — we recognise that our customers require nonwoven textiles of ever more demanding technical specifications and lighter weights. These textiles can only be manufactured on the most modern machinery. In order to serve our customers in the best possible manner, we have consistently invested in equipment which is among the most advanced in the industry. While this requires high levels of capital expenditure, we believe it allows us to offer the best possible products to our customers.

- *Cooperation with and technical support for our customers* — in order to help realise new product development and advancement for our customers, it is important that we (i) maintain our strong technical capabilities, and (ii) engage in technical cooperation and assistance with our customers in developing these increasingly demanding products.

### ***Government incentives***

Our operating subsidiaries benefit from incentives offered by the Czech government, designed to incentivise investors in the manufacturing sector. These incentives were approved by the European Commission upon the Czech Republic's accession to the EU and are considered as automatically fulfilling all the requirements and conditions applicable under EU law, without clearance by the European Commission being required. The principal benefit we derive from these incentives is relief from corporate income tax for a limited time. You should read "*Business — Czech Investment Incentives*".

### ***Indexation of raw material prices and corresponding effects on revenue***

In general, we purchase raw materials on the basis of published price indices. Under the terms of our sales agreements with our main customers, prices for our products are also based on published price indices for our principal raw materials. This practice is common in the hygiene nonwovens industry. Such indexation partially removes our risk from movements in raw materials prices. Consequently, any time that polymer prices increase or decrease within our contractual time periods, we record a corresponding increase or decrease in revenue. This results in decreased operating margins whenever polymer prices increase and increased operating margins whenever polymer prices decrease.

You should read "*Business — Competitive Strengths — Protection from significant movements in the price of polypropylene*".

### **Trend Information**

The principal trends affecting our business over the past two years have been increasing polymer prices, which are our most significant expense, although we are partially hedged against such increases. Staff costs, our next most significant expense, are expected to increase at a rate higher than inflation. Electricity prices, the third largest component of our operational costs (excluding depreciation and amortisation) in 2005 are also increasing, and are expected to reach levels similar to those in Germany in the medium term. Our increased production levels (and planned introduction of a new production line in late 2007) are partially in response to growing demand for disposable diapers in Central and Eastern Europe and Russia, due principally to low market penetration, higher birth rates and growing disposable incomes in these regions. Other trends include the appreciation of the Czech crown against the euro, which is expected to continue.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with IFRS requires our management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expense in the financial statements in this Prospectus and the accompanying notes. Our management believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate given the factual circumstances as at June 30, 2006.

Various elements of our accounting policies, by their nature, are inherently subject to estimations, valuation assumptions and other subjective assessments. In particular, we have identified the following accounting policies which, owing to the judgments, estimates and assumptions inherent in those policies, and the sensitivity of the financial judgments to those policies, estimates and assumptions, are critical to understanding the financial statements discussed below and included in this Prospectus.

#### ***Valuation of fixed assets***

IFRS requires management to make a number of assumptions regarding the fair value of our fixed assets. These valuations have been based on market values and replacement costs prevailing at the time of the acquisition of PEGAS a.s. by PEGAS NONWOVENS s.r.o.

#### ***Revenue recognition***

Revenues from the sale of our products are recognised in the income statement when the significant risk and rewards of ownership have been transferred to the buyer.

## **Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each individual asset. Depreciation commences in the month following the month in which the respective fixed asset was acquired.

The estimated useful lives of our principal assets are as follows:

Buildings .....	30 – 60 years
Production equipment .....	12 – 20 years
Vehicles .....	5 – 6 years

## **Inventories**

We estimate the necessity of write-downs of inventories to their net realisable value taking into consideration the prices at which inventories may be sold at the balance sheet date.

## **Impairment of assets**

At each balance sheet date, we will review the carrying amounts of tangible and intangible assets to determine whether there is any indication that their value has been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

## **Results of Operations for 2005, 2004 and 2003**

The table below sets forth the consolidated results of operations of PEGAS a.s for each of the three years ended December 31, 2005, 2004 and 2003.

	<b>For the year ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(audited)</b>	<b>(audited)</b>	<b>(audited)</b>
		<b>€ thousands</b>	
Revenue .....	109,491	72,819	67,368
Raw materials and consumables used .....	(63,296)	(40,770)	(36,787)
Staff costs .....	(4,669)	(3,899)	(3,481)
Depreciation and amortisation expense .....	(9,910)	(7,546)	(7,132)
Other operating income/(expense) (net) .....	<u>(846)</u>	<u>1,167</u>	<u>(671)</u>
<b>Profit from operations</b> .....	<b>30,770</b>	<b>21,771</b>	<b>19,297</b>
Finance costs .....	<u>(158)</u>	<u>(438)</u>	<u>(955)</u>
<b>Profit before tax</b> .....	<b>30,612</b>	<b>21,333</b>	<b>18,342</b>
Income tax expense .....	<u>(3,975)</u>	<u>(3,312)</u>	<u>(1,352)</u>
<b>Profit after tax</b> .....	<b>26,637</b>	<b>18,021</b>	<b>16,990</b>
Minority interest .....	<u>—</u>	<u>—</u>	<u>—</u>
<b>Net profit for the year</b> .....	<b><u>26,637</u></b>	<b><u>18,021</u></b>	<b><u>16,990</u></b>

## **Overview**

The year ended December 31, 2005 was characterized by a 47.8% increase in net profit, to €26.64 million for the year ended December 31, 2005 as compared with €18.02 million for the year ended December 31, 2004. This increase in net profit was driven principally by an increase in sales volumes as a result of the installation of our new Reicofil 4 production line in October 2004 (our seventh production line).

For the year ended December 31, 2004 our net profit increased by 6.1% to €18.02 million as compared with €16.99 million for the year ended December 31, 2003. The increase was due principally to an 8.1% increase in sales in 2004, reflecting higher sales prices, and partially to other operating income. This was partially offset by proportionally higher production and other costs, and higher income tax expenses in 2004 due to deferred tax.

## Revenue

The following table sets forth our revenue breakdown for PEGAS a.s. in 2005, 2004 and 2003:

	For the year ended December 31,					
	2005		2004		2003	
		<u>% of total</u>		<u>% of total</u>		<u>% of total</u>
	€ amounts in thousands					
<b>Hygiene Sales</b>						
Hygiene-specialty .....	17,886	16.3	11,398	15.7	3,660	5.4
Hygiene-other .....	79,142	72.3	50,601	69.5	53,779	79.8
<b>Total hygiene</b> .....	97,028	88.6	61,999	85.1	57,439	85.3
<b>Non-hygiene</b> .....	<u>12,463</u>	<u>11.4</u>	<u>10,820</u>	<u>14.9</u>	<u>9,929</u>	<u>14.7</u>
<b>Total sales</b> .....	<u>109,491</u>	<u>100.0</u>	<u>72,819</u>	<u>100.0</u>	<u>67,368</u>	<u>100.0</u>

Our revenue derives exclusively from sales of nonwoven textiles. Our main nonwoven products are spunbond and meltblown polypropylene and bicomponent (i.e. textiles manufactured from both polypropylene and polyethylene) textiles destined for European manufacturers of personal hygiene products. Our hygiene nonwoven textiles range consists of specialty textiles, which we define as bicomponent and lightweight textiles, and standard hygiene textiles.

Sales of hygiene nonwovens accounted for approximately 88.6%, 85.1% and 85.3% of our total revenue for 2005, 2004 and 2003, respectively. The remainder of our nonwovens revenue comes from sales of nonwovens destined for technical applications, such as construction, agricultural and medical applications. Specialty hygiene products make up a substantial percentage of our total nonwoven sales, accounting for approximately 16.3%, 15.7% and 5.4% of our total nonwoven sales for 2005, 2004 and 2003, respectively.

Our nonwovens are both exported and sold to domestic Czech customers. Exports accounted for 85.7%, 82.5% and 79.5% of our total nonwoven revenue for 2005, 2004 and 2003, respectively, reflecting our view that the majority of growth in the hygiene industry is taking place outside the Czech Republic.

Total revenue for 2005 was €109.49 million, representing a 50.4% increase over total revenue for 2004 of €72.82 million. This increase was due principally to higher sales volumes as a result of the installation of our seventh production line and higher polymer prices which, in common with other manufacturers of nonwovens, we were able to reflect in our sales prices to our customers which positively affects our revenue.

Total revenue for 2004 was €72.82 million, representing an 8.1% increase over total revenue for 2003 of €67.37 million. This increase in total revenue was due to higher sales prices, resulting from increased polymer prices, and an increase in sales volumes due to the introduction of our seventh production line late in 2004.

### *Specialty hygiene-related nonwoven revenue*

Sales of specialty nonwovens increased between 2003 and 2005. In particular, the installation of our seventh production line allowed us to (i) produce greater quantities of lightweight materials on this new line, and (ii) transfer more standard hygiene production from our bicomponent-capable machines, thereby releasing these machines to produce greater quantities of bicomponent nonwovens.

### *Other hygiene-related nonwoven revenue*

Sales of other hygiene nonwovens decreased between 2003 and 2004 due to lower sales volumes as we increased our production of specialty nonwovens, due in turn to the commencement of operations of our seventh production line late in 2007. Sales of other hygiene nonwovens increased in 2005 as a result of increased sales volumes resulting from the full year's operations of our seventh production line as well as higher polymer prices.

### *Non-hygiene nonwoven revenues*

Our non-hygiene nonwovens sales have grown more slowly over the period 2003 to 2005, representing approximately 11.4% of total revenues in 2005. Notwithstanding the relatively small percentage of this segment in terms of our total sales, these products provide acceptable margins and enable us to achieve product and customer portfolio diversification.



### *Raw materials and consumables, staff costs, depreciation and amortisation expenses*

The table below provides a breakdown of costs related to raw materials and consumables used, staff costs, and depreciation and amortisation expenses for 2005, 2004 and 2003:

#### **PEGAS a.s.**

	<u>For the year ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(audited)	(audited)	(audited)
	€ thousands		
Raw materials and consumables used .....	63,296	40,770	36,787
(of which) Electricity .....	3,009	1,776	1,544
Staff costs .....	4,669	3,899	3,481
Depreciation and amortisation expense .....	<u>9,910</u>	<u>7,546</u>	<u>7,132</u>
<b>Total</b> .....	<b><u>77,875</u></b>	<b><u>52,215</u></b>	<b><u>47,400</u></b>

Our costs are to a significant degree dependent on the cost of the polypropylene (and, to a lesser extent, polyethylene) raw material used in our nonwovens production. Consumables consist principally of electricity. Our total costs for raw materials and consumables, staff costs and depreciation and amortisation expenses increased 49.1% in 2005 to €77.88 million from €52.22 million in 2004 which, in turn, represented a 10.2% increase from €47.40 million in 2003. The significant increase in costs in 2005 was due principally to (i) higher raw material purchase volumes due to our increased production capacity resulting from the full year's operation of our seventh production line as well polymer price increases, and (ii) increased depreciation costs associated with this line. The increase in costs in 2004 was due principally to higher raw materials and consumables costs.

#### *Raw materials and consumables*

Costs of raw materials and consumables were €63.30 million in 2005, representing an increase of 55.3% over raw material and consumables costs of €40.77 million in 2004. This increase was due principally to higher purchase volumes of raw materials in connection with our significantly increased sales volumes following the installation of our seventh production line, and higher polymer prices.

Costs of raw materials and consumables were €40.77 million in 2004, representing an increase of 10.8% over raw materials and consumables costs of €36.79 million in 2003. This increase was also due to higher polymer prices and the increase in purchase volumes of raw materials resulting principally from the operation of our seventh production line in the fourth quarter of 2004.

#### *Staff costs*

Staff costs were €4.67 million in 2005, representing an increase of 19.7% from staff costs of €3.90 million in 2004, which in turn represented an increase of 12.0% from staff costs of €3.48 million in 2003. These increases in 2004 and 2005 resulted principally from an overall increase in wages and the increase in the average number of employees in those years.

#### *Depreciation and amortisation expenses*

Depreciation and amortisation expenses were €9.91 million in 2005, representing an increase of 31.3% over depreciation and amortisation expenses of €7.55 million in 2004, which in turn increased by 5.8% from €7.13 million in 2003. The increases in 2005 and 2004 were due principally to increased depreciation expenses related to our seventh production line, which was installed in the fourth quarter of 2004.

#### *Other net operating income (expenses)*

Our net other operating income (expenses) consists of insurance costs and proceeds, foreign exchange rate differences, sundry income, interest revenue and taxes other than income taxes. We recorded other net operating expenses of €846 thousand in 2005, compared with other net operating income of €1.17 million in 2004 and other net operating expense of €671 thousand in 2003. The net other operating income in 2004 was due principally to a refund from a supplier resulting from an award of damages in related legal proceedings, contributions for our R&D projects and job creation grants.

### ***Profit from operations***

For the reasons set forth above, our profit from operations increased to €30.77 million in 2005, representing an increase of 41.3% over profits from operations of €21.77 million in 2004, which in turn increased by 12.8% from €19.30 million in 2003.

### ***Finance costs***

Our finance costs consist primarily of interest on our borrowings and our employees' deposits in the savings accounts we provide. Total finance costs were €158 thousand in 2005, representing a decrease of 63.9% from total finance costs of €438 thousand in 2004, and a decrease of 54.1% from €955 thousand in 2003. This decrease was due principally to lower interest costs, resulting from the gradual repayment of loans over this period.

### ***Income tax expense***

The table below provides a breakdown of the income tax expense of PEGAS a.s. for 2005, 2004 and 2003:

#### **PEGAS a.s.**

	For the year ended December 31,		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	€ thousands		
Current income tax .....	(3,170)	(3,016)	(2,791)
Deferred income tax .....	<u>(805)</u>	<u>(296)</u>	<u>1,439</u>
<b>Total</b> .....	<b><u>(3,975)</u></b>	<b><u>(3,312)</u></b>	<b><u>(1,352)</u></b>

Total income tax expense for 2005 was €3.98 million, representing an increase of 20.0% over total income tax expense of €3.31 million for 2004. This increase was due principally to increased amounts of deferred tax in 2005, and, to a lesser extent, an increase in income tax resulting from higher profits in 2005.

Total income tax expense in 2004 was €3.31 million, representing an increase of 145.0% over total income tax expense of €1.35 million in 2003. This increase was due principally to an increase in deferred tax liability in 2004 and due to the impact of adjustments from Czech GAAP to IFRS in 2003, as well as, to a lesser extent, an increase in current income tax resulting from higher profits in 2004.

### ***Net profit***

Net profit was €26.64 million for 2005, representing a 47.8% increase over net profit of €18.02 million for 2004, which in turn represented a 6.1% increase over net profit of €16.99 million for 2003, for the reasons described above.

## Results of Operations for the six months ended June 30, 2006 and 2005

The table below sets forth the unaudited consolidated results of operations of the Company and PEGAS NONWOVENS s.r.o. for the six months ended June 30, 2006, and the unaudited consolidated results of operations of PEGAS a.s. for the six months ended June 30, 2005.

	For the six months ended June 30,		
	2006 <sup>(1)</sup> (unaudited)	2006 <sup>(2)</sup> (unaudited) € thousands	2005 <sup>(3)</sup> (unaudited)
Revenue .....	60,065	60,065	52,828
Raw materials and consumables used .....	(36,865)	(36,866)	(30,173)
Staff costs .....	(2,462)	(2,462)	(2,233)
Depreciation and amortisation expense .....	(6,153)	(6,153)	(4,970)
Other operating income/(expense) (net) .....	<u>5,126</u>	<u>5,123</u>	<u>(259)</u>
<b>Profit from operations</b> .....	19,711	19,707	15,193
Finance costs .....	<u>(8,075)</u>	<u>(7,196)</u>	<u>(71)</u>
<b>Profit before tax</b> .....	11,636	12,511	15,122
Income tax expense .....	<u>(723)</u>	<u>(713)</u>	<u>(1,880)</u>
<b>Profit after tax</b> .....	10,913	11,798	13,242
Minority interest .....	<u>(273)</u>	<u>—</u>	<u>—</u>
<b>Net profit</b> .....	<u><u>10,640</u></u>	<u><u>11,798</u></u>	<u><u>13,242</u></u>

(1) PEGAS NONWOVENS SA

(2) PEGAS NONWOVENS s.r.o.

(3) PEGAS a.s.

### Overview

The following discussion of our results of operations for the six months ended June 30, 2006 is based on the unaudited consolidated results of (i) the Company and (ii) our principal operating subsidiary, PEGAS NONWOVENS s.r.o., as compared with the unaudited consolidated results of PEGAS a.s. for the same period in 2005. The Company is the holding company of our Group and conducts no operations; accordingly, on a consolidated basis, the Company's results do not materially differ from those of PEGAS NONWOVENS s.r.o., with the exception of certain finance costs reflecting the Mezzanine Facility Agreement (as defined in "Business — Financing Agreements") under which the Company is the borrower as well as two series of preferred equity certificates issued to the Selling Shareholder. You should read "Business — Financing Agreements". Because, as of June 2005, the Company had not been incorporated and PEGAS NONWOVENS s.r.o. had no operating assets, we discuss, for comparison purposes, the results of operations of PEGAS a.s. for the first six months of 2005. Prospective investors are cautioned not to place undue reliance on the comparability of interim financial information for the Company, PEGAS NONWOVENS s.r.o. and PEGAS a.s.

For the first six months of 2006, the Company's net profit was €10.64 million, while net profit for PEGAS NONWOVENS s.r.o. was €11.80 million. These results represent a decrease of 19.6% and 10.9%, respectively, over net profit of €13.24 million for PEGAS a.s. for the first six months of 2005. The decrease in net profit in 2006 was due to higher finance costs associated with the Senior Facility Agreement, Mezzanine Facility Agreement and PECs (each as defined in "Business — Financing Agreements") drawn by PEGAS NONWOVENS s.r.o. and the Company in December 2005. These higher finance costs more than offset the increase in revenue and other operating income in for the six months ended June 30, 2006.

## Revenue

The following table sets forth our revenue breakdown for the Company and PEGAS NONWOVENS s.r.o. for the six months ended June 30, 2006, and for PEGAS a.s. for the six months ended June 30, 2005:

	For the six months ended June 30,		
	2006 <sup>(1)</sup> (unaudited)	2006 <sup>(2)</sup> (unaudited) € thousands	2005 <sup>(3)</sup> (unaudited)
<b>Hygiene Sales</b>			
Hygiene-specialty .....	13,927	13,927	8,100
Hygiene-other .....	38,813	38,813	38,734
<b>Total hygiene</b> .....	<b>52,740</b>	<b>52,740</b>	<b>46,834</b>
Non-hygiene .....	7,325	7,325	5,994
<b>Total sales</b> .....	<b>60,065</b>	<b>60,065</b>	<b>52,828</b>

(1) PEGAS NONWOVENS SA

(2) PEGAS NONWOVENS s.r.o.

(3) PEGAS a.s.

Total sales for the first six months of 2006 were €60.07 million, an increase of 13.7% over sales of €52.83 million for the same period in 2005. The increase was due principally to higher polymer prices which are passed through to customers and recorded as revenue. Specialty hygiene sales increased by 71.9% in the six months ended June 30, 2006, compared with the corresponding period in 2005, while other hygiene sales increased by only 0.2%. As polymer prices were higher during the first six months of 2006 compared with the first six months of 2005, the increase in specialty hygiene is explained by price and volume increases, while other hygiene volumes decreased.

Non-hygiene sales increased due principally to higher prices.

## Raw materials and consumables, staff costs, depreciation and amortisation expenses

The table below provides a breakdown of costs related to raw materials and consumables used, staff costs, and depreciation and amortisation expenses:

### PEGAS a.s.

	For the six months ended June 30,		
	2006 <sup>(1)</sup> (unaudited)	2006 <sup>(2)</sup> (unaudited) € thousands	2005 <sup>(3)</sup> (unaudited)
Raw materials and consumables used .....	(36,865)	(36,866)	(30,173)
of which Electricity .....	(1,756)	(1,756)	(1,438)
Staff costs .....	(2,462)	(2,462)	(2,233)
Depreciation and amortisation expense .....	(6,153)	(6,153)	(4,970)
<b>Total</b> .....	<b>(45,480)</b>	<b>(45,481)</b>	<b>(37,376)</b>

(1) PEGAS NONWOVENS SA

(2) PEGAS NONWOVENS s.r.o.

(3) PEGAS a.s.

Total costs for raw materials and consumables, staff costs and depreciation and amortisation expenses for the six months ended June 30, 2006 were €45.48 million, an increase of 21.7% compared with the corresponding period in 2005, due principally to higher polymer price. Depreciation and amortisation expenses were higher in the first half of 2006 as a result of an increase in the total value of fixed assets of the Company and PEGAS NONWOVENS s.r.o., following a revaluation of those assets performed at the time of the acquisition by PEGAS NONWOVENS s.r.o. of PEGAS a.s.

#### *Raw materials and consumables*

Costs of raw materials and consumables were €36.87 million for the six months ended June 30, 2006, representing an increase of 22.2% over raw material and consumables costs of €30.17 million for the corresponding period in 2005. This increase was due principally to higher polymer prices and, to a lesser extent, higher electricity costs.

#### *Staff costs*

Staff costs were €2.46 million for the first half of 2006, an increase of 10.3% from €2.23 million for the same period in 2005, principally as a result of higher wages.

#### *Depreciation and amortisation expenses*

Depreciation and amortisation expenses were €6.15 million for the six months ended June 30, 2006, an increase of 23.7% over depreciation and amortisation expenses of €4.97 million for the corresponding period in 2005. This increase was principally the result of increased depreciation expenses following an increase in the valuation of the tangible fixed assets of PEGAS NONWOVENS s.r.o., as a result of a fair value adjustment to fixed assets performed at the time of the acquisition of PEGAS a.s. by PEGAS NONWOVENS s.r.o.

#### *Net other operating income (expense)*

Net other operating income was €5.12 million for the first six months of 2006, compared with net other operating expenses of €259 thousand for the same period in 2005. This increase was due principally to an unrealised foreign exchange gain resulting from the appreciation of the Czech crown, the reporting currency of PEGAS NONWOVENS s.r.o., against the euro, in which the principal loans to the Group are denominated, and revaluation of an interest rate swap.

#### *Profit from operations*

For the reasons set forth above, our profit from operations increased to €19.71 million in the first half of 2006, representing an increase of 29.7% over profits from operations of €15.19 million for the same period in 2005.

#### *Finance costs*

Finance costs for the Company and PEGAS NONWOVENS s.r.o. for the six months ended June 30, 2006 were €8.08 million and €7.20 million, respectively, compared with financing costs of €71 thousand for PEGAS a.s. for the corresponding period in 2005. This was a result of increased indebtedness (in the form of the Senior Facility Agreement, Mezzanine Facility Agreement and PECs) principally in connection with our acquisition of PEGAS a.s. The higher finance costs for the Company in 2006, compared with those of PEGAS NONWOVENS s.r.o., are principally the result of differences between the valuation of debt instruments under IFRS. A higher interest is recorded from convertible debt instruments (PECs, Mezzanine Facility Agreement) for the Company compared with PEGAS NONWOVENS s.r.o., where a non-convertible debt instrument is used.

#### *Income tax expense*

Income tax expense for the six months ended June 30, 2006 was €723 thousand for the Company and €713 thousand for PEGAS NONWOVENS s.r.o., a decrease of 61.5% and 62.1%, respectively, from income tax expense of €1.88 million for PEGAS a.s. for the corresponding period in 2005. This decrease was due principally to a decrease in current tax liability in the first half of 2006 in connection with increased indebtedness resulting in higher interest cost.

#### *Minority interest*

For the six months ended June 30, 2006, the share of minority interest in the Company's profit after tax was €273 thousand, representing the 2.5% shareholding in CEE Enterprise a.s. held by certain members of our management. There were no minority interests in any prior period.

#### *Net profit*

For the reasons described above, net profit for the Company was €10.64 million for the six months ended June 30, 2006, while net profit for PEGAS NONWOVENS s.r.o. for the same period was €11.80 million. These results represent decreases of 19.7% and 10.9%, respectively, over net profit for PEGAS a.s. of €13.24 million for the corresponding period in 2005.

## Balance Sheet Data

The table below sets forth the audited balance sheet of PEGAS a.s. as at December 31, 2005, 2004 and 2003, and the unaudited balance sheet of the Company and PEGAS NONWOVENS s.r.o. as at June 30, 2006, and the audited balance sheet of the Company as at December 31, 2005:

	As at June 30,		As at December 31,			
	2006 <sup>(1)</sup> (unaudited) € thousands	2006 <sup>(2)</sup> (unaudited)	2005 <sup>(1)</sup> (audited)	2005 <sup>(3)</sup> (audited)	2004 <sup>(3)</sup> (audited)	2003 <sup>(3)</sup> (audited)
<b>Assets</b>						
<i>Non-current assets</i>						
Property, plant and equipment . . . . .	111,133	111,133	111,113	93,439	101,528	78,386
Intangible assets . . . . .	80,435	80,435	78,973	192	260	303
	<u>191,568</u>	<u>191,568</u>	<u>190,086</u>	<u>93,631</u>	<u>101,788</u>	<u>78,689</u>
<i>Current assets</i>						
Inventories . . . . .	7,379	7,379	8,622	8,508	5,496	4,540
Trade and other receivables . . . . .	24,777	24,776	23,785	25,101	15,005	10,523
Bank balances and cash . . . . .	28,292	28,171	27,034	25,366	5,810	2,913
	<u>60,448</u>	<u>60,326</u>	<u>59,441</u>	<u>58,975</u>	<u>26,311</u>	<u>17,976</u>
<b>Total assets . . . . .</b>	<b><u>252,016</u></b>	<b><u>251,894</u></b>	<b><u>249,527</u></b>	<b><u>152,606</u></b>	<b><u>128,099</u></b>	<b><u>96,665</u></b>
<b>Equity and Liabilities</b>						
<i>Capital and reserves</i>						
Share capital . . . . .	125	126	125	6,335	6,335	6,335
Capital reserve . . . . .	4,432	–	4,432	3,301	2,780	2,380
Translation reserve . . . . .	(22)	–	(4)	9,080	3,750	(1,473)
Accumulated profits/(losses) . . . . .	9,201	10,504	(1,367)	105,431	79,315	61,694
	<u>13,736</u>	<u>10,630</u>	<u>3,186</u>	<u>124,147</u>	<u>92,180</u>	<u>68,936</u>
Minority interest . . . . .	345	–	–	–	–	–
<i>Non-current liabilities</i>						
Bank loans — due after one year . . . . .	152,958	138,272	157,268	–	998	2,996
Deferred tax liabilities . . . . .	14,124	14,124	13,910	9,681	8,430	7,633
Other payables due after one year . . . . .	37,611	55,954	37,224	69	125	182
	<u>204,693</u>	<u>208,350</u>	<u>208,402</u>	<u>9,750</u>	<u>9,553</u>	<u>10,811</u>
<i>Current liabilities</i>						
Trade and other payables . . . . .	18,737	18,420	21,670	16,691	23,803	6,522
Tax liabilities . . . . .	–	–	19	18	566	669
Bank overdrafts and loans . . . . .	14,250	14,250	16,250	2,000	1,997	9,727
Provisions . . . . .	255	244	–	–	–	–
	<u>33,242</u>	<u>32,914</u>	<u>37,939</u>	<u>18,709</u>	<u>26,366</u>	<u>16,918</u>
<b>Total equity and liabilities . . . . .</b>	<b><u>252,016</u></b>	<b><u>251,894</u></b>	<b><u>249,527</u></b>	<b><u>152,606</u></b>	<b><u>128,099</u></b>	<b><u>96,665</u></b>

(1) PEGAS NONWOVENS SA

(2) PEGAS NONWOVENS s.r.o.

(3) PEGAS a.s.

### Discussion of balance sheet data for PEGAS a.s. as at December 31, 2005, 2004 and 2003

Non-current assets consist of property, plant and equipment, and intangible assets (principally software). Total non-current assets as at December 31, 2005 were €93.63 million, compared with €101.79 million as at December 31, 2004. This decrease was due principally to a disposal of a property in connection with the sale of a non-core asset as well as depreciation of our production equipment, which included depreciation of our seventh production line.

Total non-current assets as at December 31, 2004 were €101.79 million, compared with €78.69 million at December 31, 2003. This increase was due principally to the addition of our seventh production line, which was partially offset by depreciation of our other assets.

Total current assets as at December 31, 2005 were €58.98 million, compared with €26.31 million as at December 31, 2004. This increase was due principally to the increase in cash balances in 2005 resulting from lower paydowns of indebtedness and reduced capital expenditures in 2005 as compared with 2004, and increased cash from operations in 2005. Trade and other receivables increased in 2005 in large part due to higher trade receivables resulting from our seventh production line, and a receivable from the sale of a non-core asset.

Total current assets as at December 31, 2004 were €26.31 million, compared with €17.98 million as at December 31, 2003. This increase was due principally to the increase in trade and other receivables, cash balances and increase in inventories. The increase in trade and other receivables was mostly due to an extension of payment terms for one of our customers and we received longer payment terms from our principal supplier. These changes were also the principal reason for the increase in cash balances in 2004.

Non-current liabilities were €9.75 million as at December 31, 2005, compared with €9.55 million as at December 31, 2004. The increase was due principally to full repayment of long-term bank loans and an increase in deferred tax liabilities. The accounting depreciation under IFRS is lower than tax depreciation under Czech tax rules which causes a gradual increase in deferred tax liabilities.

Non-current liabilities as at December 31, 2004 were €9.55 million, compared with €10.81 million as at December 31, 2003. This decrease was due principally to the reclassification of certain long-term loans into short-term loans, which more than offset the increase in deferred tax liabilities in 2004.

Current liabilities as at December 31, 2005 were €18.71 million, compared with €26.37 million as at December 31, 2004. At December 31, 2004, our trade payables included amounts owed in connection with our seventh production line of approximately €8.9 million. Eliminating the effects of our seventh production line, trade payables in 2005 increased by 58.3% to €12.66 million, compared with €8.0 million in 2004. In addition, the decrease in trade and other payables was also due to full repayment of shareholder loans in 2005.

Current liabilities as at December 31, 2004 were €26.37 million, compared with €16.92 million at year-end 2003. This increase was due principally to the increase in trade payables in 2004, from €1.59 million in 2003 to €8.0 million in 2004 (eliminating the effects of our seventh production line) and due to an increase in deferred income in connection with the R&D contribution from one of our customers. The increase in trade payables in 2004 was due to the change in sale terms from one of our principal suppliers of polymer who permitted us to pay on longer terms as opposed to prepaying in 2003.

#### ***Discussion of balance sheet data for the Company and PEGAS NONWOVENS s.r.o. as at June 30, 2006 and December 31, 2005***

We discuss below certain balance sheet data for the Company and PEGAS NONWOVENS s.r.o., including a comparison with the Company's balance sheet as at December 31, 2005. The balance sheet of PEGAS a.s. as at December 31, 2005 is less relevant for purposes of comparability with subsequent periods, principally because it does not reflect the higher value of fixed assets, goodwill and debt that accrued to the Company and changes in equity following the acquisition of PEGAS a.s.

Because the Company's functional currency is euro, while the functional currency of our operating subsidiaries is Czech crowns, balance sheet items are affected by period-end translations between these two currencies. This is the principal factor for changes in current and non-current assets between December 31, 2005 and June 30, 2006.

The Company had total non-current liabilities of €204.69 million as at June 30, 2006, while PEGAS NONWOVENS s.r.o. had non-current liabilities of €208.35 million as at that date. Bank loans due after one year for PEGAS NONWOVENS s.r.o. include only the Senior Loan, while the Company's bank loans comprise the Senior Facility Agreement and Mezzanine Facility Agreement. PEGAS NONWOVENS s.r.o. reflects the Mezzanine Facility Agreement as other payables due after one year. The PECs are reflected as other payables due after one year by both the Company (as regards the non-equity portion) and PEGAS NONWOVENS s.r.o.

The difference in non-current liabilities between the Company and PEGAS NONWOVENS s.r.o. at June 30, 2006 was due principally to the on-lending of the proceeds from the issue of the PECs, a portion of which were treated as equity for the Company and, once on-lent to PEGAS NONWOVENS s.r.o., as a payable due after one year.

The Company had non-current liabilities of €204.69 million as at June 30, 2006, compared with €208.40 million as at December 31, 2005. This decrease was due principally to the repayment of approximately €7.1 million due under the Senior Facility Agreement; we have also drawn €1.3 million of the Senior Facility agreement and €1.0 million represents a capitalised interest in the Mezzanine Facility.

The Company had total current liabilities of €33.24 million as at June 30, 2006, while PEGAS NONWOVENS s.r.o. had current liabilities of €32.91 million as at that date. The difference is due principally to trade creditors of the Company.

A reduction in short-term borrowings representing repayment of a revolver loan and reduction of trade payables by the Company was the principal reason for the decrease in total current liabilities of €37.94 million as at December 31, 2005, compared with total current liabilities of €33.24 million as at June 30, 2006.

### Liquidity and Capital Resources

The following table summarises the consolidated statements of cash flows of (i) PEGAS a.s. for each of the three years ended December 31, 2005, 2004 and 2003, (ii) PEGAS NONWOVENS s.r.o. for the six months ended June 30, 2006, and (iii) the Company for the six months ended June 30, 2006:

	For the six months ended June 30,			For the year ended December 31,		
	2006 <sup>(1)</sup>	2006 <sup>(2)</sup>	2005 <sup>(3)</sup>	2005 <sup>(3)</sup>	2004 <sup>(3)</sup>	2003 <sup>(3)</sup>
	(unaudited)	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
	€ thousands			€ thousands		
Net cash flow from operating activities . . . . .	13,254	13,300	11,509	31,593	28,775	16,774
Cash flow used in investment activities . . . . .	(4,171)	(4,171)	(6,361)	(11,042)	(16,150)	(4,738)
Cash flow used in financing activities	<u>(7,825)</u>	<u>(7,705)</u>	<u>(998)</u>	<u>(995)</u>	<u>(9,728)</u>	<u>(12,453)</u>
<b>Net increase /(decrease) in cash and cash equivalents . . . . .</b>	<b><u>1,258</u></b>	<b><u>1,424</u></b>	<b><u>4,150</u></b>	<b><u>19,556</u></b>	<b><u>2,897</u></b>	<b><u>(417)</u></b>

(1) PEGAS NONWOVENS SA

(2) PEGAS NONWOVENS s.r.o.

(3) PEGAS a.s.

### Discussion of cash flows for the years ended December 31, 2005, 2004 and 2003

Our largest source of operating cash flows is cash from sales of our spunmelt nonwovens destined for European manufacturers of hygiene products. Net cash provided by operating activities for 2005 was €31.59 million, compared with €28.78 million in 2004. This change was due principally to higher sales in 2005, which more than offset the increase in working capital used in 2005.

Cash used in investment activities in 2005 was €11.04 million, compared with €16.15 million in 2004. The higher amount in 2004 was due to the purchase of our seventh production line. Cash used in financing activities was €995 thousand in 2005, compared with €9.73 million in 2004, as a result of paying down loans in 2004.

Net cash provided by operating activities for 2004 was €28.78 million, compared with €16.77 million in 2003. This increase was due principally to higher profit before tax in 2004, and to an increase in trade payables in 2004 resulting from longer payment terms we received from our principal supplier of polymer, as opposed to us prepaying in 2003. This change in trade payables more than offset the increase in receivables in 2004, resulting from longer payment terms for one of our customers. Cash used in investment activities in 2004 was €16.15 million, compared with €4.74 million in 2003. The higher amount in 2004 was due to the purchase of our seventh production line. Cash used in financing activities was €9.73 million in 2004, compared with €12.45 million in 2003 which is principally due to dividends declared. Declared dividend was subsequently changed into a loan owed to shareholders.

### Discussion of cash flows for the six months ended June 30, 2006 and 2005

Net cash provided by operating activities for the six months ended June 30, 2006 was €13.25 million for the Company and €13.30 million for PEGAS NONWOVENS s.r.o., compared with €11.51 million for PEGAS a.s. for the corresponding period in 2005. This increase was due principally to a decrease in working capital. Cash used by the Company and PEGAS NONWOVENS s.r.o. in investment activities for the six months ended



June 30, 2006 was €4.17 million, compared with €6.36 million for PEGAS a.s. in the corresponding period of 2005. The amount in 2006 was due principally to a down payment on our eighth production line, which is due to be operational in 2007, and capital expenditures on the scrap reprocessing line. Cash used by the Company and PEGAS NONWOVENS s.r.o. in financing activities during the first half of 2006 was €7.83 million and €7.71 million, respectively, compared with €998 thousand used by PEGAS a.s. during the first half of 2005. This increase was due principally to the scheduled repayments of principal in connection with the senior loans.

In our opinion, our working capital is sufficient for our present requirements, that is, for at least the next twelve months.

We believe that we are currently able to finance our operating needs (other than significant future acquisitions) and debt service requirements as they become due from our cash flows from operations, together with borrowings under our current credit facilities. In addition, we believe that our cash flow from operations and our present borrowings will be sufficient to meet our anticipated capital expenditures. Our future operating performance and ability to service or refinance our existing debt will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. See “*Risk Factors*”.

### ***Contractual and Commercial Commitments***

Our contractual and commercial commitments consist primarily of the senior and mezzanine loan facilities and the PECs, interest rate swap agreements as well as commitments resulting from our new eighth production line project which we expect will be operational in late 2007. Our principal contractual obligations as at June 30, 2006 are set out below:

#### **PEGAS NONWOVENS SA**

	<u>Term of obligation</u>			<u>Total</u>
	<u>1 Year (ended Dec 31, 2006)</u>	<u>2-5 Years (ended Dec 31, 2010)</u>	<u>Over 5 Years (beyond 2010)</u>	
	€ thousands			
<b>Principal contractual obligations</b>				
Borrowings (of which) — Senior Facility				
Principal . . . . .	7,125	63,650	84,600	155,375
Accrued interest . . . . .	400			400
Borrowings (of which) — Mezzanine Facility				
Principal . . . . .	—	—	15,000	15,000
Capitalised interest . . . . .	—	—	556	556
Accrued interest . . . . .	503	—	—	503
Borrowings (of which) — PECs				
Principal . . . . .	—	—	39,645	39,645
Accrued interest . . . . .	2,134	—	—	2,134
Other contractual commitment (relating to eighth production line project) . . . . .	—	24,741	—	24,741
<b>Total principal contractual obligations . . . . .</b>	<b><u>10,162</u></b>	<b><u>88,391</u></b>	<b><u>139,801</u></b>	<b><u>238,354</u></b>

In August 2006 we partially prepaid €19.6 million of which €9.8 million represented partial prepayment of the Senior Credit Facility and €9.8 million partially prepaid Mezzanine Credit Facility.

In November 2006 we signed a contract with a construction company on construction of buildings associated with our eighth production line project. The total contractual commitment reaches €9.3 million as of November 2006.

In November 2006, the total of 808,341 PECs in the total value of €8,845,057 (including principal and interest) were converted into ordinary shares of the Company.

### ***Capital expenditures***

Our capital expenditure totalled €11.04 million, €16.15 million and €4.74 million in 2005, 2004 and 2003, respectively. These capital expenditures were primarily used for acquisition of our seventh production line We

have committed capital expenditures for 2006 and 2007 of €27.70 million. These capital expenditures in 2006 and 2007 are expected to include acquisition of a new eighth production line and associated investments in buildings and other equipment, in addition to maintenance capital expenditure amounting to €2.80 million in 2006 and €2.00 million in 2007. We expect to fund our capital expenditure requirements from cash flow generated by our operations.

The following table sets forth our significant historical capital expenditures for the three years ended December 31, 2005:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	€ thousands		
<b>Capital expenditure</b>			
Seventh production line .....	9,574	13,915	3,888
Maintenance/other .....	<u>1,468</u>	<u>2,235</u>	<u>850</u>
<b>Total capital expenditure</b> .....	<b><u>11,042</u></b>	<b><u>16,150</u></b>	<b><u>4,738</u></b>

The following table sets forth our budgeted capital expenditures for 2006 and 2007. We expect to fund these capital expenditures from cash flow generated by its operations.

	<u>2006</u>	<u>2007</u>
	€ thousands	
<b>Capital expenditure</b>		
Maintenance .....	2,800	2,000
New eighth line project* .....	<u>3,968</u>	<u>18,862</u>
<b>Total capital expenditure</b> .....	<b><u>6,768</u></b>	<b><u>20,862</u></b>

\* includes buildings, machinery and other equipment, of which buildings and machinery are committed expenditures

## Quantitative and qualitative disclosure about market risk

### Interest rate risk

In December 2005, we entered into several loan facilities and issued PECs which we used for the acquisition of PEGAS a.s. and for cost coverage incurred in connection with the acquisition. Before December 2005 PEGAS a.s. and all its subsidiaries managed to repay all outstanding bank debt.

Our primary source of financing as described above is:

- Senior Loan Facility,
- Mezzanine Loan Facility, and
- PECs.

We entered into the facilities on or about December 14, 2005. The PECs were converted, in part, into Shares of the Company in November 2006.

The interest rate for the Syndicated Senior Loan Facility and Mezzanine Loan Facility consists of a floating rate based on Euribor plus a margin. Interest on the mezzanine loan, to such extent that it has not been paid accrues on and is capitalised to the mezzanine loan for its term. Any such interest accrued on the mezzanine loan is capitalised at the end of its term and added to the outstanding principal amount and subsequently treated as part of the principal amounts of that loan.

The total outstanding amounts under these facilities were €204.8 million as at June 30, 2006.

To improve the balance of fixed and floating interest rates, we entered into two interest rate swap agreements in March 2006 to fix the interest rate on some of our floating rate debt and as a result, the effective split between floating and fixed rates was 63.5% and 36.5% respectively, as at June 30, 2006.

Both interest rate swap agreements effectively fix the interest rates at 3.236% per annum. The underlying amounts (except for the Shareholder debt) are decreasing in time in relation to the scheduled repayment of the senior debt.

A hypothetical, instantaneous increase of one percentage point in the interest rates since January 1, 2006 to our variable interest rate debt would have increased our interest expense by a total of approximately €589 thousand as at June 30, 2006 calculated for the same structure and balances of all of the loans from January 1 to June 30, 2006 incl. interest rate swap hedging.

***Foreign currency risk***

Our principal foreign exchange risk relates to the fact that our revenues and expenses are not fully in balance. In 2005, 98% of our sales were denominated in euro, and the remaining 2% in CZK and USD. At the same time approximately 85% of our operating costs in 2005 (excluding depreciation and amortisation) were denominated in euro and the remaining 15% in CZK.

With one of our customers and for deliveries to one of its plants we have agreed to determine prices in euro, however this customer is billed in CZK and subsequently settles payments in CZK. Exchange rate for this arrangement is based on a yearly fixed exchange rate. This instrument provides us with adequate cash flow in CZK which more than covers our expenses denominated in CZK.

All our currently outstanding debt resulting from various credit facilities and debt service as well is denominated in euro. We do not use any currency risk hedging instruments.

***Credit risk***

Exposure to credit, interest rate and currency risk arises in the normal course of our business. To minimise credit risk, we trade on credit only with a group of selected and trustworthy customers, and insure our receivables.

## CAPITALISATION AND INDEBTEDNESS

The table below sets out the Company's consolidated capitalisation and indebtedness as at June 30, 2006 and September 30, 2006. Prospective investors should read this information in conjunction with the Consolidated Financial Statements and accompanying notes included in this Prospectus.

	<u>As at June 30, 2006</u>	<u>As at September 30, 2006</u>
	(€ thousands)	(€ thousands)
<b>Total Current debt</b> .....	<b>17,288</b>	<b>16,907</b>
Secured/Guaranteed* .....	15,154	13,786
Unguaranteed/Unsecured .....	2,134	3,121
<b>Total Non-Current debt (excluding current portion of long-term debt)</b> .....	<b>190,569</b>	<b>174,072</b>
Secured/Guaranteed* .....	152,958	135,621
Unguaranteed/Unsecured .....	37,611	38,451
<b>Shareholder's equity**</b> .....	<b>4,557</b>	<b>4,557</b>
Share capital .....	125	125
Capital reserve .....	<u>4,432</u>	<u>4,432</u>
	<u>212,414</u>	<u>195,536</u>

\* We have granted a security interest to our creditors under our Senior and Mezzanine Loan Facilities. Specifically, the security includes (a) a pledge over the shares in PEGAS NONWOVENS SA, (b) a pledge over the shares in CEE Enterprise a.s., (c) a pledge over the shares in PEGAS NONWOVENS s.r.o., (d) a pledge on receivables on bank accounts of PEGAS NONWOVENS s.r.o., (e) a security assignment of receivables of PEGAS NONWOVENS s.r.o., (f) a pledge over the shares of PEGAS-DS a.s., (g) a pledge over the shares of PEGAS-NT a.s., (h) a pledge over the shares of PEGAS-NW a.s., (i) a mortgage on real property owned by PEGAS NONWOVENS s.r.o. and (j) a pledge over the enterprise as well as the plant and machinery of PEGAS NONWOVENS s.r.o.

\*\* Translation reserve and accumulated profits/(losses) not included.

### Net indebtedness as at June 30, 2006 and September 30, 2006:

	<u>As at June 30, 2006</u>	<u>As at September 30, 2006</u>
	(€ thousands)	(€ thousands)
Cash .....	28,292	16,702
Cash equivalent .....	—	—
Trading securities .....	<u>—</u>	<u>—</u>
<b>Liquidity</b> .....	<b><u>28,292</u></b>	<b><u>16,702</u></b>
Current financial receivables (interest from cash deposits) .....	—	3
Current bank debt .....	—	—
Current portion of non current debt .....	14,250	13,320
Other current financial debt (accrued interest from Senior Facility, Mezzanine Facility and PECs) .....	<u>3,038</u>	<u>3,587</u>
<b>Current financial debt</b> .....	<b><u>17,288</u></b>	<b><u>16,907</u></b>
<b>Net current financial indebtedness</b> .....	<b><u>(11,004)</u></b>	<b><u>202</u></b>
Non current bank loans .....	152,958	135,621
Bonds issued .....	—	—
Other non current loans (PECs) .....	<u>37,611</u>	<u>38,451</u>
<b>Non current financial indebtedness</b> .....	<b><u>190,569</u></b>	<b><u>174,072</u></b>
<b>Net financial indebtedness</b> .....	<b><u>179,565</u></b>	<b><u>174,274</u></b>

## BUSINESS

### Introduction

We are a leading European producer of nonwoven textiles (i.e. textiles made from polymer filaments that are bonded together using pressure and heat) for use primarily in the personal hygiene market. We supply our customers with spunbond and meltblown polypropylene- and polypropylene/polyethylene- (“PP” and “PP/PE”) based 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. As at June 30, 2006, we believe that the PEGAS Group was Europe’s second-largest producer, in terms of output, of PP- and PP/PE-based spunbond and meltblown (together, “spunmelt”) nonwovens, with a market share of approximately 11% of the European installed PP- and PP/PE-based spunmelt nonwoven textile production capacity. We believe we have a market share of approximately 19% by volume of our core market of PP- and PP/PE-based spunmelt nonwovens destined for European manufacturers of personal hygiene products. We are also one of the few producers in the world of bicomponent (“BiCo”) spunmelt products, which are manufactured from both polypropylene and polyethylene.

Our Group consists of a parent holding company in Luxembourg, a holding company in the Czech Republic and four operating companies in the Czech Republic. Our operating companies are based in two production facilities in the south east of the Czech Republic between the cities of Brno and Vienna, located approximately 100 kilometres apart. The original site in Bučovice has three production lines, and our main site located outside Znojmo has four production lines.

In 2005, we produced a total (net of scrap) of 51,267 tonnes of nonwoven textiles, as compared with approximately 37,140 tonnes in 2004, an increase of 38%. Our sales for the year 2005 were approximately €109.5 million, as compared with €72.8 million in 2004, an increase of 50%. For the six months ended June 30, 2006, our total nonwoven sales were €60.1 million. Approximately 89% of our sales in 2005 derived from our spunmelt nonwoven textiles destined for personal hygiene applications.

The holding company of the PEGAS Group, 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 S.A. and is registered with the Luxembourg trade and companies register under number B. 112.044. The articles of incorporation of the Company have been published in the *Mémorial, Recueil des Sociétés et Associations* number C 440 of March 1, 2006. The Company’s registered office is at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg, Luxembourg. The registered office and principal place of business of our main operating and trading company, PEGAS NONWOVENS s.r.o., is at Přímětická 86, 669-04 Znojmo, Czech Republic.

### History and Development

PEGAS a.s., the predecessor of our main operating and trading subsidiary, PEGAS NONWOVENS s.r.o., was established in 1990. It soon developed into a producer of nonwoven textiles based on polypropylene, which has remained our core activity. In 1992, we installed our first production line for nonwoven textiles using spunbond technology, supplying customers mainly from the agricultural industry. During this time, we began to develop our technological expertise in nonwoven textile production, benefiting in particular from our close cooperation with one of the leading suppliers of spunmelt manufacturing equipment, and with our customers active in supplying personal hygiene products.

Following the installation of our second production line in 1996, we tripled our production capacity and began concentrating our operations in the hygiene market. From 1996 onwards, we continued to expand our capacity, by acquiring technologically advanced production equipment which combines spunbond and meltblown technologies. In 2002, we introduced BiCo production technology, reinforcing our strong European market position in manufacturing specialised nonwoven textiles. In 2003, another of our production lines was upgraded to enable the production of BiCo nonwovens.

Also in 2002 and 2003, we focused on further efficiency and quality improvements through the introduction of optical control equipment and an air management system on each of our production lines. In late 2004, we launched our seventh production line, a high-speed spunmelt line, to meet the increased demand of our customers.

We have grown over the last 16 years since our founding through the installation of seven production lines. Each of our production lines, at the time of their installation, was among the most technologically advanced in commercial operation anywhere in the world. Of our current seven production lines, five lines (which account for

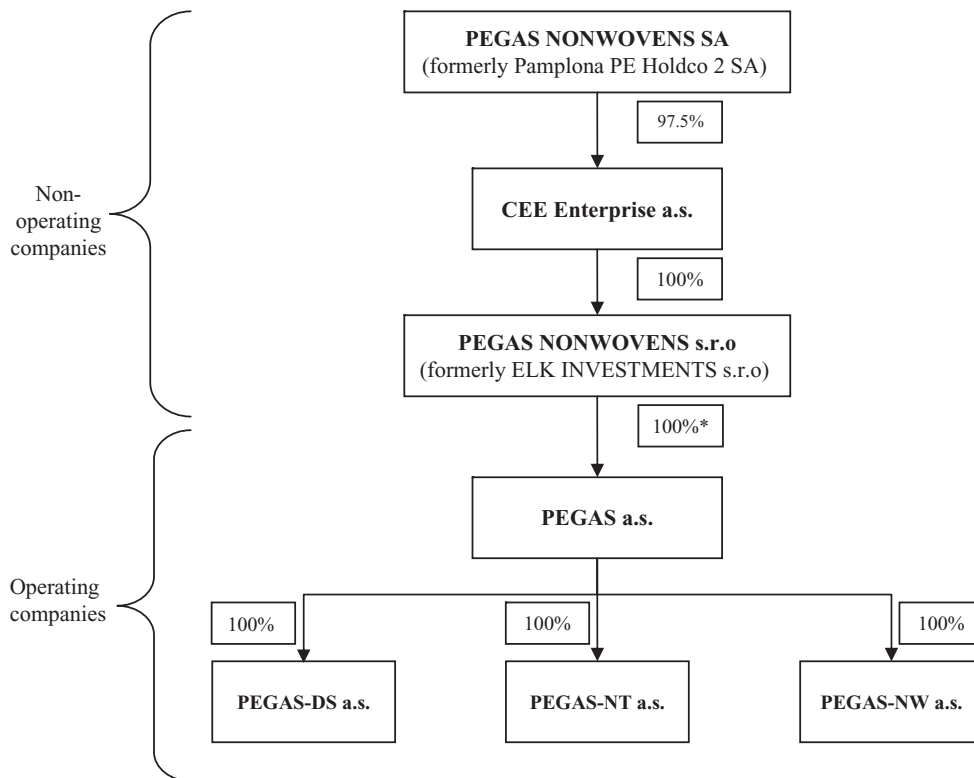
approximately 90% of our production capacity), remain among the most technologically competitive. As at December 31, 2005, our production of spunmelt nonwovens (net of scrap) reached 51,267 tonnes annually. In late 2007, we are planning to install our eighth production line, which is expected to have an annual production capacity of approximately 15,300 tonnes (based on our current portfolio of products) and will be able to produce ultra-lightweight nonwovens. This will permit more effective utilisation of our BiCo lines which currently produce both BiCo and mono-component materials.

**Our Acquisition of PEGAS a.s. and Other Recent Developments**

In December 2005, we completed the acquisition of 100% of the share capital and voting rights of our operating subsidiary, PEGAS a.s. In order to facilitate the acquisition, the Selling Shareholder acquired CEE Enterprise a.s., a joint stock company incorporated in the Czech Republic, which in turn had previously acquired ELK INVESTMENTS s.r.o., a private limited liability company incorporated in the Czech Republic, which served as the vehicle for the acquisition of PEGAS a.s. In January 2006, our management acquired an aggregate 2.5% participation in the share capital of CEE Enterprise a.s., which was subsequently exchanged for a 2.5% participation in PEGAS NONWOVENS SA. In April 2006, ELK INVESTMENTS s.r.o. changed its name to PEGAS NONWOVENS s.r.o. and in May 2006 PEGAS a.s. was merged into it, with PEGAS NONWOVENS s.r.o. being the surviving entity.

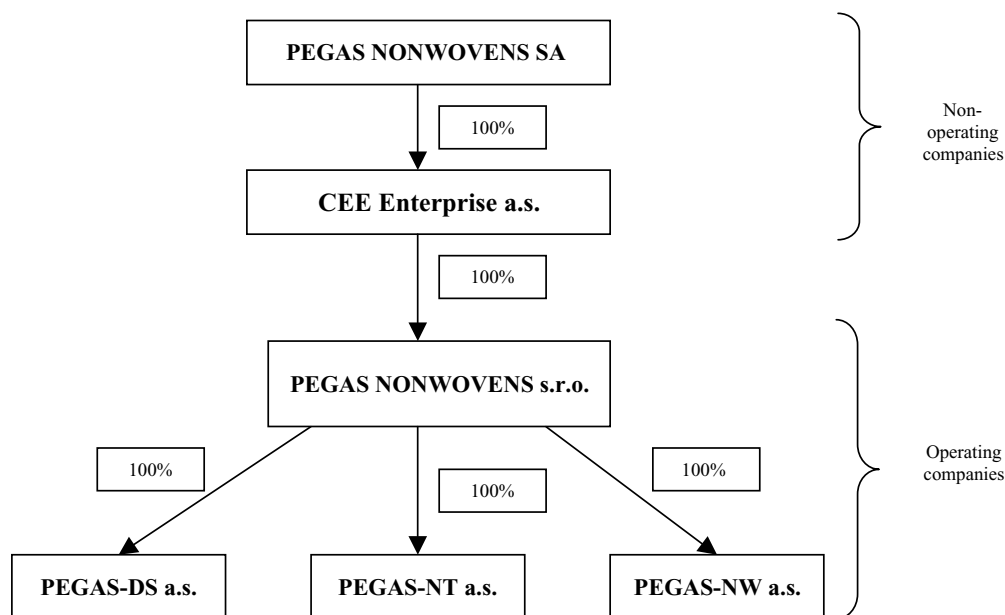
**Organisational Structure of Our Group**

The diagram below represents the structure of our Group immediately prior to the merger between PEGAS NONWOVENS s.r.o. and PEGAS a.s.:



\* except for one share in PEGAS a.s. held by the Company

The diagram below represents the current structure of the PEGAS Group:



Nearly all of our operating assets are owned by PEGAS NONWOVENS s.r.o. and its three subsidiaries: PEGAS-DS a.s., PEGAS-NT a.s. and PEGAS-NW a.s., which are companies incorporated in the Czech Republic. Our SAP computer software license, a resource planning system (see “— *Information Technology*” below), is held by CEE Enterprise a.s. However, our relations with suppliers and customers are carried out by PEGAS NONWOVENS s.r.o., and consequently we present ourselves to the market as a single entity.

The allocation of our production assets among our four operating subsidiaries facilitates our taking advantage of Czech tax incentives. Our subsidiaries PEGAS-DS a.s. and PEGAS-NT a.s. began benefiting from these incentives in fiscal years 2001 and 2005, respectively. In February 2005, we established our subsidiary PEGAS-NW a.s. to take advantage of Czech tax incentives, in anticipation of our planned installation of our eighth production line, which we expect will become operational late in 2007. You should read “— *Czech Investment Incentives*” for more information regarding Czech tax incentives from which we benefit.

The table below indicates the country of incorporation and our direct and indirect shareholdings in our subsidiaries:

<u>Company name</u>	<u>Country of Incorporation</u>	<u>% ownership interest</u>
CEE Enterprise a.s. ....	Czech Republic	100.00
PEGAS NONWOVENS s.r.o. ....	Czech Republic	100.00
PEGAS — DS a.s. ....	Czech Republic	100.00
PEGAS — NT a.s. ....	Czech Republic	100.00
PEGAS — NW a.s. ....	Czech Republic	100.00

## Our Strategy

Our strategic objective is to participate fully in the growth of the personal hygiene nonwovens market in Europe (especially in Central and Eastern Europe and Russia), the Middle East and North Africa. We intend to achieve our objective principally through the following strategies.

### *Remain one of the European nonwoven technology leaders*

*Investment in Technologically Advanced Machinery:* Since commencing operations, we have consistently focused on acquiring the most technologically advanced machinery available in the market. Advanced machinery facilitates our ability to produce large quantities of high-quality, advanced nonwoven textiles meeting the increasingly demanding technical and performance characteristics required by our clients. We intend to continue this trend by continuing to invest in advanced machinery in order to maintain a competitive advantage over other manufacturers of spunmelt nonwovens.

*Technical Expertise:* We consistently strive to maintain the highest levels of technical and engineering capabilities through training and constant review of our production facilities. We believe this is one of our principal strengths and is the reason clients often turn to us to address particularly difficult production requirements. We will continue to invest in maintaining this technical advantage.

*Cooperation with Customers and Suppliers:* The production of spunmelt nonwoven textiles is constantly developing. Manufacturers can no longer simply produce nonwoven textiles but must be able to assist clients in developing advanced materials. We intend to continue the cooperation with our clients, machinery manufacturers and raw materials suppliers in order to remain at the forefront of technical developments in our industry and in order to supply our clients with the highest quality products.

#### ***Remain a leader in “difficult to manufacture” specialty products***

There is strong competition among manufacturers of products using spunmelt nonwovens, especially in the hygiene sector. Our customers require constant improvement in the technical qualities of the nonwoven textiles we produce, especially in terms of weight per square metre and performance, in order to maintain a competitive advantage in the market. We believe we have a strong track record in assisting our clients in developing and producing these “difficult to manufacture” products which, we believe, has had a significant positive impact on our sales. We intend to continue this focus in order to remain one of the producers of choice for our customers.

#### ***Maintain superior financial performance***

We will maintain our focus on our financial performance and intend to achieve superior results by growing volume through capital investment and close relationships with customers. We intend to maintain margins through focusing on costs and on manufacturing specialty nonwovens involving more complex production processes which at the same time offer the prospect of higher margins.

#### **Competitive Strengths**

We believe that our principal competitive strengths consist of the following.

#### ***Leading manufacturer of nonwoven textiles for the personal hygiene market in Europe with technologically advanced manufacturing equipment***

We are the second-largest producer in Europe of spunmelt nonwovens destined for European manufacturers of hygiene products. We believe we have an approximately 11% share of the installed PP- and PP/PE-based spunmelt production capacity in Europe, and an approximately 19% share by volume of the market for spunmelt PP- and PP/PE-based nonwovens destined for European manufacturers of hygiene products. We believe that we have one of the most modern manufacturing bases in Europe which, together with our advanced technological know-how, allow us to be among the leaders in terms of quality and technical competence in our field.

#### ***Capability for making technically advanced materials***

Our modern production lines and the technical expertise of our staff results in our ability to manufacture the most advanced material for use in personal hygiene applications, permitting us to produce nonwovens with lighter weights and other characteristics that distinguish our products from those of our competitors.

#### ***Well-established long term relationships with leading personal care companies and with key suppliers***

We have been working with our key customers for many years, and believe we consistently rank very highly in their evaluations of the quality of our products and our service. We collaborate closely with our key customers to produce nonwovens that are suitable for their production parameters, as well as on joint development projects for special custom-tailored products. We also work closely with our main raw material suppliers in order to ensure raw materials most suitable for our production processes. Additionally, we have cooperated closely with the market-leading machinery supplier, Reicofil, for the further development and fine-tuning of their advanced nonwoven machinery, ensuring that we have early access to new developments and know-how in order to operate our machines for increased quality and efficiency.

#### ***Experienced management team and motivated staff***

The key members of our management have been with the PEGAS Group for an average of ten years, and are highly experienced in the industry and in managing our operations. The remuneration we offer our employees is



substantially higher than the average in the region where we operate, which we believe results in a motivated workforce yielding a favourable profit-per-employee ratio.

### ***Our strong track record***

Since our founding in 1990, we have shown a strong performance track record, both in terms of market share growth and in terms of financial performance. Our production output has increased over the past nine years from 6,729 tonnes in 1997 to 51,267 tonnes in 2005, representing a CAGR of 28.9%. Over that same period, our sales have increased from €14.3 million in 1997 to €109.5 million in 2005, representing a CAGR of 28.9%. Our EBITDA margins for 2005 reached 37.2%, generating strong cash flows that we can deploy towards significant capital expenditures necessary for our growth and for maintaining our technical position.

### ***Protection from significant movements in the price of polymer***

Polymer accounted for approximately 80% of our total operating costs (excluding depreciation and amortisation) in 2005. Polymer prices are related partly to oil prices. Almost all of our sales agreements provide for prices which are linked to published polymer price indices over the preceding one to three months. This results in a significant level of protection against profits being degraded as a result of increases in polymer prices.

### ***We enjoy a favourable tax environment***

Our operating subsidiaries benefit from several tax incentives granted by the Czech authorities which will continue in effect until the earlier of (i) ten years from the date on which each of our subsidiaries began to benefit from these incentives, or (ii) until the total magnitude of the tax benefit has been realised.

### ***We operate in an industry with significant barriers to entry***

Because we supply most of our products to demanding customers in the personal hygiene sector, significant barriers to entry for new competitors exist, such as high capital costs of machinery, complex technical know-how, and customer and supplier relationships that are necessary to produce and sell high-quality nonwovens on a cost-efficient basis.

### ***Low cost base and proximity to both Western and Eastern European markets gives us additional flexibility to react to competitive pressures***

We believe that we are currently the sole significant manufacturer of spinnmelt nonwovens destined for use in personal hygiene applications with production facilities based in Central and Eastern Europe. As a result of our convenient location close to key markets in both Western and Eastern Europe, as well as a favourable cost structure of operations, we enjoy a cost and margin advantage compared with our Western European competitors. By taking advantage of our location and lower production costs, we can compete effectively in supplying clients including those at greater distances.

## **Our Business**

Our Group, through our operating company PEGAS NONWOVENS s.r.o. and its subsidiaries, produces PP- and PP/PE-based spinnmelt nonwoven textiles for use in disposable hygiene products (principally baby diapers, adult incontinence and feminine hygiene products) and, to a lesser extent, in construction, agricultural and medical applications.

### ***Nonwoven textiles***

Nonwoven textiles are fibre-based textiles which are neither woven nor knitted, but are made from polymer fibres which are bonded together with pressure and heat. They take on many different forms and can be produced using different technologies. The rapidly growing PP- and PP/PE-based personal hygiene segment in particular requires sophisticated technology to produce special properties in the products and to customise them for specific functional properties and applications. Nonwoven textiles find numerous applications ranging from disposable hygiene, medical, home, leisure and travel, clothing and automotive uses. For our main market, the personal hygiene market, spinnmelt nonwovens are attractive because they combine soft texture (when wet or dry) with a

low propensity to cause skin irritation and low production cost. The table below provides a breakdown of our sales by product type and geographical market.

	For the year ended December 31,						For the 6 months ended June 30,			
	2005		2004		2003		2006*		2005**	
	€ thousands	% of total	€ thousands	% of total	€ thousands	% of total	€ thousands	% of total	€ thousands	% of total
<b>Hygiene Sales</b>										
Hygiene-specialty . . . . .	17,886	16.3	11,398	15.7	3,660	5.4	13,927	23.2	8,100	15.3
Hygiene-other . . . . .	<u>79,142</u>	<u>72.3</u>	<u>50,601</u>	<u>69.5</u>	<u>53,779</u>	<u>79.8</u>	<u>38,813</u>	<u>64.6</u>	<u>38,734</u>	<u>73.3</u>
<b>Total hygiene . . . . .</b>	<b>97,028</b>	<b>88.6</b>	<b>61,999</b>	<b>85.1</b>	<b>57,439</b>	<b>85.3</b>	<b>52,740</b>	<b>87.8</b>	<b>46,834</b>	<b>88.7</b>
Non-hygiene . . . . .	12,463	11.4	10,820	14.9	9,929	14.7	7,325	12.2	5,994	11.3
<b>Total sales . . . . .</b>	<b>109,491</b>	<b>100.0</b>	<b>72,819</b>	<b>100.0</b>	<b>67,368</b>	<b>100.0</b>	<b>60,065</b>	<b>100.0</b>	<b>52,828</b>	<b>100.0</b>
<b>Sales by region</b>										
Western Europe . . . . .	40,322	36.8	34,031	46.7	27,771	41.2	25,021	41.7	19,082	36.1
Central and Eastern Europe . . . . .	43,416	39.7	28,594	39.3	29,880	44.4	15,470	25.8	22,403	42.4
Russia . . . . .	3,014	2.8	510	0.7	–	0.0	1,885	3.1	557	1.1
Other . . . . .	<u>22,739</u>	<u>20.7</u>	<u>9,684</u>	<u>13.3</u>	<u>9,717</u>	<u>14.4</u>	<u>17,689</u>	<u>29.4</u>	<u>10,786</u>	<u>20.4</u>
<b>Total . . . . .</b>	<b>109,491</b>	<b>100.0</b>	<b>72,819</b>	<b>100.0</b>	<b>67,368</b>	<b>100.0</b>	<b>60,065</b>	<b>100.0</b>	<b>52,828</b>	<b>100.0</b>

\* Information for PEGAS NONWOVENS s.r.o., which is the same for the Company

\*\* Information for PEGAS a.s.

### *Personal Hygiene Applications*

The bulk of our output is sold for final processing in the personal hygiene sector, which accounted for approximately 89% of our total sales in 2005. Specifically, we produce spunmelt nonwoven materials for various components of baby diapers and adult incontinence products, such as the core wrap, topsheet (in contact with the skin), backsheet (the waterproof containment component) and barrier cuffs (which seal the product against the legs), as well as for feminine hygiene products.

In 2005, approximately 18% of our sales of hygiene products consisted of specialty products. We define specialty products as those made of BiCo materials, lightweight material (i.e. those materials weighing less than 12 grams per square metre), customer proprietary products and other specialty products developed in-house. Our sales of specialty hygiene products have increased in recent years, and our strategy is to increase this still further in future years.

Our BiCo products are manufactured using both PP and PP/PE, and are either pure spunbond or SMS-type textiles (i.e. consisting of a spunbond (“S”), meltblown (“M”) and further spunbond layers). BiCo nonwovens are attractive to our customers for their comfort qualities when in contact with the most sensitive parts of human skin, and their higher extensibility compared with PP-based products. Our BiCo products are typically used in baby diapers and feminine hygiene products.

We believe that the spunmelt nonwoven hygiene segment will continue to grow, mainly in Central and Eastern Europe (including Russia), owing to lower penetration of the market and growing birth rates, increasing life expectancy and rising disposable incomes. We believe that use of baby diapers in Western Europe is significantly higher than in Eastern Europe and Russia. Compared with Western Europe, where, for example, the use of baby diapers stands at approximately 5.1 diapers per day per child on average, this figure stood at approximately 2.9 in Central and Eastern Europe, and approximately 1.9 in the ten largest Russian cities in 2004. Ageing populations and increasing life expectancies in the Western European markets we supply are also expected to result in a growing market for adult incontinence products.

### *Non-hygiene Applications*

Our remaining production (approximately 11% of sales in 2005) is sold for use in non-hygiene applications. Notwithstanding this relatively small percentage of our total sales, we intend to maintain our production levels for

these products, as they provide sufficient margins and enable us to achieve product portfolio diversification goals. Our non-hygiene products are used in construction, agricultural and medical applications.

### ***Production of our Spunbond and Meltblown Textiles***

The process for producing spunbond nonwovens begins with polymer granules, which are melted and extruded through spinnerets. This produces continuous filaments which are cooled, stretched and laid down onto an air permeable conveyor belt to form a uniform fabric web. Afterwards, the web passes through a system of heated calender rolls and, as a result of the pressure and higher temperatures, takes on certain mechanical properties. If necessary, after calendaring, the nonwovens can be treated with spinfinishes in order to achieve hydrophilic or other properties. The final steps in the process are winding, cutting and packaging before the material is prepared for delivery to clients.

In the meltblown process, the low viscosity polymer is melted and extruded into a high velocity hot air stream on leaving the spinneret. This air stream scatters the molten filaments, solidifies them and creates a fabric web from the fibres.

Both processes can be combined, in order to attain specific properties such as desired tensile strengths (from spunbond materials) and barrier characteristics (from meltblown materials). In this case, meltblown layers are added to spunbond layers and bonded together with heated calender rolls. The resulting composite material is designated as, for example, SMS, indicating a spunbond layer, a meltblown layer, and another spunbond layer.

The principal advantage of our production process is that spinnelt nonwovens can be manufactured through a single process using one continuous production line, which processes the raw material from their granulated form into filaments and finally into fabric. For more information concerning our production facilities, see “— *Plant and Premises*” below.

### **Suppliers and Purchasing**

The main raw materials used for spinnelt nonwovens are polymers, most importantly polypropylene followed by polyethylene, which are petroleum derivatives. In 2005, our consumption of PP and PE reached approximately 58,000 tonnes, and accounted for approximately 80% of our total operating costs (excluding depreciation and amortization). We carefully select and monitor our suppliers. Over the past three years, we have sourced our polymer raw materials from a total of eight suppliers. We purchase our polymer raw materials on both one year and multi-year agreements, the bulk of which are purchased in euro. We ensure that competitiveness among suppliers is maintained by on-going benchmarking. All critical decisions regarding the choice of key suppliers are approved by senior management.

As the qualitative characteristics of the input material are critical for the production process, our PP and PE supplies are tested by our suppliers both before and after contracting and are continuously screened according to their internal rules and ISO norms.

### **Customers**

Our portfolio of key customers is very stable, and comprises primarily a number of leading corporations active in the disposable hygiene product market in Europe. A number of large producers supply the European disposable hygiene products market, such as 3M, Hartmann, HYGGA, Johnson & Johnson, Kimberly-Clark, Ontex, Paper Pak, Procter & Gamble, SCA, Tyco and TZMO. We supply spinnelt nonwoven textiles to most of these producers. You should read “*Industry Overview*.”

We believe that our present customer concentration reflects the situation in the hygiene market which is divided among a small number of producers, each of which has a substantial market share. The risks associated with having a relatively small number of key customers are balanced by the benefits of mutual cooperation focused on the development and manufacture of customer-specific products, in part resulting from joint development programmes. Additional factors that we believe reduce the risk of losing our principal customers are our track record of producing nonwovens of consistently high quality, our reliability in delivery and supply, and our competitive pricing.

In particular, the combined product development effort over the past few years between us and our largest customer has reinforced our close relationship. Although the proportion of our sales to our largest customer has increased in recent years (approximately 57% in 2005), we expect to increase the proportion of our sales to other customers as a result in part of our increased production capacity following the introduction of our new production line in late 2007.

In line with the industry's purchase practices, we do not normally have any long-term formal written contractual arrangements with our large hygiene industry customers. Agreements with our large hygiene industry customers are negotiated and approved each year by senior management. These agreements are either written or oral. Oral agreements are, however, based on written communications and documentation which include agreed commercial conditions and expected volumes.

These yearly agreements are entered into on a global basis and relate to all of the production facilities of each particular customer which we supply with nonwoven textiles. Our supplies to these customers are then fixed based on the specific volumes they request in their monthly orders. These orders are binding. We believe these arrangements with our large hygiene customers are customary in our industry and underline the importance of our close co-operation with our customers.

In most cases, our large hygiene industry customers agree with us on their approximate off-take for each year in the second half of the previous year. These yearly non-binding arrangements are entered into on a global basis and relate to all plants of each particular customer with whom we deal. Our supplies to these customers are then based on the specific volumes determined by them in their monthly orders which are binding. We believe that this arrangement with our key customers is entirely customary in our industry and emphasises the importance of our close co-operation with our customers.

In most cases we deliver the product to our customers based on INCOTERMS 2000 Delivery Duty Unpaid conditions. Our cooperation with the transportation companies is on a long term basis. We are highly selective in choosing transportation companies, due to the high importance of timely deliveries of our products to our customers and the product's sensitivity to contamination.

### **Plants and Premises**

We have two production facilities located approximately 100 km from each other in the south east of the Czech Republic. The original site in Bučovice has three production lines installed but further development space is now limited. The newer site in Primetice was developed together with local authorities as an industrial zone on the outskirts of Znojmo and has four production lines. In addition to the production sites, we own an administrative building in Znojmo, close to the Primetice production plant. All of our premises have been constructed as greenfield projects. Our total production sites cover approximately 134,000 square meters, of which 53,000 square meters are occupied by buildings and other improvements (including our administrative building in Znojmo).

We own all of our real estate and the improvements constructed on it. The aggregate book value of our land and buildings as at June 30, 2006 was €28.09 million.

### **Technology and Production**

We own and operate a range of technologically advanced equipment necessary to produce high-quality spunmelt nonwoven textiles. Our management is focused on continuous maintenance and modernisation of our equipment and machinery, ensuring that we continue to rank among the leading European producers of nonwoven textiles.

All of our production lines are manufactured by Reicofil, a leading German global supplier of spunmelt nonwoven production equipment. Reicofil achieved world leadership in spunmelt technology machinery in the late 1980s owing to its production lines which are capable of making multilayer nonwovens in a single process, thus significantly reducing the production cost of nonwovens. We, like other producers of spunmelt nonwovens, are significantly dependent on machines supplied by Reicofil. Reicofil currently dominates the market for PP- and PP/PE-based spunmelt nonwoven machines.

The table below provides additional details on each of our current seven production lines (actual net production in any given year depends on our product portfolio and does not necessarily indicate the technical capacity of our installed machinery):

<u>Machine</u>	<u>Year of Installation</u>	<u>Net Production 2005 (in tonnes net of scrap)</u>	<u>Technology Configuration *</u>	<u>Plant Location</u>
Reicofil 2 .....	1992	2,589	S	Bučovice
Reicofil 2 .....	1996	5,318	SMS	Bučovice
Reicofil meltblown .....	1996	791	M	Přímětice
Reicofil 3 .....	1998	7,473	SMS	Bučovice
Reicofil 3 BiCo .....	2000	11,296	SSMMS	Přímětice
Reicofil 3 BiCo .....	2001	9,690	SSS	Přímětice
Reicofil 4 .....	2004	14,110	SSS	Přímětice
<b>TOTAL</b> .....		<u>51,267</u>		

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

Our total annual production capacity as at June 30, 2006 was approximately 53,000 tonnes per year.

Since we began producing spinnelt nonwovens in 1992, we have kept pace with the latest technological developments in this field. For example, in 1998 we were the first spinnelt manufacturer to install Reicofil technology with a microfilament option which, at that time, was a substantial technological advance. In 2000, we installed a Reicofil 3 production line capable of producing BiCo materials, the first such production line in Europe. The installation in 2004 of our Reicofil 4 line, which we believe employs the world's most advanced spinnelt technology currently in commercial operation, was the first such machine to be installed in Europe.

While the Reicofil 4 line has a width of 4.2 meters, all our other Reicofil lines have widths of 3.2 meters except for the meltblown line which has a width of 1.6 meters. The output of the first line, upgraded to Reicofil 2 technology in 1997, is primarily sold for technical and agricultural applications. The output from our meltblown line production is used for technical applications requiring a high absorption capacity, such as industrial wipes and absorbents. The Reicofil 4 line, which was installed at the end of 2004, employs a new technology which permits high speed production with improved nonwoven textile formation.

All of our production lines operate continuously except for planned annual maintenance and short daily cleaning procedures.

In addition to the production lines, we operate three small finishing lines which enable the cutting, gluing (both operations in Bučovice) and perforation (in Přímětice) of processed fabrics according to customer specifications.

We place emphasis on recycling scrap materials which are inherent to the spinnelt processes (such as edge materials or scrap from batch changeovers). For that purpose, each of the production lines is equipped with co-extruders or similar equipment, which enables the reuse of approximately half of our total scrap material volume.

To further optimise recycling, we have developed a proprietary technology process that, together with new re-granulation equipment, enables us to reduce waste to a minimum, by recycling almost all scrap material. This equipment was installed in the first half of 2006.

### **Quality Management and Environment**

We are ISO 9001:2000 and EN ISO 14001:1996 certified, and first received these quality certifications in 1997. In connection with the amendment of the ISO standards of the 9001 series in 2000, and with the execution of the organisational change in our management structure as of May 1, 2000 (centralising of PEGAS Group functions), the existing system was partially revised and subsequently our Quality Management System and Environmental Management System were integrated in 2002. We have certified our integrated system of quality according to ISO 9001:2001 by CQS, IQNet and environmental management EN ISO 14001:1997 by CQS. We plan to upgrade our certification to ISO 9003 in 2006.

### ***Quality Management System***

In addition to the general quality requirements imposed by ISO 9001, we continuously improve and adjust our production process and relevant assets in order to provide superior output quality. In 2002 and 2003, all of our production premises were provided with overpressure air control to eliminate the risk of insects or particles contaminating our fabrics. Subsequently, an optical quality control system was introduced on all of our hygiene production lines, to monitor both the bonding consistency and the presence of external particles. These measures have significantly decreased our customers' deficiency claims.

### ***Environmental Management System***

We have implemented and maintain an environmental management system to take care of all environmental aspects as required by ISO 14001:1997. Our production process involves the change of PP or PE raw materials into a form of fibres through the application of heat and pressure. This process results in minimal chemical changes to the material and in limited atmospheric emissions. We have obtained all necessary environmental permits for our operations and are in compliance with Czech environmental laws.

### **Employees**

We benefit from a skilled and motivated workforce, which results in relatively high profitability per employee and productivity growth. By focusing on retaining highly skilled employees, we are able to maintain a low staff turnover rate of approximately 6% annually. The table below indicates the number and functional breakdown of our employees:

	<u>As at December 31,</u>			<u>As at June 30,</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Senior Management . . . . .	9	9	6	6
Management . . . . .	12	12	12	12
Specialists . . . . .	34	38	48	46
Laboratory Staff . . . . .	25	32	31	33
Qualified Workers . . . . .	55	57	48	50
Manual Workers . . . . .	160	187	167	182
<b>Total . . . . .</b>	<b>295</b>	<b>335</b>	<b>312</b>	<b>329</b>
<b>Average no. of employees . . . . .</b>	<b>299</b>	<b>311</b>	<b>333</b>	<b>321</b>

We regularly engage a Czech human resources consultancy firm which specialises in efficiency studies of industrial companies. Their analysis has allowed us to better adjust employment levels to our production needs.

The table below provides data on our total sales and EBITDA per employee:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
	€ thousands		
Total sales/average number of employees . . . . .	225.3	234.1	328.8
EBITDA*/average number of employees . . . . .	88.4	94.3	122.2

\* EBITDA calculated as profit from operations plus depreciation and amortisation expense

Our workforce displays a high level of education and over 12% of our employees have university educations. We provide continuous training on up-to-date knowledge and various skills required for our operations, with a focus on compulsory training such as work security, computer skills and language courses.

The average monthly wages for our employees grew by a CAGR of 9.5% between 2001 and 2005, from €582 per employee in 2001 to €839 per employee in 2005, compared with the average inflation of 2.3% for the Czech Republic as reported by the Czech Statistical Bureau. The monthly wage of our employees (including management) of approximately €839 in 2005 is still significantly below the average in Western Europe, but substantially more than the average in our region of the Czech Republic. Our remuneration structure is highly motivational, with the fixed salary part of the basic salary ranging between approximately 80% for manual workers and up to approximately 60% for management. The salary of workers varies in relation to the volume produced on a specific line, including the quality of the product, and is capped.

In addition to competitive wages, we also provide employees with numerous benefits, including five weeks of annual holiday (one additional week over the statutory minimum), cash bonuses according to performance,

savings accounts with advantageous terms and limited interest loans, and company-funded contributions to the employees' private supplementary pension. We do not have any unfunded pension liabilities.

There are no trade unions in the PEGAS Group, and we believe that management's relations with our employees are good. We have never had a strike at any of our plants.

## **Financing Agreements**

### ***Mezzanine Facility Agreement***

The Company entered into a mezzanine facility agreement (the "Mezzanine Facility Agreement") on December 14, 2005 between (1) the Company as borrower, (2) Nomura International Plc as arranger, (3) EMF Luxembourg S.A. as original mezzanine lender, (4) Nomura International Plc as mezzanine facility agent and (5) Nomura International Plc as mezzanine security agent. The Mezzanine Facility Agreement provides for a term loan facility (the "Mezzanine Facility") of up to €15,000,000, of which €6,707,185 in aggregate remains outstanding. This outstanding amount, including outstanding principal and accrued interest as at September 30, 2006, represents a contractual obligation of the Company and differs from the figure under the IFRS treatment. The latter amount is split between bank loan and equity portion within the capital reserve.

Security for the Company's obligations under the Mezzanine Facility Agreement has been granted by, among others, the Company and certain of its subsidiaries. The security will be released upon and following the repayment of the Mezzanine Facility as described below.

### ***Mezzanine Warrants***

On December 14, 2005, the Company and EMF Luxembourg S.A. entered into a Mezzanine Share Warrant Instrument (as defined in the Mezzanine Facility Agreement) whereby the Company issued warrants to EMF Luxembourg S.A. comprising of the right to subscribe for newly issued shares in the Company for cash at their nominal value representing in total 3.95% of the fully diluted share capital of the Company (assuming the Company holds 100% of CEE Enterprise a.s. at the time of exercise).

The parties and NFF LP Inc., an affiliate of EMF Luxembourg SA, are currently negotiating a Supplemental Agreement to the Mezzanine Share Warrant Instrument, whereby it is envisaged that the warrants issued to EMF Luxembourg S.A. will be deemed to be exercised upon (i) the Selling Shareholder paying to NFF LP Inc., as agreed with EMF Luxembourg S.A., an amount equal to the Offer Price multiplied by the total number of Shares to which EMF Luxembourg S.A. is entitled multiplied by the same percentage as the Selling Shareholder is selling of its shares in the Offering (excluding the effect of the Over-allotment Option), less the aggregate nominal value of such number of Shares, and (ii) NFF LP Inc. purchasing from the Selling Shareholder a number of Shares (at a price equal to the nominal value of such Shares) equal to the difference between the number of Shares EMF Luxembourg SA would have received had it exercised the warrants in full, less the number of Shares corresponding to the proceeds it receives from the Selling Shareholder in (i) above.

It is currently expected that the number of Shares NFF LP Inc. will be purchasing from the Selling Shareholder will not exceed approximately 200,000 Shares.

### ***Prepayment of the Mezzanine Facility***

The Company intends to use the proceeds from the Offering to prepay all amounts outstanding under the Mezzanine Facility Agreement. This prepayment is currently intended to take place as soon as reasonably practicable following the date on which the Offering has been completed and the proceeds from the Offering have been received by or on behalf of the Company.

### ***Preferred Equity Certificates***

On December 14, 2005, the Company issued to the Selling Shareholder 1,064,500 preferred equity certificates ("PECs") each with a par value of €10 bearing an interest rate of 9.875% per annum for a term of 30 years unless earlier redeemed or repurchased.

On December 14, 2005, the Company issued to the Selling Shareholder 2,900,000 PECs each with a par value of €10 bearing an interest rate of 9.875% per annum for a term of 30 years unless earlier redeemed or repurchased.

The PECs described above will be repaid using proceeds of the Offering. See "Use of Proceeds".

### ***Senior Facilities Agreement***

ELK INVESTMENTS s.r.o. (now known as PEGAS NONWOVENS s.r.o.) entered into a senior facilities agreement (the “Senior Facilities Agreement”) on December 14, 2005 which is, following the accession of three additional obligors and the merger of PEGAS a.s. into PEGAS NONWOVENS s.r.o., and as amended and restated on November 29, 2006 between, among others, (1) PEGAS NONWOVENS s.r.o. as original borrower and original guarantor, (2) PEGAS-DS a.s. as additional borrower and additional guarantor, (3) PEGAS-NT a.s. as additional borrower and additional guarantor, (4) PEGAS-NW a.s. as additional borrower and additional guarantor, (5) CEE Enterprise a.s. as guarantor, (6) Bank Austria Creditanstalt AG, HVB Bank Czech Republic a.s., Česká spořitelna, a.s. and Erste Bank der Oesterreichischen Sparkassen AG as arrangers, (7) certain other banks as lenders (the “Lenders”), (8) Česká spořitelna, a.s. as issuing bank, (9) Bank Austria Creditanstalt AG as facility agent and (10) Česká spořitelna, a.s. as security agent. An amendment and restatement of the Senior Facilities Agreement, which (among other things) caters for the occurrence of the Offering and the prepayment of the Mezzanine Facility, as referred to above) is to become effective on or prior to the closing of the Offering, subject only to the payment by ELK INVESTMENTS s.r.o. (now known as PEGAS NONWOVENS s.r.o.) of an amendment and waiver fee which ELK INVESTMENTS s.r.o. (now known as PEGAS NONWOVENS s.r.o.) will pay on or prior to the closing of the Offering.

Under the Senior Facilities Agreement, the Lenders agreed to provide up to €170,500,000 in four facilities (comprising term loans, revolving credit loans or letters of credit), of which €145,967,274 in aggregate remains outstanding. This outstanding amount, including outstanding principal and accrued interest as at September 30, 2006, represents a contractual obligation of PEGAS NONWOVENS s.r.o. and differs from the figure under IFRS treatment. The latter amount is reduced by an arrangement fee being amortised over the period for which the loan was granted. Each of the facilities bears interest at a variable rate equal to EURIBOR, LIBOR or PRIBOR, as the case may be, plus a margin (which, in the case of two types of term loans and any revolving credit loan, is subject to adjustment based on the consolidated total net borrowings to consolidated EBITDA of CEE Enterprise a.s. and its subsidiaries (the “CEE Group”)).

### ***Guarantees and security***

Under the Senior Facilities Agreement, each of the Guarantors (as defined in the Senior Facilities Agreement to include CEE Enterprise a.s. and its subsidiaries and any other subsidiaries of CEE Enterprise a.s. which accede to the Senior Facilities Agreement as additional guarantors) is to guarantee the obligations of each borrower under the Senior Facilities Agreement and the other finance documents relating to the Senior Facilities Agreement.

Security for the obligors’ obligations under the Senior Facilities Agreement has been granted by, among others, CEE Enterprise a.s. and certain of its subsidiaries.

### ***Certain covenants***

Under the Senior Facilities Agreement there are restrictions on the ability of members of the CEE Group with regard to their ability to, among other things, dispose of assets, raise capital, furnish collateral, make investments or acquire shares under certain conditions. It also includes certain financial covenants requiring specified levels to be maintained in relation to specified test periods in respect of each of the following ratios: Consolidated Total Net Borrowings to Consolidated EBITDA, Consolidated Senior Net Borrowings to Consolidated EBITDA, Consolidated Adjusted Free Cashflow to Consolidated Total Debt Service, Consolidated Capex Adjusted Free Cashflow to Consolidated Total Debt Service and Consolidated Capex Adjusted Free Cashflow to Consolidated Senior Debt Service; Permitted Expansion Capital Expenditure and Maintenance Capital Expenditure may not exceed certain specified levels in relation to specified test periods.

A breach of any of these provisions may in certain circumstances constitute an event of default under the Senior Facilities Agreement. If an event of default were to occur and be outstanding, the amounts outstanding under the Senior Facilities Agreement would immediately become due and payable. The Lenders are further entitled to accelerate the loans under the Senior Facilities Agreement and cancel the commitments thereunder upon the occurrence of certain other events. This may, for instance, include the non-performance or inadequate performance of the reporting requirements the obligors are subject to or a material adverse change in the CEE Group’s financial condition.

### ***Intra-Group Loan Agreements***

The Company entered into a shareholder loan agreement on December 13, 2005 between the Company as lender and CEE Enterprise a.s. as borrower in respect of a loan in the aggregate amount of €39,768,950. The Company



also entered into a shareholder loan agreement on December 13, 2005 between the Company as lender and CEE Enterprise a.s. as borrower in respect of a loan in the aggregate amount of €15,000,000. CEE Enterprise a.s. entered into a shareholder loan agreement on December 13, 2005 between CEE Enterprise a.s. as lender and PEGAS NONWOVENS s.r.o. as borrower in respect of a loan in the aggregate amount of €54,998,950.

Each of the shareholder loan agreements described above has been replaced in December 2006 such that the rate of interest payable on each thereunder is to be reduced to zero (with the principal amount of each new shareholder debt being increased, if necessary, by the amount of accrued interest which was not paid on the shareholder debt it replaced) and such that each qualify as a loan (in Czech *půjčka*) pursuant to section 657 of the Czech Civil Code. The amount outstanding under the new shareholder loan agreement between the Company, as lender, and CEE Enterprise a.s., as borrower, is €43.53 million, the amount outstanding under a separate new shareholder loan agreement between the Company, as lender, and CEE Enterprise a.s., as borrower, was €6.86 million, and the amount outstanding under the new shareholder loan agreement between CEE Enterprise a.s., as lender, and PEGAS NONWOVENS s.r.o., as borrower, is €50.54 million.

In November 2006, the Company was assigned €226,897 of interest-free loans previously owed by CEE Enterprise a.s. to our management as a part of a contribution in kind of the managers into the share capital of the Company. These managers received in exchange for the loans and their shares in CEE Enterprise a.s. a 2.50% shareholding in the Company's share capital.

### **Insurance Coverage**

All of our key assets are insured against standard business risks such as natural disasters and business interruptions. Under the terms of our insurance policies, we are also insured against loss of profits of up to 90 days per year and for third-party liability caused by faulty products. We believe that we maintain adequate insurance to protect against the risks associated with our operations.

### **Litigation**

From time to time, we are involved in legal proceedings relating to our operational and trading activities. To the best of our knowledge, none of these proceedings which have arisen over the last twelve months may have or has had a significant effect on our financial position or results of operations. So far as we are aware, no litigation or arbitration proceedings that are likely to have a significant effect on our financial position or results of operations are pending or threatened against us.

### **Development and Technical Support**

Starting in the mid 1990s, we have built a team dedicated to product development and technical support. The team provides customers with solutions throughout the production stream by incorporating the input of the technology provider and material supplier, as well as the final product manufacturer and final customer requirements. We tailor new technologies in nonwoven production to the parameters of the raw material, our production lines and our customers' specifications for the finished product, with a view to improving the quality and efficiency of our production and sharing the resulting benefits with our customers. In addition, we cooperate with several universities and independent research centres in the Czech and Slovak Republics and Germany. Some of our development projects have also attracted government grants or subsidies, including one that supports our development project for improving waste recycling through the introduction of specific mixtures, additives, processes and equipment. These development projects have resulted in the implementation of the regranulation project in 2006.

We estimate that our overall costs associated with research and development activity, including the financial impact of stoppages in the current production necessary to conclude testing were €1.8 million, €1.4 million and €1.3 million in 2005, 2004 and 2003, respectively. These amounts include lost profits and other opportunity costs we incurred as a result of performing trial runs on our existing production lines and thereby reducing our total output.

We are members of, and have a representative (Mr Klaška) on the board of, the European Disposables and Nonwovens Association (EDANA). In addition, Mr Klaška, Mr Řezáč and Mr Bogdan are members of various EDANA committees.

## Intellectual Property

We have registered our trademark and logos in selected European and international markets. We have one registered patent for special nonwoven microfilament spunbond material for hygiene products. The patent is registered internationally for selected European countries. We are also preparing filings for three additional patent applications.

## Czech Investment Incentives

Beginning in the second half of the 1990s, the Czech Republic has focused on attracting foreign investors by introducing various investment incentive schemes to support, among others, investors in the manufacturing sectors. These were approved by the European Commission upon the Czech Republic's accession to the EU and are considered as automatically fulfilling all the requirements and conditions applicable under EU law, without clearance by the European Commission being required. The process of applying for and being granted these investment incentives therefore remains in the competency of the Czech Republic and it is transparent and effective.

The total of the investment incentives granted (excluding training and retraining grants) may not exceed a certain percentage and amount of the eligible costs ascertained in the final decision on granting the incentives made by the Czech state authorities.

### *Investment incentives granted to PEGAS*

We have applied three times for various investment incentives programmes organised by the Czech authorities. In connection with these schemes, we have incorporated our subsidiaries PEGAS-DS a.s., PEGAS-NT a.s. and PEGAS — NW a.s. as special purpose companies to accommodate each investment and to obtain the incentives.

### *PEGAS — DS a.s.*

When it was applied for investment incentives for PEGAS-DS a.s., the scheme for the manufacturing sector was operated under a different legal regime that existed before the current Investment Incentives Act came into force. At that time, incentives were granted on the basis of individual arrangements entered into between the state and the recipient of the incentive and were referred to as “memoranda of understanding”. Memoranda of understanding constitute legally binding arrangements on which investors can rely. PEGAS-DS a.s. was granted a package of incentives based on the Memorandum of Understanding signed on June 29, 1999. The investment incentives for PEGAS-DS a.s. consist of:

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

The total amount of the incentives granted to PEGAS-DS a.s. cannot exceed 50% of the expended amount, i.e. currently, approximately CZK 806.0 million. PEGAS-DS a.s. started making use of the incentives in fiscal year 2001 and, as a result, its corporate tax relief incentive will expire in 2010.

### *PEGAS — NT a.s.*

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

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

The total amount of the incentives cannot exceed 45% of the investment, which is currently equal to CZK 375.0 million; and in any case cannot exceed CZK 509.9 million. PEGAS-NT a.s. started making use of the incentives in fiscal year 2005.

*PEGAS — NW a.s.*

PEGAS-NW a.s. obtained its investment incentives based on the decision of the Czech government on June 10, 2005. The incentives consist of corporate income tax relief for up to 10 years. The tax relief may not exceed 48% of the invested amount (equal to CZK 1.075 million), and in any case cannot exceed CZK 573.6 million. PEGAS-NW a.s. is planning to start making use of this incentive in 2008.

Companies which have been granted investment incentives in the Czech Republic are generally subjected to various audits conducted by state authorities including, but not limited to, tax inspections, more often than businesses which do not have such incentives. There have already been various inspections at our subsidiaries performed by relevant state authorities which have audited their compliance with the investment incentives law. No material errors have come to our attention.

### **Information Technology**

We have run SAP since 1996 and we are very active in its continuous improvement. In 2000, the electronic document management module was introduced and since 2001 has also included an APO module (Advanced Planner & Optimiser) which enables us to incorporate the production optimisation process. Our SAP was last upgraded in 2004 to the SAP R/3 version 4.7. The next upgrade is scheduled for 2009, when the current product support expires.

We have external connections for data exchange with our partners (currently our bank and one of our key suppliers) and between our premises. Many of our employees have access to email on over 100 local PC stations. The security of the information system is treated with high priority and is ensured on several levels, including on-site and off-site data back-up, firewalls, antivirus functions and other means.

### **Management Information System**

All of our functions are fully integrated within our SAP system and provide the basis for a majority of key business decisions. We have developed a management information system that enables daily and monthly reporting of both operational and financial results, ensuring swift management action when necessary. In addition to production statistics, the reporting pack includes reports on variances from the plan, including various parameters pertinent to employee bonuses. In addition to the regular reporting scheme, there is a system of regular meetings. Management meetings take place weekly. The key strategic topics and activity summaries are discussed at the joint meeting of management and the Board of Directors on a monthly basis. There is also a programme of regular topical middle management presentations, where specific programs and tasks are reviewed and discussed.

### **Significant Changes**

No significant changes in the financial or trading position of the Group have occurred since June 30, 2006.

## INDUSTRY OVERVIEW

### Overview of the Nonwoven Market

The global nonwoven market has grown by 7.41% CAGR since 1994 and is valued at €12.45 billion (4.43 million tonnes of production) at the end of 2005. The market is expected to continue this growth path as technological advances increase the material's application range and emerging markets continue to grow. The global nonwoven industry body, INDA, expects a 7.3% CAGR for the 2005-09 period.

Transport costs for nonwoven products are significant, and as a result, we believe that we are most competitive when supplying customers within our core geographic market, which we define as Europe (including Western Europe, Central and Eastern Europe and Russia). This market reached 1.4 million tonnes of production or €4.6 billion of value and represented approximately 32% of the global nonwoven market.

Nonwoven materials are used in a wide range of applications, including:

- Disposable hygiene (baby diapers, feminine hygiene, adult incontinence products, dry and wet wipes, cosmetic pads)
- Medical (caps, gowns, masks, heat packs, incubator mattresses)
- Home (wipes, mops, vacuum cleaner bags, washcloths, kitchen and fan filters, tea and coffee bags)
- Leisure and travel (sleeping bags, tents, CD sleeves, sandwich packaging, surf boards, airline headrests, pillowcases)
- Clothing (interlinings, clothing insulation and protection, handbag components, shoe components, fire protection suits)
- Agriculture (mulching textiles, crop coverings)
- Automotive (boot liners, heat shields, oil filters, cabin air filters, airbags, decorative fabrics, insulation materials)
- Construction (wall linings and underroof applications)
- Furniture (linings)

Our core product market is the European personal hygiene sector, which was valued at €1.38 billion per annum in 2005 and which represented approximately 33% in tonnage of the total European nonwoven market at year-end 2005. This sector grew at a CAGR of 6% from 2002 to 2005 and consists of three major product groups: disposable baby diapers (which in 2005 accounted for approximately 70% of the market by value), adult incontinence products (20%) and feminine hygiene (10%).

We focus on spunmelt nonwoven materials for the European personal hygiene sector, where demand has increased rapidly from the combination of increasing usage of spunmelt nonwovens in personal hygiene products, the substitution effect from carded to spunmelt technology, and rising hygiene product demand in Central and Eastern Europe.

### *Nonwoven web formation methods*

Nonwoven manufacture starts by the arrangement of fibres in a sheet or web. The fibres can be filaments extruded from polymer granules, or staple fibres packed in bales. There are three basic techniques used to form a web: (i) spunlaid/spunbond method, (ii) drylaid method and (iii) wetlaid method. In the spunlaid/spunbond method, polymer granules are melted and extruded through spinnarets. The continuous filaments are cooled and deposited onto a conveyor to form a uniform web. With the drylaid method, there are two ways of producing a web: carding and airlaying. Carding is a mechanical process that starts with the opening of bales of fibres which are blended and conveyed to the next stage by air transport. They are then combed into a web by a carding machine, which is a rotating drum or series of drums covered in fine wires or teeth. In airlaying, the fibres are fed into an air stream and from there to a moving belt or perforated drum, where they form a randomly oriented web. In the wetlaid method, a dilute slurry of water and fibres is deposited on a moving wire screen and drained to form a web. The web is further dewatered, consolidated, by pressing between rollers, and dried. Impregnation with binders is often included in a later stage of the process. There are also other techniques of web formation, such as meltblown, where low viscosity polymers are extruded into a high velocity airstream on leaving the spinnaret. This scatters the melt, solidifies it and breaks it up into a fibrous web.

### ***Increasing usage of spunmelt nonwovens in personal hygiene products***

Spunmelt nonwovens are used increasingly in the manufacture of personal hygiene products although, initially, their inherent strength, low cost and fibrous texture meant the material was well-suited for the agriculture and home product markets. However, lower production costs, greater strength for equivalent basis weights, and technological improvements (such as the development of softer-texture PP-based nonwovens and the development of more advanced BiCo materials) have increasingly broadened spunmelt applications.

### ***Substitution effect from carded to spunmelt technology***

The nonwoven market is segmented into different process technologies which have historically focused on specific industries, based on their attributes. For example, carded nonwovens can be customised to combine different material fibres in multiple layers. This flexibility has been attractive to a number of industries, from automotive to hygiene. However, the market has shifted from carded nonwovens, because they are increasingly expensive due to the higher weight per square meter required for equivalent mechanical strength. In addition, technologically advanced processes have simplified and quickened the production of spunmelt nonwovens.

The table below reflects historical and forecasted growth in spunmelt as compared with carded hygiene nonwoven production in Europe, due to the substitution effect as well as new applications for spunmelt nonwovens:

<u>Volume</u>	<u>2004</u>	<u>2005</u>	<u>2006F</u>	<u>2007F</u>	<u>2008F</u>	<u>2009F</u>	<u>CAGR %</u> <u>2004-2009E</u>
Carded (excluding shift) . . . . .	98	98	86	79	72	65	(7.9)%
Spunmelt (excluding shift from carded) . . . . .	227	236	246	255	261	270	3.5%
Shift from carded . . . . .	—	12	24	38	52	67	n/a
Total spunmelt . . . . .	227	248	270	292	313	337	8.2%
Total carded and spunmelt . . . . .	325	346	356	371	385	402	4.3%

Source: L.E.K.

The substitution has largely taken place already and leading hygiene product manufacturers have mostly adapted to the new technology. However, the transition is still continuing with certain of the small and medium size hygiene product manufacturers. We believe that, during the period from 2004 to 2009, the demand for spunmelt material in the personal hygiene market is expected to increase by 8.2% on a CAGR basis, while carded capacity is expected to shrink by 7.9% on a CAGR basis over the same period.

As the carded-to-spunmelt substitution effect slows and polypropylene prices rise, the market focus is increasingly turning to reducing input costs through manufacturing lighter nonwovens. Our modern production machinery is capable of manufacturing light-weight textiles which creates additional cost benefits for our customers.

### ***Rising hygiene product demand in Central and Eastern Europe***

Demand for our nonwoven output for the hygiene market is non-cyclical and not seasonal. Disposable diapers and feminine hygiene products are basic needs which are gradually influenced by macroeconomic factors, such as birth rates, disposable income and economic development. Central and Eastern Europe and Russia have growing birth rates and increasing levels of disposable income, which results in generally high growth in the personal hygiene market. By comparison, Western Europe has constant birth rates and already high disposable income. Consequently, sales growth in baby diapers and feminine hygiene products is low. The demand for adult incontinence products is expected to increase in Europe owing to the aging of the population, increasing life expectancy and increasing acceptance of incontinence products. This increase in acceptance is partially due to increasingly lighter and softer nonwovens available for the manufacture of adult diapers.

The European market leaders in the area of personal hygiene (i.e. the customers of nonwoven manufacturers) are Procter & Gamble, SCA (Svenska Cellulosa), Kimberly-Clark, Hartmann, Ontex and Johnson & Johnson. In addition, there are several medium to small size producers which play a significant role in their local markets. The

personal hygiene market is highly consolidated, where the market leader has a share close to 40% and the top five players constitute approximately 75% of total sales in the market.

### European baby care market

<u>Company</u>	<u>Market share (in terms of sales)</u>
Procter & Gamble .....	48.5%
Kimberly-Clark .....	15%
SCA .....	14.5%
Ontex .....	9.5%
Others .....	12.5%

### European feminine hygiene market

<u>Company</u>	<u>Market share (in terms of sales)</u>
Procter & Gamble .....	48%
Johnson & Johnson .....	15%
Ontex .....	10%
SCA .....	8%
TZMO .....	4%
Kimberly-Clark .....	3%
Others .....	12%

### European adult care market

<u>Company</u>	<u>Market share (in terms of sales)</u>
SCA .....	40%
Hartmann .....	15%
Ontex .....	8%
Paperback .....	5%
Indas .....	4%
Artsana .....	3%
Abena .....	3%
Ausonia .....	3%
Fater .....	3%
Tyco .....	3%
TZMO .....	2%
Others .....	11%

### *Competition*

The spunmelt nonwoven market is increasingly competitive. The significant increase in spunmelt installed capacity since 2000 was driven by increased demand and has seen a number of key competitors emerge. Our most direct competitors are BBA Fiberweb, Fibertex, Tesalca, Union, Gülsan, Dounor and Avgol. BBA Fiberweb is a British company with production facilities in Germany, Italy, France, Sweden, USA, Mexico, Thailand. It is the leading global spunmelt producer with a European market share of 18% (based on installed capacity).

The following table illustrates our main competitors and their estimated gross capacity levels of spunmelt PP- and PP/PE-based nonwovens in Europe in 2005.

<u>Producer</u>	<u>Country</u>	<u>Annual Capacity (<sup>'000 tonnes</sup>)</u>	<u>Share</u>
BBA Group .....	United Kingdom	92.5	18%
<b>PEGAS</b> .....	<b>Czech Republic</b>	<b>58.1</b>	<b>11%</b>
Tesalca/Texnovo .....	Spain	46.0	9%
Avgol .....	Israel	34.0	7%
Union .....	Italy	32.0	6%
Fibertex .....	Denmark	29.0	6%
Gülsan .....	Turkey	29.0	6%
Radici .....	Italy	26.0	5%
Dounor .....	France	22.5	4%
Other .....		144.8	28%
<b>Total</b> .....		<b>513.9</b>	<b>100%</b>

Source: Company

In 2005, we ranked second in Europe in terms of spunmelt PP- and PP/PE-based production capacity, with an estimated 11% market share in terms of installed capacity. In our core market of spunmelt hygiene nonwovens destined for European hygiene manufacturers, we have increased our market share from 15% to 19% (in terms of volume) over the period 2001 to 2005, growing faster than the overall market.

## OUR MANAGEMENT AND CORPORATE GOVERNANCE

### Powers, Composition and Functioning of the Board of Directors

The Company is administered and managed by a board of directors (the “Board of Directors”). The Board of Directors is vested with the broadest powers to perform all acts of administration and disposition in the Company’s interest. All powers not expressly reserved by the Luxembourg act dated August 10, 1915 on commercial companies, as amended (the “Companies Act 1915”) or by the articles of incorporation of the Company (the “Articles of Incorporation”) to the general meeting of shareholders of the Company (the “General Meeting of Shareholders”) fall within the competence of the Board of Directors.

The Board of Directors elects a chairman from among its members, who will preside at all meetings of the Board of Directors.

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

### Members of the Board of Directors

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

#### *Board of Directors*

<u>Name</u>	<u>Age</u>	<u>Position/Function</u>	<u>Business Address</u>
Miloš Bogdan . . . . .	43	Executive director	Přímětická 86, 669 04, Znojmo, Czech Republic
Aleš Gerža . . . . .	33	Executive director	Přímětická 86, 669 04, Znojmo, Czech Republic
František Klaška . . . . .	49	Executive director	Přímětická 86, 669 04, Znojmo, Czech Republic
František Řezáč . . . . .	32	Executive director	Přímětická 86, 669 04, Znojmo, Czech Republic
Henry Gregson . . . . .	48	Non-executive director	25 Park Lane, London W1K 1RA, United Kingdom
John Halsted . . . . .	42	Non-executive director	25 Park Lane, London W1K 1RA, United Kingdom
Bernhard Lipinski . . . . .	60	Non-executive director	Steinertsweg 44b, 64753, Brombachtal, Germany
David Ring . . . . .	44	Non-executive director	Western Avenue, Western Docks, Southampton SO15 0HH, United Kingdom

Each of the directors indicated above was elected or appointed in November 2006, and their terms expire in November 2009 for the executive directors and November 2008 for the non-executive directors.

Brief biographical details concerning the Company’s directors are set forth below:

**Miloš Bogdan**, aged 43, was appointed an executive director of the Company in November 2006. Mr Bogdan is the Chief Executive Officer and a director of PEGAS NONWOVENS s.r.o. and each of its three subsidiaries. Mr. Bogdan has been with the Group for 11 years, starting as a plant director in 1995. Before joining the PEGAS Group, he worked as the Production Director in UNEX, a specialised engineering company. He was named Chief Executive Officer of PEGAS a.s. in 2000. Mr. Bogdan is a graduate of the Czech Technical University and is fluent in English.

**Aleš Gerža**, aged 33, was appointed an executive director of the Company in November 2006. Mr Gerža is the Chief Financial Officer of PEGAS NONWOVENS s.r.o. and each of its three subsidiaries. Mr Gerža joined the Group in 1999, after having worked for 5 years in Danzas, a freight forwarding company. He was promoted to his current position in 2000. Mr. Gerža is a graduate of the Prague School of Economics and is fluent in English.

**František Klaška**, aged 49, was appointed an executive director of the Company in November 2006. Mr Klaška has been with the Group since 1991, having previously worked for 5 years in Zbrojovka Brno, a diversified



engineering company. He was promoted to his current position of Technical and Development Director of PEGAS NONWOVENS s.r.o. in 2001. Mr. Klačka is a graduate of the Czech Technical University and is fluent in German and English.

**František Řezáč**, aged 32, was appointed an executive director of the Company in November 2006. Mr. Řezáč joined the Group in 1996. He was promoted to his current position of Commercial Director of PEGAS NONWOVENS s.r.o. in 2004, after having worked as the Group's HR Director and Legal Counsel. Mr. Řezáč is a graduate of the Law Faculty of Masaryk University Brno and is fluent in English.

**Henry Gregson**, aged 48, was appointed a non-executive director of the Company in November 2006. Mr Gregson was appointed a director of PEGAS NONWOVENS s.r.o. in December 2005. Mr Gregson is currently a partner of Pamplona Capital Management, LLP which advises the General Partner of the Selling Shareholder. Prior to helping found Pamplona Capital Management, LLP, Mr Gregson was a director at Royal Bank Equity Finance and before that a partner at Phildrew Ventures. Mr Gregson is currently a non-executive director of Liqvia Holdings Oy and ADR Haanpaa Oy. Mr Gregson holds a Bachelor of Science in Civil Engineering from the University of Bristol and an MBA from Harvard Business School.

**John Halsted**, aged 42, was appointed as a non-executive director of the Company in November 2006. Mr Halsted is the Managing Partner of Pamplona Capital Partners, LLP which he co-founded in September 2004. Prior to joining Pamplona, he served as a Senior Vice President of Beacon Capital Partners, a real estate investment firm with operations in the United States and Europe. Previously he was a Vice President of the Harvard Private Equity Group, the private equity investment arm of the Harvard University endowment. Mr Halsted holds a Bachelor of Science in Economics from the University of California at Berkeley and an MBA from Harvard Business School.

**Bernhard W. Lipinski**, aged 60, was appointed as a non-executive director of the Company in November 2006 and joined PEGAS NONWOVENS s.r.o. as an advisor in January 2006. He spent 33 years with BP Chemicals in Dusseldorf, Geneva, Antwerp and London. He managed BP Amoco's Film & Nonwoven business focusing on hygiene and relevant industrial markets until its divesture to RKW in 2002. He served as non-executive director to RKW, Germany, and Verdugt, the Netherlands. He is fluent in German, English and French.

**David Ring**, aged 44, was appointed as a non-executive director of the Company in November 2006. Mr Ring is currently Chief Executive of the A&P Group, the UK's leading shiprepair and conversion company. Prior to joining A&P in 1999, Mr Ring held senior positions in the aerospace and automotive industry. Mr Ring holds a BA in Economics from the University of Lancaster.

### **Key Management**

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

**Rostislav Vrbácký**, aged 43, Production Director of PEGAS NONWOVENS s.r.o. Mr. Vrbácký has been with the Group since 1991, having previously worked for five years in Zbrojovka Brno, a diversified engineering company. He was promoted to his current position in 2001. Mr. Vrbácký is a graduate of the Czech Technical University and is fluent in German and Russian.

**Lukáš Trávníček**, aged 33, HR Director and Legal Counsel of PEGAS NONWOVENS s.r.o. Mr. Trávníček joined the Group in his current position in 2004, having previously worked for 4 years in Price-waterhouseCoopers and Landwell. Mr. Trávníček is a graduate of the Law faculty at Západočeská University and is fluent in English.

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

<u>Name</u>	<u>Positions held</u>
Henry Gregson .....	<p><b>Former Directorships:</b>            Royal Bank Investments Limited            Royal Bank Development Limited            RBEF Limited            RB Drummond Investments Limited            RB Bishopsgate Investments Limited            Darchem Holdings Limited            Doncasters Limited            Britax Limited            Orion Group Limited            Rhodium Investments 1 Limited            Rhodium Investments 2 Limited            Rhodium Investments 3 Limited            Rhodium Investments 4 Limited</p> <p><b>Current Directorships:</b>            Liqvia Holdings Oy            ADR Haanpaa Oy</p>
John Halsted .....	<p><b>Former Directorships:</b>            Cypress Communications Holdings Inc.            Co Space Inc.            Blinds To Go, Inc.</p> <p><b>Current Directorships:</b>            Pegas Nonwovens s.r.o.            Pegas NW a.s.            Pegas NT a.s.            Pegas DS a.s.</p>
Bernhard Lipinski .....	<p><b>Former directorships:</b>            Managing director of BP Chemicals PlasTec GmbH            Managing director of Amoco Chemical Deutschland GmbH            Non executive director of RKW Gronau GmbH            Non-executive director of Verdugt b.v.</p> <p><b>Current Positions:</b>            Managing director of ProTeam Ltd.            Board member of the Rotary Club Erbach-Michelstadt, Germany            Board member of the Unterstuetzungsverein RC Erbach-Michelstadt e. V.            Company Secretary of My Event Ltd.</p>
David Ring .....	<p><b>Current Directorships:</b>            A&amp;P Group Limited            A&amp;P Drydocks Limited            A&amp;P Ports &amp; Properties Limited            Mandaco 482 Limited            A&amp;P Property Limited            Mandaco 483 Limited            A&amp;P Tyne Properties Limited</p>

#### **Further Information on the Board of Directors**

At the date of this Prospectus, no member of our Board of Directors has, in the previous five years, (i) been convicted of any offences relating to fraud; (ii) held an executive position at any company at the time of or immediately preceding any bankruptcy, receivership or liquidation; (iii) been subject to any official public sanction by any statutory or regulatory authority (including any designated professional body), or (iv) been the subject of any official public incrimination or been disqualified by a court from acting as a member of the administrator, management or supervisory bodies of a company or from acting in the management or conduct of

the affairs of any company. Except as disclosed in this Prospectus, no member of the Board of Directors has a conflict of interest (actual or potential) between his private interests and his duties to the Company.

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

### ***Remuneration and terms of service contracts***

The general policy with regard to the remuneration of members of the Board of Directors shall be adopted by the General Meeting of Shareholders. The current remuneration policy will be adopted by the General Meeting of Shareholders not later than at the first meeting after the listing of the Shares on the PSE and the WSE.

The objective of our remuneration policy is to provide a compensation programme that allows us to attract, retain and motivate members of the Board of Directors who have the character traits, skills and background to successfully lead and manage the Company.

As the Company has only recently been established and each member of the Board of Directors has been appointed in 2006, the Company has not paid any remuneration to members of the Board of Directors.

The aggregate remuneration, including salary and benefits, any contingent or deferred compensation and other benefits for the benefit the members of the Board of Directors paid by the Company and its subsidiaries for services in all capacities to the Company and its subsidiaries in 2005 was zero.

Each of the Company's executive directors named above shall provide his services pursuant to a service contract. Pursuant to these contracts, which are currently being finalised and, which will have a term of three years, our executive directors shall be bound by certain non-compete provisions. It is envisaged that, upon the Company's termination of an executive director's service contract, such executive director shall generally be entitled to the full remaining payments that would be due under the contract if no termination had taken place. However, executive directors whose contracts are terminated under circumstances involving certain kinds of misconduct or breach of non-compete provisions ("bad leavers") shall not be entitled to any further payments after termination.

The Company's non-executive directors are expected to provide their services pursuant to two-year service contracts, which are also currently being finalised. Upon the Company's termination of a non-executive director's service contract, it is envisaged that such non-executive director shall be generally entitled to the full remaining payments that would be due under the contract if no termination had taken place. However, non-executive directors who are bad leavers shall not be entitled to any further payments after termination. Non-executive directors shall be entitled to receive remuneration for their services in the amount of €60,000 per annum.

The key management members listed above shall be subject to the terms of service contracts similar to those for executive directors of the Company. Each of the key members of management is also entitled to a company car and mobile telephone for business or personal use.

### ***Share option plan***

Each of the Company's executive and non-executive directors (with the exception of Messrs Gregson and Halsted), as well as Messrs Vrbáček and Trávníček, may participate in a share option scheme, pursuant to which each such person is granted options to acquire Shares. In the aggregate, all persons participating in the option scheme are entitled to acquire 2.50% of the Company's share capital as at the date of this Prospectus. The beneficiaries of the plan may purchase their options for an aggregate price of €37,500, which may then be exercised at a price per option equal to the Offer Price. The options for each participant vest over a period of four years, with 25% vesting each year. Options may be exercised from the first anniversary after the Offering. Bad leavers will forfeit their vested and unvested options. The specific terms and conditions of the share option plan are currently being finalised.

The Company and the operating companies of the Group are currently not intending to create and have not created to the date of the Prospectus a share option plan for the benefit of their employees, other than those discussed above.

As currently contemplated, the share option plan shall provide that bad leavers forfeit all of their Shares not sold in the Offering, and any options under the share option scheme.

## **Corporate Governance**

### ***Luxembourg***

In April 2006, the Luxembourg Stock Exchange (the “LxSE”) issued the “Ten principles of corporate governance of the Luxembourg stock exchange” (the “Luxembourg Corporate Governance Code”). The Luxembourg Corporate Governance Code sets forth ten principles regarding in particular the fiduciary duties of the directors, the creation of committees, publication of information in the annual management report and the rights of the shareholders. Each principle is specified by recommendations. The LxSE is responsible for monitoring the application of the principles set out in Luxembourg Corporate Governance Code.

The Luxembourg Corporate Governance Code is applicable to companies incorporated under the laws of Luxembourg whose shares are admitted to trading and listed (i) on the LxSE or (ii) on the LxSE and on one (or more) foreign regulated markets. The Luxembourg Corporate Governance Code is not applicable to Luxembourg companies that are not listed on the LxSE. Therefore, the Company is not required to comply with the rules set out in the Luxembourg Corporate Governance Code. However, according to the Luxembourg Corporate Governance Code, the principles set forth in such code could also serve as a reference framework for Luxembourg companies listed on a foreign regulated market.

The Company does not intend to comply with the provisions of the Luxembourg Corporate Governance Code, since it is not required to do so. Instead, the Company has decided to observe the majority of the WSE Corporate Governance Rules.

### ***Czech Republic***

In July 2004, the Czech Securities Commission (the former Czech regulator) issued a codex of corporate governance based on the OECD principles. The Company is not obliged to comply with this codex by the CNB or the PSE. The CNB only recommends that the a declaration about the compliance with the codex is included in the annual report of the Company. We do not intend to comply with the rules set out in the codex.

### ***Poland***

Pursuant to the Warsaw Stock Exchange By-laws, and in connection with the listing of our 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 stating the reasons for the non-compliance.

The Company has decided to observe the majority of the WSE Corporate Governance Rules. However, certain principles will apply to the Company only to the extent allowed by Luxembourg corporate law and subject to certain reservations stemming from the Company’s corporate structure and especially the single board structure as opposed to the two-tier system that WSE Corporate Governance Rules assume. Therefore, we comply partially or are unable to comply with the following Rules: 9, 10, 14, 18, 20, 22, 25-28, 30, 39 and 43. In cases where we are unable to comply with a certain principle directly, we will endeavour to create procedures maintaining the spirit of such principle.

Detailed information regarding non-compliance, as well as required explanations, will be included in the full text of the Company’s declaration regarding the compliance with Corporate Governance Rules of the WSE which will be filed with the WSE at the time of our application for listing and will be available on our website ([www.pegas.lu](http://www.pegas.lu)).

## PRINCIPAL SHAREHOLDERS

As at the date of this Prospectus, 97.5% of the Company's share capital is held by the Selling Shareholder.

The Selling Shareholder is our largest shareholder, and is advised by Pamplona Capital Management, LLP, which is based in London.

The table below indicates our shareholding structure as at the date of this Prospectus, and also assuming the full subscription and sale of the Offer Shares, as well as the effects of the full exercise of the Over-allotment Option.

<u>Shareholder</u>	<u>As at the date of this Prospectus</u>	<u>Assuming full subscription and sale of the Offer Shares</u>	<u>Assuming full exercise of the Over-allotment Option</u>
Pamplona Capital Partners I LP . . . . .	97.50%(*)	49.36%	42.05%
Management . . . . .	2.50%	1.97%	1.97%
Market . . . . .	0.00%	48.68%	55.98%
<u>Total . . . . .</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(\*) At the time of the acquisition of PEGAS a.s. by the Company, on December 14, 2005, an agreement was entered into amongst the Selling Shareholder, the Company and EMF Luxembourg SA which granted EMF Luxembourg SA a right to subscribe for newly issued shares in the Company for cash at their nominal value representing in total 3.95% of the fully diluted share capital of the Company. This agreement was known as the Mezzanine Share Warrant Instrument. A Supplemental Agreement is expected to be entered into by the parties as well as NFF LP Inc., an affiliate of EMF Luxembourg SA, whereby this right to subscribe will be deemed to be exercised upon (i) the Selling Shareholder paying to NFF LP Inc., as agreed with EMF Luxembourg S.A., an amount equal to the Offer Price multiplied by the total number of Shares to which EMF Luxembourg S.A. is entitled multiplied by the same percentage as the Selling Shareholder is selling of its shares in the Offering (excluding the effect of the Over-allotment Option), less the aggregate nominal value of such number of Shares, and (ii) NFF LP Inc. purchasing from the Selling Shareholder a number of Shares (at a price equal to the nominal value of such Shares) equal to the difference between the number of Shares EMF Luxembourg SA would have received had it exercised the warrants in full, less the number of Shares corresponding to the proceeds it receives from the Selling Shareholder in (i) above. This number is currently expected not to exceed 200,000 Shares. You should read "*Business — Financing Agreements*". Assuming the full exercise of the Over-allotment Option, NFF LP Inc. would hold up to 2.1% of our Shares. You should read "*The Offering and Plan of Distribution*".

The voting rights of the Company's shareholders listed above with respect to their Shares do not differ in any respect from the rights attaching to any other Shares, including the Offer Shares.

## RELATED PARTY TRANSACTIONS

In the ordinary course of business we enter into transactions with related parties. Related party transactions include transactions between our principal operating subsidiary PEGAS NONWOVENS s.r.o. and its wholly-owned subsidiaries. All of our related party transactions are carried out on arms' length terms. Our Company and subsidiaries also entered into several intra-Group loans in connection with the acquisition of PEGAS a.s. You should read "*Business — Financing Agreements*".

In November 2005, a former shareholder of the Company purchased a non-core asset previously owned by PEGAS a.s.

As part of the acquisition of PEGAS a.s., ELK INVESTMENTS s.r.o. (now PEGAS NONWOVENS s.r.o.) agreed to pay to Pamplona Capital Management, LLP, the adviser of the Selling Shareholder, a success-based transaction fee of €1.9 million. In addition, ELK INVESTMENTS s.r.o. agreed to pay to the Pamplona Capital Management, LLP an annual monitoring/advisory fee of €250 thousand, to be paid quarterly. To date, Pamplona Capital Management, LLP has received four quarterly payments in respect of this monitoring/advisory fee. The Company will pay advisory fees of €1.25 million to Pamplona Capital Management, LLP in connection with the Offering, which shall be deducted from the proceeds of the subscription of the New Shares. Following the Offering, Pamplona Capital Management, LLP will cease receive the monitoring fees described above.

In November 2006, the six members of the key management of PEGAS NONWOVENS s.r.o. transferred to the Company (i) their shares in CEE Enterprise a.s. (corresponding to 2.5% of the share capital of CEE Enterprise a.s.) and (ii) the full balance of the interest free loans they made to CEE Enterprise a.s. (with the total principal of approximately €226,900). In relation to the shares, the Company agreed to pay the total purchase price of approximately €253,220 of which the total of €250,000 remains outstanding and will be paid in cash before January 31, 2007. The balance of the purchase price for the shares in CEE Enterprise a.s. amounting to €3,220, and the entire outstanding balance of the loans to CEE Enterprise, a.s., were converted in November 2006 into the management's total 2.5% shareholding in the Company.

None of the Company's directors has any interest in a transaction entered into by us which is or was unusual in its nature or conditions as it relates to us as a whole and which was effected during the current or immediately preceding financial year or was effected during an earlier financial year and remains in any respect outstanding or unperformed.

## **DIVIDEND POLICY**

Our general dividend policy following the Offering is to pay dividends at levels consistent with our growth and development plans, while maintaining a reasonable level of liquidity. Pursuant to this policy, we do not expect to pay any dividends in the medium term.

In accordance with the articles of incorporation of the Company, every year five per cent. of the net profit of the Company will be set aside in order to build up the legal reserve. This deduction ceases to be compulsory when the legal reserve amounts to one-tenth of our issued share capital. The remaining balance of the net profit will be at the disposal of the General Meeting of Shareholders. Dividends, when payable, will be distributed at the time and place fixed by the Board of Directors within the limits of the decision of the General Meeting of Shareholders. Furthermore, interim dividends may be paid by the Board of Directors within the conditions provided for by the Companies Act 1915. The General Meeting of Shareholders may decide to assign profits and distributable reserves to repayment of the nominal amount of the Shares without reducing the corporate capital.

Our dividend policy will, however, be reviewed from time to time and payment of any future dividends will be effectively at the discretion of our Board of Directors and the General Meeting of our Shareholders after taking into account various factors, including our business prospects, future earnings, cash requirements, financial position, expansion plans and the requirements of Luxembourg (as described above) and/or Czech law.

In addition to the limitations described above, the terms of our financing agreements also restrict our ability to pay dividends, requiring the Company to meet or exceed certain financial thresholds prior to paying dividends.

The Company was incorporated on November 18, 2005 and has not paid any dividend since its incorporation.

## DESCRIPTION OF OUR SHARES

Set forth below is the information concerning our share capital and related summary information concerning the material provisions of our Articles of Incorporation and applicable Luxembourg law. Because it is a summary, it does not contain all of the information in the Articles of Incorporation. See also “*Management and Corporate Governance*”.

As of the date of this Prospectus, our Board of Directors may issue new Shares until the amount of the issued share capital of the Company reaches the threshold of €999,999.24, divided into 806,451 Shares, each with a nominal value of €1.24. Our issued share capital as of the date of this Prospectus is €9,200,056, divided into 7,419,400 Shares, each with a nominal value of €1.24. All of the issued Shares are paid up in full. All the Shares are in registered form. In connection with the Offering, our General Meeting of Shareholders will issue up to 2,020,000 Shares, under exclusion of pre-emptive rights of the existing shareholders (as contemplated by article 32-3 (5) of the Companies Act 1915).

### Voting Rights

At the General Meeting of Shareholders, each Share confers the right to cast one vote. Each shareholder is entitled to attend the General Meeting of Shareholders either in person or through a proxy attending the meeting in person, and to address such meeting and exercise voting rights, in accordance with our Articles of Incorporation.

The annual General Meeting of Shareholders shall be held each year on June 15, at 11 a.m. (Central European Time). General Meetings of Shareholders may be convened by the Board of Directors. Shareholders that represent alone or in aggregate at least 10% of our issued share capital may, pursuant to the Companies Act 1915, request the Board of Directors to convene a General Meeting of Shareholders, the request being made in writing with an indication of the agenda. The Board of Directors must then convene the General Meeting of Shareholders within a period of one month starting on the date of receipt of the written request from the Shareholders. An extraordinary General Meeting of Shareholders can be held whenever the Board of Directors deems it necessary. The Board of Directors shall determine the items on the agenda of such meeting.

At the annual General Meeting of Shareholders, the shareholders shall consider the following matters:

- a written annual report prepared by the Board of Directors;
- an adoption of the annual accounts;
- the Company’s reserves and dividend policy and any proposal to pay dividends;
- in connection with the adoption of the annual report, a formal release of the Board of Directors from legal liability under Luxembourg law for their business role over the previous year;
- an appointment and dismissal of the Board of Directors’ members; and
- any proposals placed on the agenda by the Board of Directors.

Unless otherwise required by the Articles of Incorporation or Luxembourg law, all resolutions of the General Meeting of Shareholders shall in principle be adopted by an absolute majority of votes cast, no quorum being required.

However, a quorum of half of the nominal share capital of the Company and a supermajority of two-thirds of votes cast are required in respect of certain matters, some of them being listed below. If the quorum requirement of half of the nominal share capital of the Company is not met at the first General Meeting of Shareholders, then the shareholders may be re-convened to a second General Meeting of Shareholders. No quorum is required in respect of such meeting and the resolutions are adopted by a supermajority of two-thirds of the votes cast. The matters reserved to such General Meeting of Shareholders are, amongst others, the following:

- the limitation or waiver of pre-emptive rights or the granting of powers to the Board of Directors to limit or waive the pre-emptive rights of the shareholders;
- the increase or reduction of the Company’s share capital; and
- the voluntary dissolution of the Company.

Notices for every General Meeting of Shareholders shall be published twice, with a minimal interval of eight days, the last notice having to be published eight days before the General Meeting of Shareholders in a Luxembourg national daily newspaper and the Luxembourg official gazette. The convening notices shall also be



sent to the registered shareholders of the Company by registered mail at least eight days before the General Meeting of Shareholders. In addition, the shareholders' meetings shall be called in the manner used for communicating with investors on the PSE and WSE no later than 7 days prior to the date of the General Meeting of Shareholders. Furthermore, information on the convening and the date of the General Meeting of Shareholders will be available on our website at [www.pegas.lu](http://www.pegas.lu). See also "*Certain Luxembourg, Czech and Polish Securities Markets Regulations and Procedures — Dividend payment and voting procedures for our shareholders keeping their Shares with NDS and UNIVYC members*" below.

A shareholder shall have the right to vote Shares that are subject to a right of usufruct or a right of pledge. The usufructuary or the pledgee shall, however, have the right to vote Shares if so determined upon the establishment of the usufruct or pledge.

All shares in the Company carry the same voting rights.

### **Dividends and Other Distributions**

In accordance with the articles of incorporation of the Company, every year five (5) *per cent.* of the net profit of the Company will be set aside in order to build up the legal reserve. This deduction ceases to be compulsory when the legal reserve amounts to one tenth of the issued share capital. The remaining balance of the net profit will be at the disposal of the General Meeting of Shareholders. Dividends, when payable, will be distributed at the time and place fixed by the Board of Directors within the limits of the decision of the General Meeting of Shareholders. Furthermore, interim dividends may be paid by the Board of Directors within the conditions provided for by the Companies Act 1915. The General Meeting of Shareholders may decide to assign profits and distributable reserves to the reimbursements of the capital without reducing the corporate capital.

Distributions are made to our shareholders *pro rata* to the aggregate amount of Shares held by each shareholder.

Distributions that have not been claimed within ten years as from the date that they have become available shall lapse in favour of the Company. See also "*Dividend Policy*" and "*Certain Luxembourg, Czech and Polish Securities Markets Regulations and Procedures — Dividend payment and voting procedures for our shareholders keeping their Shares with NDS and UNIVYC members*".

### **Specific procedures**

More information about voting procedures and dividend distribution applicable in connection with listing of the Shares on PSE and WSE are included in "*Certain Luxembourg, Czech and Polish Securities Markets Regulations and Procedures — Dividend payment and voting procedures for our shareholders keeping their Shares with NDS and UNIVYC members*" below.

### **Form and Transfer of Shares**

Our Shares are in registered form. More information about transfer of our Shares applicable in connection with listing of the Shares on PSE and WSE are included in "*Certain Luxembourg, Czech and Polish Securities Markets Regulations and Procedures*" below.

A register of Shares will be kept at the registered office of the Company, where it will be available for inspection by any shareholder. Ownership of shares will exclusively be established by an entry in this register.

Where Shares are recorded in the register of shareholders on behalf of one or more persons in the name of a professional depository of securities or any other depository (such systems, professionals or other depositories being referred to hereinafter as "Depositories") or of a sub-depository designated by one or more Depositories, the Company — subject to it having received from the Depository with whom those shares are kept in account an attestation in proper form — will permit those persons to exercise the rights attaching to those shares, including admission to and voting at general meetings, and shall consider those persons to be shareholders. The Board of Directors may determine the formal requirements with which such attestations must comply. Notwithstanding the foregoing, the Company will make payments, by way of dividends or otherwise, in cash, Shares or other assets only into the hands of the Depository or sub-depository recorded in the register or in accordance with their instructions, and that payment shall release the Company.

Certificates confirming that an entry has been made in the register of shareholders will be provided to the shareholders. Without prejudice to the modalities for the transfer of fungible shares in the case provided for in the paragraph above, the transfer of Shares shall be made by a written declaration of transfer inscribed in the register of shareholders and dated and signed by the transferor and the transferee, or by their agents provided that they can prove they have the necessary powers. Transfers may also be carried out by handing the share certificate in to

the Company endorsed for the benefit of the transferee. The Company may accept any other document, instrument, writing or correspondence as sufficient proof of the transfer.

According to article 40 of the Companies Act 1915, transfers in respect of shares in registered form shall be carried out by means of a declaration of transfer entered into the register, dated and signed by the transferor and the transferee or by their duly authorised representatives, and in accordance with the rules on the assignment of claims laid down in article 1690 of the Luxembourg civil code. The Company may accept and enter in the register a transfer on the basis of correspondence or other documents recording the agreement between the transferor and the transferee.

Articles 39 and 40 of the Companies Act 1915 provide that ownership of registered shares shall be established by an entry in a register of the registered shares, which shall be maintained at the registered office of the Company. The register shall specify (i) the precise designation of each shareholder and the number of shares or fractional shares held by him; (ii) the payments made on the shares; and (iii) transfers and the dates thereof or conversion of the shares into shares in bearer form (as provided for in the Articles of Incorporation).

Certificates representing the Shares in registered form may be issued but they do not constitute conclusive evidence. Title to the Shares in registered form passes solely upon the registration of the transfer into the register of the holders of the Shares.

As provided in article 6.1 of the Articles of Incorporation, the Shares, which are in registered form, may not be converted into shares in bearer form.

### **Issue of Shares and Pre-emptive Rights**

Our Shares may be issued pursuant to a resolution of the General Meeting of Shareholders. The General Meeting of Shareholders may also delegate the authority to issue new Shares to the Board of Directors for a renewable period of five years. The General Meeting of Shareholders, pursuant to its meeting held in Luxembourg on November 18, 2005, authorised the Board of Directors to issue Shares until the amount of the share capital reaches the threshold of €999,999.24 for a definite period until March 1, 2011. As this threshold has been exceeded, the Board of Directors does not have authority to issue new Shares.

Each holder of Shares shall have pre-emptive rights to subscribe for any issue of Shares *pro rata* to the aggregate amount of such holder's existing holding of the Shares. Each holder shall, however, have no pre-emptive right on Shares issued for a non-cash contribution. In addition, each shareholder shall have no pre-emptive right with respect to a person who exercises a previously acquired right to subscribe for Shares.

Pre-emptive rights may be restricted or excluded by a resolution of the General Meeting of Shareholders, or by the Board of Directors if so delegated. This shall apply *mutatis mutandis* to the granting of rights to subscribe for Shares, but shall not be applicable to the issue of Shares to persons exercising a previously granted right to subscribe for Shares.

At present, the Company does not have any plans regarding future issues of shares after the Offering.

### **Repurchase of our Own Shares**

We may acquire fully paid-up Shares for a consideration, subject to certain provisions of the Companies Act 1915 and our Articles of Incorporation, if (i) our shareholders' equity minus the payment required to make the acquisition does not fall below the sum of called-up and paid-up share capital and any statutory reserves and (ii) we and our direct subsidiaries would thereafter not hold Shares with an aggregate nominal value exceeding 10% of the Company's issued share capital.

An acquisition of Shares by the Board of Directors for a consideration should be authorised by the General Meeting of Shareholders. Such authorisation may apply for a maximum period of 18 months and must specify the number of Shares that may be acquired, the manner of this acquisition and the price limits within which the Shares may be acquired. Any Shares held by us, or by our direct or indirect subsidiaries, in our own capital may not be voted or counted for quorum purposes.

In principle, we have no obligation to sell or cancel the Shares held by us in treasury. However, according to the Companies Act 1915, we shall either sell or cancel the Shares that we keep in treasury after three years as from the date of their acquisition if the Shares were acquired under certain circumstances, such as the acquisition of the Shares as a result of a merger or a de-merger.

## **Capital Reduction**

The General Meeting of Shareholders may, subject to Luxembourg law and our Articles of Incorporation, resolve to reduce the issued share capital.

## **Annual Accounts**

Annually the Board of Directors is required to prepare and approve the statutory financial statements, which must be accompanied by an annual report and an auditor's report.

The financial statements, the annual report and the auditor's report must be made available to the shareholders for review at the Company's registered office 15 days before the annual General Meeting of Shareholders. The financial statements shall be adopted by the annual General Meeting of Shareholders.

## **Liquidation Rights**

In the event of our dissolution, we must be liquidated according to applicable Luxembourg law. The balance of our equity remaining after the payment of debts (and the cost of liquidation) shall be distributed to our shareholders *pro rata* to the aggregate amount of Shares held by each shareholder.

## **Luxembourg Mandatory Takeover Bids/Squeeze-out/Sell-out Rules**

The Luxembourg law on public takeovers dated May 19, 2006 (the "Public Takeovers Law") applies to the securities of a Luxembourg company, where all or some of those securities are admitted to trading on a regulated market in one or more Member State of the European Union or the European Economic Area. The term securities refers to the shares and the global depository receipts.

The Public Takeovers Law provides for a mandatory takeover bid procedure. According to the Public Takeover Law, where a natural or legal person, as a result of his/her own acquisition or the acquisition by persons acting in concert with him/her, obtains securities of the target company, which added to the existing holdings of those securities of his/hers and the holdings of those securities of persons acting in concert with him/her, directly or indirectly give him/her 33 $\frac{1}{3}$ % of the voting rights of the target company, such a person is required to make a bid addressed to all the holders of the remaining securities.

The Public Takeovers Law provides for a definition of persons acting in concert. Persons would be deemed to act in concert if they co-operated on the basis of an agreement, express or tacit, aimed at acquiring control of a target company.

No general principle of squeeze-out is set out under Luxembourg law. However, under the Public Takeover Law if any natural or legal person holds a total of at least 95% of a company's share capital carrying voting rights and 95% of such company's voting rights as a result of a public bid regarding the shares of a target company, such person may acquire the remaining shares in the target company by exercising a squeeze-out against the holders of the remaining shares. The price shall take the same form as the consideration offered in the bid or shall be in cash. Cash shall be offered at least as an alternative. Following a voluntary bid, the consideration offered in the bid shall be presumed to be fair where, through acceptance of the bid, the bidder has acquired securities representing not less than 90% of the capital carrying voting rights comprised in the bid. Following a mandatory bid, the consideration offered in the bid is presumed to be fair. The CSSF shall ensure that a fair price is guaranteed. The squeeze-out must be exercised by the bidder no later than three months after the end of the period of acceptance of the bid.

According to the Public Takeover Law, if any natural or legal person, alone or together with persons acting in concert with it, hold(s) a total of at least 90% of a company's share capital carrying voting rights and 90% of such company's voting rights as a result of a public bid regarding the shares of a target company, any shareholder may exercise a sell-out with respect to his/her shares. Such right must be exercised no later than three months after the end of the period of acceptance of the bid. The price shall be determined in the same manner as the one described above in respect of the squeeze-out procedure.

## **Voting at the General Meetings of Shareholders**

For a general description of the provisions of Luxembourg law relating to the invitation to, and participation in shareholders' meetings, please see "*Voting Rights*" above.

According to the Companies Act 1915 and the Articles of Incorporation, in principle, General Meetings of Shareholders shall be held in the place where the Company's registered office is situated, or any other place

within Luxembourg as may be specified in the notices convening the General Meeting of Shareholders. However, under the Articles of Incorporation, (i) the annual General Meeting of Shareholders may be held abroad, if in the judgment of the Board of Directors, exceptional circumstances so require and (ii) a General Meeting of Shareholders which will deal with matters other than the amendments to the Articles of Association may be held abroad if it is specified in the notice convening the General Meeting of Shareholders.

Shareholders may take part in the General Meeting of Shareholders and vote in person, or by a proxy attending the meeting in person. If so specified in the notice calling the General Meeting of Shareholders, any shareholder may participate in any General Meeting of Shareholders by conference call, by videoconference or by other similar means of communication allowing (i) all the persons taking part in the meeting to hear and speak to one another, (ii) all the persons taking part at the meeting to be identified and (iii) an effective participation to the meeting being broadcasted without disruption.

Under the Articles of Incorporation, each shareholder has the right to vote in writing by correspondence. The form of vote sent by the shareholder must indicate (i) the exact reference to the shareholder exercising his right to vote in writing, (ii) the exact reference to the General Meeting of Shareholders convened including the date and the place and the affirmation that the convening notice had been received and taken account of prior to the proceeding of the written vote, (iii) the exact reference to the agenda item as communicated in the notice convening the General Meeting of Shareholders, and (iv) an explicit reference to the resolutions envisaged by the notice and a clear voting statement on whether the proposed resolution shall be accepted or refused; in the case of abstention this must be expressed explicitly. The vote may be received by the Company until 11.59 p.m. of the day prior to the date of the General Meeting of Shareholders.

Shareholders who attend the General Meeting of Shareholders by conference call, by videoconference or by other similar means of communication may vote by remote transmission in accordance with the procedure set forth by the Board of Directors in the notice convening the Shareholders.

No resolution of the General Meeting of Shareholders may be adopted on a matter not included in the agenda, except where the entire share capital is represented at the General Meeting of Shareholders.

Each shareholder may take part in the General Meeting of Shareholders personally or may as well appoint its individual proxy. The shareholders recorded in the Company's share register shall receive at their domicile all the documents relating to the General Meeting of Shareholders and, in particular, the notice of meeting with the agenda, the proposed resolutions together with a justification from the Board of Directors as well as (i) a form that allows them to indicate their intention to attend the General Meeting of Shareholders in person or by proxy and (ii) a form that allows them to vote by correspondence. The shareholders not recorded in the Company's share register must, upon the publication of the notice, contact the financial intermediary holding the shares for their account in order to receive (i) a form that allows them to indicate their intention to attend the General Meeting of Shareholders in person or by proxy and (ii) a form that allows them to vote by correspondence. They can also download from the Company's website all the documents relating to the meeting, together with (i) a form that allows them to indicate their intention to attend the General Meeting of Shareholders in person or by proxy and (ii) a form that allows them to vote by correspondence; said form must be forwarded to the financial intermediary holding the shares for their account. The shareholder may on each occasion both before and in the middle of the General Meeting of Shareholders revoke the authorisation given to the proxy. The Company will bear the costs of the proxy indicated by the Company.

The proxy indicated by the Company will follow the voting instructions of a shareholder as an individual proxy of each shareholder that has granted the authorization to him. The shareholder may also abstain from voting in particular resolutions. Abstentions will be excluded from the vote, but they will count for purposes of determining whether a quorum is present. The proxy may be revoked at any time prior to its exercise by mailing or personal delivery of a revocation notice to the Company's registered office. The proxy as well should receive the revocation notice. A Shareholder may also revoke the voting instruction by voting in person at the General Meeting of Shareholders. In the event that during the General Meeting of Shareholders the content of a draft resolution has been changed, the proxy will vote in a manner which, in his/her opinion, is the closest to the intentions of the principal. If due to mistake or malicious intentions a proxy while voting on behalf of the shareholder does not follow the shareholder's instruction, such vote will be valid and the shareholder may demand the redress of damages from such a proxy. Even though the Company designated a proxy, a shareholder may attend the General Meeting of Shareholders and vote on it by itself.

The shareholders that are not registered in the Company's share register may request a copy of the invitation to the General Meeting of Shareholders, together with any accompanying documents, free of charge, by sending a request to the investors relations office of the Company at its registered office.

See also “*Certain Luxembourg, Czech and Polish Securities Markets Regulations and Procedures — Dividend payment and voting procedures for our shareholders keeping their Shares with NDS and UNIVYC members*”.

### **Pre-emptive rights**

For a general description of the provisions of Luxembourg law relating to the execution of subscription rights, see “*Issue of Shares and Pre-emptive Rights*”.

If the Company decides to issue new Shares in the future and does not waive the pre-emptive rights of existing shareholders then the Company will publish the decision by placing an announcement in the Luxembourg official gazette and in two newspapers published in Luxembourg. The announcement will specify the period in which the pre-emptive right may be exercised. Such period may not be shorter than 30 days from the date of publication in the Luxembourg official gazette. Luxembourg law does not provide for any procedure for determining the pre-emptive right exercise date and such date is always defined in the relevant resolution on the issue of shares. The announcement will also specify the details regarding procedure for exercise of the pre-emptive rights. The pre-emptive right is exercised by placing an order with the Company and paying for the newly issued shares. Under Luxembourg law pre-emptive rights are transferable and tradable property rights.

### **Challenging Resolutions of General Meetings of Shareholders**

Under Luxembourg law and the conflict of law rules, a resolution of the general meeting of shareholders of a Luxembourg company may only be appealed to a Luxembourg court in accordance with the Luxembourg commercial and civil proceedings law.

Pursuant to Luxembourg law, a resolution of the general meeting of shareholders may be appealed by each shareholder regardless of the number of shares held by him if the resolution is, amongst others, (i) in conflict with the statutory law, provisions of the Articles of Incorporation or the proceedings for taking resolutions, (ii) made to the sole benefit of the majority shareholder and not in the Company’s best interest (*abus de majorité*) or (ii) in conflict with the Articles of Incorporation.

The appeal should be filed with a district court having jurisdiction over the relevant company’s seat. The statute of limitation to file an appeal is ten years or thirty years as of the day of passing of the resolution, the duration of such period depending on, amongst other things, the nature of the rule that has been breached.

As regards the Company, the competent courts are the Courts of Luxembourg-City, Grand-Duchy of Luxembourg. The plaintiff should show a legal interest in appealing against the resolution. Under Luxembourg commercial proceedings rules, the appeal may be made in the French, Luxembourg or German language and can be made by an attorney qualified to practice in the Grand-Duchy of Luxembourg. Generally, the appeal will be subject to court fees. If the court finds in favour of the appealing shareholder, then the resolution will be nullified.

Similarly, under Luxembourg law each shareholder also has a right to appeal any action of the Board of Directors on the same grounds as specified above. The same appeal procedure will apply.

More information about voting procedures and dividend distribution applicable in connection with listing of the Shares on PSE and WSE are included in “*Certain Luxembourg, Czech and Polish Securities Markets Regulations and Procedures*” below.

## **CERTAIN LUXEMBOURG, CZECH AND POLISH SECURITIES MARKETS REGULATIONS AND PROCEDURES**

We have applied and will apply, respectively, to list all our Shares on the main markets of the PSE and of the WSE, including the Offer Shares. As a result, we will be subject to certain Czech and Polish securities and capital market regulations, in particular with respect to disclosure of information. We will also be subject to supervision of relevant regulatory authorities and of the CNB and the KNF in particular. Moreover, our Company, being incorporated under the laws of Luxembourg, will be subject to certain aspects of European Union and Luxembourg securities regulation as well as the Public Takeovers Law.

The information set out below describes certain aspects of Luxembourg, Czech and Polish securities market regulation relevant in connection with the acquisition, holding and disposal of the Shares and is included for general information only. This summary does not purport to be a comprehensive description of all Luxembourg, Czech and Polish securities market regulatory considerations that may be relevant to a decision to acquire, hold or dispose of our Shares. Each prospective investor should consult a professional legal adviser regarding legal consequences of acquiring, holding and disposing of our Shares under the laws of their country and/or state of citizenship, domicile or residence.

This summary is based on legislation, published case law, treaties, rules, regulations and similar documentation, in force as of the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

### **Tender Offer Regulations**

In the absence of regulatory guidance, a clear resolution to conflicts of Luxembourg, Polish and Czech laws issues relating to various tender offer regulatory regimes cannot be provided. Neither the Czech Takeover Rules (as defined below) nor the Polish regulation reflect the provisions of Directive 2004/25/EC of the European Parliament and of the council of April 21, 2004 (the “Takeover Directive”), in respect of which the transposition period expired on May 20, 2006. We therefore provide below a summary of the tender offer regulations under the rules of European Union, Luxembourg, Poland and Czech Republic.

### **European Union Tender Offer Regulations**

The relevant provisions of the Takeover Directive explicitly state that if the offeree company’s shares are not admitted to trading on a regulated market in the Member State in which the company has its registered office, and if the offeree company’s shares are admitted to trading on regulated markets in more than one Member State, the authority competent to supervise the bid shall be that of the Member State on the market of which the shares were first admitted to trading, or if first admitted to trading on more markets simultaneously, the offeree company should determine which of the supervisory authorities of those Member States shall be the authority competent to supervise the bid by notifying those regulated markets and their supervisory authorities on the first day of trading. In the case of absence of such notification the supervisory authorities of the Member States shall agree on the competent authority to supervise the bid.

In respect of governing law, matters relating to the consideration offered in the case of a bid, in particular the price, and matters relating to the bid procedure, in particular the information on the offeror’s decision to make a bid, the contents of the offer document and the disclosure of the bid, shall be dealt with in accordance with the rules of the Member State of the competent authority. In matters relating to the information to be provided to the employees of the offeree company and in matters relating to company law, in particular the percentage of voting rights which confers control and any derogation from the obligation to launch a bid, the applicable rules and the competent authority shall be those of the Member State in which the offeree company has its registered office.

Subject to the due implementation of the Takeover Directive in the Czech Republic and Poland and with regard to the fact that the Takeover Directive will be implemented with a delay, into both the Czech Takeover Rules (as defined below) and the Polish regulation, we expect that an offeree company having its registered office in Luxembourg and the shares of which are first admitted to trading on the Czech and Polish regulated markets simultaneously without being admitted to trading on the Luxembourg regulated market, will have the option to determine either the Czech or the Polish authority competent to supervise the bid by notifying the regulated markets and their supervisory authorities. However, if the shares are first admitted to trading on the Czech regulated market and subsequently on the Polish regulated market, the authority competent to supervise the bid shall be the Czech supervisory authority and, on the contrary, if the shares are first admitted to trading on the Polish regulated market and subsequently on the Czech regulated market, the authority competent to supervise the bid shall be the Polish supervisory authority. Notwithstanding the above mentioned, in matters relating to

company law, in particular the percentage of voting rights which confers control and any derogation from the obligation to launch a bid, the Luxembourg laws shall apply and the Luxembourg authority shall be competent.

## **Luxembourg, Czech and Polish Tender Offer Regulations**

### ***Luxembourg tender offer obligations***

The Takeover Directive and the Public Takeovers Law, which has implemented the Takeover Directive into Luxembourg law, provide that the law applicable to a takeover bid on the Company (and related questions) would be the law of the EU Member State (or an EEA Member State) where the shares are admitted to trading on a regulated market (as determined by Directive 2004/39/EC). On the other hand, provisions regarding companies law (and related questions), as for instance the question relating to the percentage of voting rights which give control over a company, will exclusively be governed by the applicable rules of the EU Member State in which the company in question has its registered office. It follows that applicable Luxembourg provisions would apply in that respect to the Company. You should read “*Description of our Shares — Luxembourg Mandatory Takeover Bids/Squeeze-out/Sell-out Rules*”.

### ***Czech tender offer regulations***

The Czech Commercial Code sets out in sections 183a — 183h rules applicable to takeover bids in the Czech Republic (the “Czech Takeover Rules”). Currently, the Czech Takeover Rules do not apply to an offeree company having its registered office outside the Czech Republic regardless of whether its shares are admitted to trading on a regulated market in the Czech Republic (e.g. the PSE). Therefore, the Czech Takeover Rules assume that a takeover bid for the shares of an offeree company having its registered office in Luxembourg shall be governed by Luxembourg laws.

### ***Polish tender offer regulations***

Pursuant to Article 72 of the Polish Public Offerings Act, any acquisition of listed shares in secondary trading and within a period of less than 60 days by a shareholder who holds shares entitling it to less than 33% in a listed company, leading to the increase of its share of the total number of voting rights by more than 10% of the total number of votes at a shareholders’ meeting, shall be effected exclusively through a public tender offer.

Furthermore, any acquisition of listed shares by a shareholder who holds shares entitling it to at least 33% of votes in a listed company, in secondary trading and within a period of less than 12 months, leading to the increase of its share in the total number of voting rights by more than 5% of the total number of votes at a shareholders’ meeting, shall be effected exclusively through a public tender offer. Additionally, a shareholder must launch a mandatory public tender in the following circumstances:

- (a) a shareholder that wishes to cross the 33% voting rights threshold is obliged to launch a public tender for shares that will entitle it to hold 66% of votes; and
- (b) a shareholder that wishes to cross the 66% voting rights threshold is obliged to launch a public tender for all the remaining shares in a listed company.

However, if the indicated thresholds are exceeded due to acquisition of shares in a public offering, in-kind contribution, merger or division of a company, change of the articles of incorporation of the company or occurrence of certain other events, the shareholder must either launch a public tender as described above within three months, or sell the appropriate amount of shares so that the number of votes to which the shareholder is entitled is no more than 33% or 66% of votes, respectively.

The regulations set a number of detailed conditions to be followed in connection with a tender offer, including without limitation the rules of determining the tender price, required security and settlement.

## **Luxembourg Securities Regulations**

### ***Disclosure obligations***

The Luxembourg act dated December 4, 1992 relating to the information to be published when acquiring or disposing of an important participation in a listed company, as amended (the “Luxembourg Disclosure Act”), requires persons, directly or indirectly, acquiring or disposing of shares in a public limited liability company (*société anonyme*) incorporated under the laws of Luxembourg and the shares of which are listed on a stock exchange within the European Union (the “Target Company”) to give written notice of such acquisition or disposal simultaneously to the Target Company and the CSSF in certain circumstances. Article 4 of the

Luxembourg Disclosure Act provides that such written notice must be given where, as a result of an acquisition or disposal of the shares in the Target Company, the purchaser's or seller's percentage of voting rights reaches or exceeds one of the thresholds of 10%, 20%,  $\frac{1}{3}$ , 50% and  $\frac{2}{3}$  of the total voting rights or falls below these thresholds.

A violation of the Luxembourg Disclosure Act triggers a fine of €250 to €25,000. Furthermore, the voting rights attached to the shares of the Target Company owned by any person who has failed duly to notify the Target Company and the CSSF in one of the above circumstances pursuant to the Luxembourg Disclosure Act are suspended as long as sufficient information regarding the acquisition or disposal of the shares in the Target Company is not duly notified and published in accordance with the Luxembourg Disclosure Act. In addition, upon request of the Target Company, a shareholder of the Target Company or a third party having an interest, a Luxembourg court (if competent) may nullify a resolution adopted by the general meeting of the shareholders of the Target Company, if it determines that such resolution has only been adopted through the exercise of the suspended voting rights.

Furthermore, the Articles of Incorporation provide further stringent notification requirements as set out in the Luxembourg Disclosure Act. Any acquisition or disposal of Shares resulting in the thresholds of 2.5%, 5% and over and above 5% of voting rights in the Company have to be notified to the Company, provided that such person holds more than 5% of the voting rights in the Company. In addition, any acquisition or disposal of Shares resulting in successive thresholds of 1% of voting rights in the Company have to be notified in the same manner.

In addition, any person who has to declare that he holds Shares giving him 10% or more of the voting rights in the Company must — on pain of the suspension of his voting rights in accordance with the Luxembourg Disclosure Act — inform the Company immediately by registered letter with a form for acknowledgement of receipt of his intention (a) to acquire or dispose of Shares in the Company within the next twelve months, (b) to try to obtain control over the Company or (c) to try to appoint a member to the Board of Directors.

#### ***Provisions on insider dealing and market manipulation***

The Luxembourg act dated May 9, 2006 relating to market abuses (the “Market Abuse Act 2006”) creates two main offences, namely insider dealing and market manipulation. The Market Abuse Act 2006 applies, amongst others, to actions carried out in Luxembourg or abroad concerning financial instruments that are admitted to trading or for which a request for admission to trading on a regulated market operating in Luxembourg has been made.

The prohibitions also apply to actions carried out in Luxembourg concerning financial instruments that are admitted to trading on a regulated market abroad or for which a request for admission to trading on a regulated market has been made.

Pursuant to the Market Abuse Act 2006, inside information means information of a precise nature, which has not been made public, which relates, directly or indirectly, to financial instruments (including the Shares) or their issuers and which, if it were made public, would be likely to have a significant impact on the price of those financial instruments (“Inside Information”). This includes information that would be used by a reasonable investor in making his investment decisions. Accordingly, any person who has acquired Inside Information by virtue of (i) being a member of the administration, management or supervisory body of the issuer, (ii) holding capital in the issuer, (iii) having access to the Inside Information in the course of their employment, profession or duties or (iv) criminal activities, is potentially subject to the prohibition.

Article 8 of the Market Abuse Act 2006 prohibits any person who possesses or has access to Inside Information from:

- using that information to buy or sell or trying to buy or sell (for their own account or the account of someone else), either directly or indirectly, financial instruments to which the Inside Information relates; and
- communicating that Inside Information to another person unless it is in the normal course of their employment, profession or duty or recommending another to buy or sell on the basis of the Inside Information (together “Insider Dealing”).

The CSSF, which is the competent authority under the Market Abuse Act 2006, co-operates with other Member States' regulatory authorities to eliminate instances of cross-border market abuse, for example by providing them with the requested assistance and/or information. The CSSF may, amongst other things, organize on-site investigations and suspend trading of financial instruments on the regulated market. Furthermore, persons (the definition of which now includes individuals and companies, unlike the previous regime which was limited to



individuals) may be subject to, for instance, an administrative fine from €125 to €125,000. Likewise, breaching the provisions of the Market Abuse Act 2006 triggers, in respect of persons who actually engage in Insider Dealing, imprisonment for between three months and two years and a fine of a sum between €125 and €1,500,000. Recipients of Inside Information risk a shorter imprisonment of between eight days and one year and a fine from €125 to €150,000.

### **The Prague Stock Exchange**

The PSE is one of the two operators of regulated markets for trading in shares in the Czech Republic within the meaning of the Prospectus Directive, the other market being the RM Systém. Shares in the Czech Republic may be also traded outside the regulated market in OTC transactions. The PSE operates the most prestigious market in the Czech Republic for trading in shares, bonds and futures contracts.

The PSE is a private joint stock company which, as of October 31, 2006, had 22 members. Only members of the PSE (which include brokers and banks) may trade directly on the PSE, either on their own account or for the account of their clients. Non-members may trade on the PSE only through a member.

The PSE operates three regulated official markets: the main (the most prestigious segment of the PSE's official market); the secondary; and the free. In addition to these three markets, the PSE also operates a regulated special market for futures and a non-regulated free market. To be traded in a specific market, certain non-statutory criteria must be met in addition to the statutory listing criteria. Settlement of all transactions executed on the PSE is handled by its fully owned subsidiary — UNIVYC.

Shares listed on the PSE may be traded in the auction and continual regime (automatic trades) or in SPAD (System for Support of the Share and Bond Markets) which is based on the activities of the market makers and available to selected issues of securities only. The PSE also recognizes trading with the participation of a specialist which remains untested for shares.

As of October 31, 2006 shares of 8 companies were listed on the main market of the PSE.

Prices for shares on the PSE are set in CZK.

### **The Warsaw Stock Exchange**

The WSE operates one of the two regulated markets in Poland within the meaning of the Prospectus Directive and is the sole exchange where shares may be traded. The other regulated market (MTS-CeTO) concentrates on bond trading and OTC transactions. The WSE is a private joint stock company and is 98.8 per cent controlled by the Polish State. Members of the WSE include banks and Polish and international brokers.

Shares listed on the WSE may be traded in a continuous price setting system or in the single-price auction system, depending on capitalisation and intensity of trading. In addition, there are two markets for shares: Basic and Parallel, the latter being for smaller, less liquid issuers. To be traded in a specific market and segment, certain non-statutory criteria must be met by the securities in addition to the statutory listing criteria. The Basic Market includes a Plus segment, and the Parallel Market includes a Prim segment. The Plus segment of the Basic Market represents the highest ranking market segment of the Warsaw Stock Exchange and is comprised of stocks of companies that agree to fulfil more stringent reporting, quality and disclosure requirements. Settlement of all transactions executed on the WSE is handled by the NDS, a joint stock company in which the WSE has a 33.3% stake (with the remaining shares held by the National Bank of Poland and the State Treasury of the Republic of Poland)

As of October 31, 2006, shares of 270 companies were listed on the WSE.

Prices for shares on the WSE are set in PLN.

### **Regulation of the Czech Securities Market**

Although the Company is incorporated under the laws of Luxembourg, our Shares will be listed on a regulated official market in the Czech Republic and therefore certain Czech legal considerations may also be relevant, especially with regard to the rights and obligations arising in connection with the admission to trading of the Shares on the main market of the PSE, trading in the Shares on the PSE and the rights and obligations of the shareholders.

In particular, we will be subject to the regulations and acts which constitute the framework of the Czech capital market and contain provisions relating to the securities listed in the Czech Republic and their issuers:

- Act on Conducting Business in the Capital Market (Act No. 256/2004 Coll., as amended (the “Capital Market Act”)); and
- the Rules and Regulations of the PSE (in particular exchanges rules and Conditions for the Acceptance of Securities for Trading in the Main and Secondary Markets of the Exchange).

#### ***Conditional trading on the PSE***

Before the official trading on the main market commences but in any case after the publication of the Offer Price and the final number of the Offer Shares, Shares may be conditionally traded on the PSE, subject to approval of the application for conditional trading by the general director of the PSE and compliance with other conditions such as (i) approval of a prospectus by the competent supervisory authority; (ii) approval of the admission to trading on the main and secondary market of the PSE by the Listing Committee of the PSE and fulfilment other conditions, which may be set out by the Listing Committee (where such conditions need to be met at the latest before commencement of the conditional trading). The Trading Committee of the PSE needs to establish the parameters of such conditional trading. Such conditional trading may begin not earlier than 10 days before the day on which the official trading is set to commence. We intend to take advantage of this possibility to enable early trading in the Offer Shares. See “*The Offering and Plan of Distribution*”.

#### ***Disclosure requirements under Czech law***

After the Shares are admitted to trading on the main market of the PSE, we will be required to comply with certain disclosure obligations under the Capital Market Act and the PSE rules and regulations. Such obligations include:

- disclosure and publication of inside information (e.g. any information which is not publicly known and which, after publication, could have a significant influence on the price of or proceeds from the Shares);
- disclosure and publication of any information significant for protection of the investors or proper functioning of the market; and
- disclosure and publication of current (relating to general meetings such as notice of convening and decisions of such meetings) and periodic information (e.g. annual, semi-annual and quarterly reports, documents containing or referring to, all published information about the Company for the preceding 12 months).

Under the PSE rules and regulations all information obligations can be carried out vis-à-vis the PSE in English language. We intend to publish all information in the Czech and English language on the website [www.pegas.lu](http://www.pegas.lu). The Company will be further obliged to ensure simultaneous publication of all information on the PSE and WSE and any other regulated market where the Shares may be listed.

Under the PSE rules and regulations, we will be required immediately to report any changes to the structure of the shareholders holding at least 10% of the voting rights in the Company or more, or amounting to 5% if they are known to the Company but always after obtaining a report from the register of shareholders with an indication of parties acting in concert.

#### ***Insider dealing and market manipulation under Czech law***

With respect to securities admitted to trading on a regulated market in the European Economic Area, the Capital Market Act prohibits insider dealing and market manipulation.

Inside information is defined under Section 124(1) of the Capital Market Act as any information of a precise nature about in particular an investment or other instrument traded on a regulated market in a member state of the European Economic Area (including the Shares after admission to trading on a regulated market of the PSE), which is not publicly known and which after publication could have a significant influence on the price of or proceeds from such instrument (including the Shares after admission to trading on a regulated market of the PSE). Pursuant to the Capital Market Act, any person which has acquired such inside information in connection with: (i) its employment, profession or function; (ii) its share in the registered capital of the issuer or share in the voting rights in the issuer; (iii) fulfilment of its obligations or (iv) criminal offence, as well as (v) any other person which acquires the inside information in any other manner and knows or may know that it is an inside

information, must act in accordance with the insider dealing provisions of the Capital Market Act. Section 124(4) of the Capital Market Act namely stipulates that such person:

- (a) must not use the inside information for buying or selling or trying to buy or sell (for its own account or the account of third person, directly or indirectly) financial instruments to which the inside information relates;
- (b) must not give any direct or indirect recommendations to third parties for the purchase or sale of the financial instruments to which the inside information relates; and
- (c) must keep such information confidential and must prevent access by other persons to the inside information, unless communicating such inside information to another person is in the normal course of activities.

Market manipulation is defined in Section 126(1) of the Capital Market Act as any act which may distort the market participants' perception of (or view on) the value, supply of, demand for or price of financial instruments (including the Shares) or otherwise give false signals about the price of the financial instrument (including the Shares). Under Section 126(2) of the Capital Market Act certain acts (such as for example stabilisation or buy-back made in accordance with the Stabilisation Regulation) are specifically deemed not to be market manipulation. Market manipulation is prohibited.

Any institutional investors, securities dealers (brokers) and banks have the obligation to report to the CNB any trades which they suspect could be executed on the basis of an inside information or constitute market manipulation.

Breach of the obligation relating to inside information is an administrative offence and can result in financial penalties of up to CZK 10,000,000 and when intentional may lead to criminal liability. Breach of the prohibition on market manipulation is an administrative offence and can result in financial penalties of up to CZK 20,000,000 and when intentional can lead to a potential criminal liability.

The CNB as the competent authority under the Capital Market Act decides on the administrative offence and imposes the financial penalties. In the course of its activities the CNB may co-operate with other Member States' regulatory authorities, for example by providing them with the requested assistance and/or information or on the other hand requesting their assistance. The Czech courts are solely authorised to decide on the criminal liability.

### **Regulation of the Polish Securities Market**

We intend to list our Shares on the WSE and will therefore be subject to certain Polish laws and regulations, such as the Polish Public Offerings Act, the Trading in Financial Investments Act and secondary regulations. Violation of obligations summarised below may be subject to civil, criminal and/or administrative sanctions.

#### ***Shareholders' disclosure obligations***

The Polish Public Offerings Act provides for disclosure obligations when acquiring or selling shares in a public company. In accordance with Article 69 of the Polish Public Offerings Act an investor must, within four days from the date the appropriate entry was made on its securities account, notify the Polish KNF and the company concerned (and the company concerned should reveal that information to the public through an information agency and the stock exchange) about:

- (d) reaching or exceeding 5, 10, 20, 25, 33, 50 or 75 per cent of the total number of voting rights at the general shareholders' meeting of the company;
- (e) selling shares owned by the investor so that they constitute less than 5, 10, 20, 25, 33, 50 or 75 per cent of the total number of voting rights at the general shareholders' meeting;
- (f) a change in the number of shares currently owned by the investor by at least two per cent if it currently holds more than 10 per cent (but less than 33 per cent) of the voting rights at the general shareholders' meeting;
- (g) a change in the number of shares currently owned by the investor by at least one per cent if it currently holds more than 33 per cent of the voting rights at the general shareholders' meeting.

The notification shall include information on the date and type of transaction resulting in the change in the number of shares held, the number of shares held prior to the transaction, the number of shares held after the transaction as well as information concerning further acquisitions or disposals of shares during the next 12 months, if the notification is made in connection with reaching or exceeding the 10% threshold.

### ***Company's disclosure obligations***

Once the Shares will be admitted to trading on the WSE, the Company will be required to comply with disclosure obligations regarding the publication of information under Polish law, including:

- the disclosure of inside information (e.g. any events that may substantially affect the price or the value of the shares); and
- publication of current and periodic information.

In case of an issuer listed on the WSE, both inside information and current and periodic information should be disclosed to the KNF, the WSE and, after 20 minutes, to the public via the ESPI system, which is the electronic reporting system in Poland. With regard to the information and data which the Company is obliged to publish in the form of current reports in accordance to Polish regulations, the Company provides such information simultaneously in Czech Republic and Poland.

The regulations set a number of other information duties on the Company, including, without limitation, a duty to draw up and maintain a list of persons with access to inside information, and a duty to disclose information on certain transactions effected by the Board of Directors. Additionally, under Article 10 of the Polish Public Offerings Act, the Company is obliged to provide the KNF with information concerning the closing of the subscription of securities being subject to a public offer within 14 days following such closing.

In relation to companies whose securities are admitted to trading on the Basic Market (as defined above) of the WSE, the current periodic reports are published within the scope and at the same time as published in the other EU Member State where these securities are traded on a regulated market. Current reports must be published in English with a brief summary in Polish and periodic reports must be published in English together with a Polish translation of the basic numerical information detailing the Company's financial situation, set out in tabular form, namely the balance sheet, income statement, cash flow statement and statement of changes in shareholders' equity (excluding the notes attached thereto). As soon as possible, but not later than five days in the case of the current report and three weeks in the case of the periodic report, after the publication of the full English-language version, Polish investors should be provided with a full Polish-language version of the report.

### ***Polish provisions on insider dealing and market manipulation***

#### ***Insider trading***

The Trading in Financial Instruments Act defines "insider information" as specific information relating to, directly or indirectly, the issuer, financial instruments (including securities) or acquisition or disposal of such financial instruments, if such information has not been disclosed to the public and, if so disclosed, it could materially influence the price of such financial instruments (or the price of derivative rights arising from such financial instruments).

Subject to certain exceptions, the issuer is obliged to disclose the insider information promptly upon the occurrence of events or circumstances which require the disclosure, or upon becoming aware of such events or circumstances, but not later than within 24 hours. The issuer is also obliged to disclose such information on its website, except for personal data of any persons to whom such information refers.

Subject to certain exceptions, any individual who acquires insider information as a result of his position in a company's governing bodies or as the owner of a company's shares, or as a result of his employment in such company, or any other similar legal relationship, is prohibited by law from using or disclosing such information to third parties. The above also applies to individuals who illegally obtain insider information or obtain such information in another manner, but should have known that such information was insider information.

#### ***Market manipulation***

The Trading in Financial Instruments Act forbids share price manipulation, defined by reference to a number of activities, including, without limitation, taking actions whose effect could be misleading as to the actual demand, supply or price of the shares in question or actions involving placing orders or executing transactions that cause an artificial fixing of the share price, unless the grounds on which such actions were effected are legitimate and such actions have not infringed the established market trading rules. Manipulation may also include disseminating false or inaccurate information that may mislead investors, as well as placing orders or executing transactions in order to profit from investors having been misled as to the price or value of the shares in question.

## **Form and Transfer of our Shares**

Our Shares are in registered form.

A register of Shares will be kept at the registered office of the Company, where it will be available for inspection by any shareholder. Ownership of shares will exclusively be established by an entry in this register.

Shareholders in the Company may hold Shares, either by being directly entered into the Share register kept in Luxembourg at the Company's registered office, or in book entry form with a bank or professional securities depository or other qualified financial intermediary, which will hold them through Clearstream, Luxembourg or Euroclear, either directly as a participant of such system or indirectly through such a participant or through UNIVYC and its participants or NDS and its participants.

Where Shares are recorded in the register of shareholders on behalf of one or more persons in the name of a professional depository of securities or any other depository (such systems, professionals or other depositories being referred to hereinafter as Depositories) or of a sub-depository designated by one or more Depositories, the Company — subject to it having received from the Depository with whom those shares are kept in account an attestation in proper form — will permit those persons to exercise the rights attaching to those shares, including admission to and voting at general meetings, and shall consider those persons to be holders. The Board of Directors may determine the formal requirements with which such attestations must comply. Notwithstanding the foregoing, the Company will make payments, by way of dividends or otherwise, in cash, Shares or other assets only into the hands of the Depository or sub-depository recorded in the register or in accordance with their instructions, and that payment shall release the Company.

Certificates confirming that an entry has been made in the register of shareholders will be provided to the shareholders. Without prejudice to the modalities for the transfer of fungible shares in the case provided for in the paragraph above, the transfer of Shares shall be made by a written declaration of transfer inscribed in the register of shareholders and dated and signed by the transferor and the transferee, or by their agents provided that they can prove they have the necessary powers. Transfers may also be carried out by handing the share certificate in to the Company endorsed for the benefit of the transferee. The Company may accept any other document, instrument, writing or correspondence as sufficient proof of the transfer.

According to article 40 of the Companies Act 1915, transfers in respect of shares in registered form shall be carried out by means of a declaration of transfer entered into the register, dated and signed by the transferor and the transferee or by their duly authorised representatives, and in accordance with the rules on the assignment of claims laid down in article 1690 of the Luxembourg civil code. The Company may accept and enter in the register a transfer on the basis of correspondence or other documents recording the agreement between the transferor and the transferee.

Articles 39 and 40 of the Companies Act 1915 provide that ownership of registered shares shall be established by an entry in a register of the registered shares, which shall be maintained at the registered office of the Company. The register shall specify (i) the precise designation of each shareholder and the number of shares or fractional shares held by him; (ii) the payments made on the shares; and (iii) transfers and the dates thereof or conversion of the shares into shares in bearer form (as provided for in the Articles of Incorporation).

Certificates representing the Shares in registered form may be issued but they do not constitute conclusive evidence. Property of the Shares in registered form passes solely upon the registration of the transfer into the register of the holders of the Shares.

As provided in the Articles of Incorporation, the Shares, which are in registered form, may not be converted into shares in bearer form.

### ***Paying agents and common depository***

After the successful closing of the Offering, the Shares which are to be held in book entry form through Clearstream, Luxembourg or Euroclear will be registered in the name of Fortis, with its registered office at 50, avenue J.F. Kennedy, L-2951 Luxembourg, acting as common depository in the name and on behalf of Clearstream, Luxembourg or Euroclear, in the share register kept at the Company's registered office.

Fortis will also act as a principal paying agent in Luxembourg for the Shares further to a paying agency agreement to be signed on or about the Allotment Date. NDS, with its registered office at ul Książęca 4, 00-498 Warsaw, Poland will act as a sub-paying agent in Poland and UNIVYC, with its registered address at Rybná 14, 110 05 Prague 1, the Czech Republic will act as a sub-paying agent in the Czech Republic.

### ***Book-entry form in Poland***

Pursuant to the Act on Public Offering, securities which are offered in a public offering or admitted to trading on a regulated market in Poland exist in uncertificated form as of the date of their registration under the relevant depository agreement (dematerialization). In particular, before the commencement of a public offering or trading on a regulated market, an issuer of securities is obliged to conclude with the NDS (Krajowy Depozyt Papierow Wartosciowych S.A., with its registered seat in Warsaw, Książęca 4), an agreement to register the securities offered in a public offering or trading on a regulated market in the depository of securities. Therefore, no shares of our common stock in physical form will be issued to holders of our common stock in Poland, however, share deposit certificates evidencing the shares may be issued at the request of the account holder. Pursuant to the Article 9 of Trading in Financial Instruments Act, a share deposit certificate confirms the title to exercise all rights arising from the securities which are not or cannot be exercised purely on the basis of entries in a securities account.

### **Transfer of our Shares between the PSE and the WSE**

#### ***General information***

As a matter of principle, the effecting of a transaction on the PSE requires that the shares are recorded in a securities account kept with a participant in UNIVYC. In turn, the effecting of a transaction involving shares listed on the WSE requires, as a matter of principle, that the shares subject to trade are recorded in a securities account kept by a participant in the NDS system.

There exists no direct settlement link between the PSE and the WSE and therefore the transfer of our Shares between the PSE and the WSE must be executed via an intermediary. Both UNIVYC and NDS have accounts with Clearstream, Luxembourg, which will serve as a link between the NDS system and the UNIVYC system.

#### ***Transfers of our Shares from UNIVYC to the NDS system and vice versa***

In order to transfer Shares from the UNIVYC system to the NDS system, investors should issue appropriate instructions to the entity keeping such investor's securities account in the UNIVYC system in which the Shares are recorded, and an appropriate instruction to the entity keeping their securities account in the NDS system in which account the Shares are to be recorded. Additionally investors will be required to provide the date when transfer should be executed (settlement date). Transferring the Shares will be contingent on the unequivocal identification of the participant of the UNIVYC system in whose account the Shares are to be recorded. In the event of the absence of a possibility of identifying the system participant or shareholder in whose securities account the Shares are to be recorded, the transfer of the Shares may be ineffective or delayed. Based on clearance instructions obtained from the UNIVYC's participant, issued pursuant to the shareholder's instructions, and the information obtained through Clearstream, the NDS shall record the shares in the account of the direct NDS participant, and subsequently the shares will be recorded in the investor's securities account.

Even though to our knowledge Clearstream, Luxembourg, the NDS and UNIVYC have agreed (or are expected to agree) on the abovementioned practices allowing transfers of Shares between NDS and UNIVYC participants, they are not obliged to carry out these procedures and may interrupt these at any time. Neither we, nor the Polish and Czech Listing Agents, nor any of their respective representatives assume any responsibility for any of the trade settlement obligations of Clearstream, Luxembourg, UNIVYC and NDS or any of their participants.

### **Dividend Payment and Voting Procedures for our Shareholders Keeping their Shares with NDS and UNIVYC Members**

#### ***Dividend Payments***

Dividend payments and other payments made by the Company, through Fortis acting as principal paying agent, and relating to the Shares held with UNIVYC and/or NDS shall be in the amount transferred by the Company to the accounts of the respective participants or sub participants in the Clearstream, Luxembourg or Euroclear systems, for the purpose of their further payment to the owners of accounts with UNIVYC and/or NDS on which our Shares will be held, in accordance with the rules and practices of UNIVYC and/or NDS, respectively.

#### ***Proposed voting procedures for shareholders that will own Shares through securities accounts maintained by participants in the UNIVYC and NDS systems***

In addition to the normal practices related to the notification about and the procedures with respect to General Meetings of Shareholders that we follow in Luxembourg, we will notify our shareholders holding our Shares

through members of UNIVYC and the NDS of any planned General Meeting of Shareholders at least seven days prior to such meeting. The shareholders will be given the opportunity to participate in and vote at the meeting in person, by postal ballot or by appointing a proxy to act for them. So far as technically possible, we may organise facilities allowing for remote participation in the meetings through the internet.

We will notify the Czech and Polish shareholders of our Shares of the date of determining a list of those eligible to attend the meeting, as well as of the place and date of the General Meeting of Shareholders in the form of press announcements published in nationwide daily newspapers, no later than two weeks prior to the date of fixing the list of eligible participants. Furthermore, information on convening and the date of the General Meeting of Shareholders will be placed on our website at [www.pegas.lu](http://www.pegas.lu).

A Czech or Polish shareholder intending to vote at the General Meeting of Shareholders should apply to a brokerage house or a depositary bank maintaining its investment account in which its Shares are recorded, to provide it with additional information in this regard. Our intention is that the brokerage houses and depositary banks of our Czech and Polish shareholders receive information on our General Meeting of Shareholders through the UNIVYC or NDS depositary system connected through Clearstream, Luxembourg. To be able to vote at a meeting, a Czech or Polish shareholder should request the brokerage house or the depositary bank maintaining its investment account in which its Shares are recorded, to issue a proxy statement and a voting ballot (which simultaneously serves as an authorization for proxies to vote at the General Meeting of Shareholders) on our standard form. The proxy statements and voting ballots will be in English. Voting instructions will be placed on the voting ballots. A shareholder who intends to vote will have to fill out the voting ballot and pass it to the brokerage house or the depositary bank that maintains its investment account in which its shares are recorded. Subsequently, such information will be forwarded to UNIVYC or to the NDS, as the case may be, to be distributed to the Company. A shareholder may also participate in and vote at a meeting in person.

Should we decide to introduce a different voting procedure for the Czech or Polish shareholders in the future, we will publicise such details in the form of a press release and in a manner consistent with applicable laws.

## USE OF PROCEEDS

We intend to raise approximately €50 million of gross proceeds from the issue of New Shares in the Offering. The net proceeds which we will receive from the issue of New Shares in the Offering are estimated to be up to approximately €43.1 after deducting the estimated commissions, costs and expenses in the amount of approximately €6.9 million. We will publish final details of the net proceeds within two weeks of the Settlement Date by way of a press release and in a manner consistent with Czech, Polish and Luxembourg law.

We intend to use the proceeds from the Offering for the purposes of:

- Repayment in full of the outstanding Mezzanine Facility (approximately €6.9 million) to Nomura International PLC;
- Repayment in full of the outstanding PECs (approximately €34.7 million) to Pamplona Capital Partners I, LP; and
- Paying fees and expenses associated with the Offering of approximately €6.9 million.

Any excess funds will be used for general corporate purposes.

You should read “*Business — Financing Agreements*”.

We will not receive any proceeds from the sale of Offer Shares by the Selling Shareholder. The proceeds from the sale of the Offer Shares by the Selling Shareholder, if any, shall in whole accrue to the Selling Shareholder.



## THE OFFERING AND PLAN OF DISTRIBUTION

### General

We are offering for subscription up to 2,020,000 New Shares to be newly issued by us. In addition, the Selling Shareholder is offering for sale up to 3,264,250 Sale Shares, including up to 689,250 existing Shares offered pursuant to the Over-allotment Option (or up to 2,575,000, excluding the Over-allotment Option). The Offer Shares are being offered at the Offer Price, which shall be determined through a book-building process. In total, up to 5,284,250 Offer Shares are being offered in this Offering.

The Offering consists of a public offering in the Czech Republic and Poland, and an international private placement to institutional investors in certain jurisdictions outside the Czech Republic and Poland. No public offering in Luxembourg will take place, although for the purpose of the public offering in the Czech Republic and Poland we have taken and will take certain actions in Luxembourg as our home Member State.

On November 30, 2006, our Board of Directors approved in principle to issue the New Shares, subject to the approval of the General Meeting of Shareholders. Our Board of Directors further approved the required application to the CSSF for approval of this Prospectus and its further notification to the CNB and the KNF for the purposes of conducting the public offering in the Czech Republic and Poland, respectively: the entering into by us, the Selling Shareholder and the Managers of an underwriting agreement in respect of the Offering; the listing of all of the Shares, including the Offer Shares on the PSE and the WSE; and the making of all other filings necessary or desirable in connection with this Offering.

The Board of Directors further selected a pricing committee and delegated to it authority to determine, jointly with the Selling Shareholder, the final terms on which the Offer Shares will be offered, including: (i) the final number of Offer Shares, composed of (ii) the number of the New Shares and (iii) the final number of Sale Shares, (iv) the final Offer Price and (v) the terms and conditions of the underwriting agreement, subject to the final approval of the Board of Directors and the General Meeting of Shareholders. Upon the decision of the pricing committee, the General Meeting of Shareholders will authorise the issue of the New Shares.

For information on applicable selling restrictions in respect of the Offer Shares, please refer to “*Selling Restrictions*” and for information regarding the rights pertaining to the Shares, please refer to “*Description of Our Shares*”.

### Timetable of the Offering

The timetable below lists key dates relating to the Offering. All times and dates referred to in this timetable are based on Warsaw and Prague local time and may be adjusted by us. Should we decide to adjust the dates set out in the timetable, we will notify the CSSF, the CNB and the KNF, and publish such fact in a manner compliant with applicable regulations, as well as market practices in Luxembourg, the Czech Republic and Poland.

Announcement of the Price Range, if any .....	On or around December 5, 2006
Subscription Period and Book-building <sup>(*)</sup> .....	From December 5 to December 14, 2006
Allotment Date and Pricing .....	Not later than on December 15, 2006
Start of conditional trading on the PSE .....	On or about December 15, 2006
Settlement and Payment Date <sup>(**)</sup> .....	December 19, 2006
Delivery Date <sup>(***)</sup> .....	On or about December 21, 2006
Official Listing Date (listing of, and start of official trading in, the Shares on the PSE and the WSE) .....	On or about December 21, 2006

(\*) Retail subscriptions will be accepted on the last day until 16.00 Warsaw and Prague time. Institutional subscriptions will be accepted and bookbuilding will finish on the same day at 18.00 Warsaw and Prague time.

(\*\*) Payment by institutional investors for and issuance by us of the New Shares, as well as the sale of the Sale Shares by the Selling Shareholder.

(\*\*\*) Exact delivery date will depend on timing of a share transfer from Clearstream, Luxembourg to the Euroclear, Univyc and NDS systems. Investors who will elect to hold the Offer Shares through direct participants of Clearstream, Luxembourg or Euroclear are expected to receive their shares on or about December 19, 2006.

### Eligible Investors

The Offer Shares may be acquired in the Offering within the territory of the Czech Republic and Poland by individuals, which we refer to as Czech retail investors and Polish retail investors, respectively, and by corporate

entities (legal persons) and non-corporate entities, other than individuals, having their registered office within the territory of the Czech Republic or Poland, which we refer to as Czech institutions and Polish institutions, respectively.

In addition, we are offering the Offer shares in a private placement to selected investors in certain jurisdictions outside the Czech Republic and Poland, where such an offering may be lawfully conducted. We refer to such investors, together with Czech and Polish institutions as “Institutional Investors.”

We and the Selling Shareholder have not created separate tranches in this Offering for the various categories of investors (such as institutional investors or Polish and Czech retail investors). Consequently, we reserve the right to allocate the Offer Shares between such groups of investors at our and the Selling Shareholder’s absolute discretion, following consultation with the Managers. Should that happen, all of the Offer Shares may be subscribed solely by Institutional Investors or by retail investors, as the case may be.

All investors that intend to acquire any of the Offer Shares, and in particular Czech and Polish retail investors, should acquaint themselves with the relevant laws of their countries of residence prior to making a decision to subscribe for the Offer Shares.

### **Currency of the Offering**

All monetary amounts used in this Offering will be expressed in euro. In particular, the Offer Price and the price range (if any) will be set and the bookbuilding process will be carried out in euro.

### **Maximum Offer Price**

The maximum price at which the Offer Price may be set (the “Maximum Price”) is €50.00 per share. The Maximum Price does not necessarily reflect what the Offer Price will be in the Offering.

### **Price Range and Determination of the Offer Price**

Prior to the Subscription Period, we may announce, after consulting with the Managers, an indicative price range for the Offering (the “Price Range”). The Price Range, if such is announced, will be announced through a press release and in a manner compliant with applicable regulations, as well as market practices in Luxembourg, the Czech Republic and Poland. The Price Range, if announced, will be expressed in euro.

During the Subscription Period, a book-building process amongst Institutional Investors invited by the Managers will take place, during which such Institutional Investors interested in subscribing for the Offer Shares will indicate the number of the Offer Shares they will be willing to acquire and the price, not higher than the Maximum Price, which they will be willing to pay. Retail investors will not participate in the book-building process.

The Offer Price will be determined jointly by us and the Selling Shareholder upon recommendation of the Managers and will not be higher than the Maximum Price. The Offer Price will take into account results of the book-building amongst the Institutional Investors. We will announce the Offer Price through a press release in the Czech Republic and Poland and in a manner compliant with applicable regulations, as well as market practices in Luxembourg, the Czech Republic and Poland.

More specifically, in accordance with article 10 of the Prospectus Act 2005, the Offer Price will be filed with the CSSF and publicised in the same manner as this Prospectus on or around December 15, 2006, in particular on the websites of the Company ([www.pegas.lu](http://www.pegas.lu)) and of the financial intermediaries ([www.ingsecurities.pl](http://www.ingsecurities.pl), [www.ing.cz](http://www.ing.cz) and [www.csas.cz](http://www.csas.cz)) in accordance with article 16 of the Prospectus Act 2005.

The Offer Price will be the same for the New Shares and for the Sale Shares and for all categories of investors and will be set in euro.

### **Final Number of the Offered Shares**

The final number of the Offer Shares in this Offering will not be higher than 5,284,250 shares. When determining the final number of the Offer Shares, we and the Selling Shareholder will first seek to ensure that the placement of the New Shares yields approximately €50 million in order for us to repay certain indebtedness. See also “*Use of Proceeds*”.

Then the Selling Shareholder will sell such number of the Sale Shares as to ensure, subject to there being a sufficient demand for the Sale Shares at the level of the Offer Price which shall be satisfactory to the Selling Shareholder, that the number of shares held by the Selling Shareholder after this Offering is completed falls below 50% of all our Shares, taking into account issuance of the New Shares.

Until completion of the book-building process we and the Selling Shareholder reserve the right to allocate in total a smaller number of the Offer Shares than 5,284,250. This may happen, for instance, as a result of insufficient demand at a price level satisfactory to us or the Selling Shareholder.

We will publicise the final number of the Offer Shares through a press release in the Czech Republic and Poland in a manner compliant with applicable regulations, as well as market practices in Luxembourg, the Czech Republic and Poland.

More specifically, in accordance with article 10 of the Prospectus Act 2005, the final number of the Offer Shares will be filed with the CSSF and publicised in the same manner as this Prospectus on or around December 15, 2006, in particular on the websites of the Company ([www.pegas.lu](http://www.pegas.lu)) and of the financial intermediaries ([www.ingsecurities.pl](http://www.ingsecurities.pl), [www.ing.cz](http://www.ing.cz) and [www.csas.cz](http://www.csas.cz)) in accordance with article 16 of the Prospectus Act 2005.

### **Number of Offer Shares that may be covered by one subscription order**

Each eligible investor has a right to place a subscription order for not less than one and not more than 5,284,250 Offer Shares. Subscriptions placed for more than 5,284,250 Offer Shares will be deemed to have been placed for 5,284,250 Offer Shares.

### **Supplements to the Prospectus**

In accordance with article 13 of the Prospectus Act 2005 and relevant regulations in force in the Czech Republic and Poland applicable to public share offerings and admission of securities to trading on a regulated market, any significant change to this Prospectus, as defined in the aforementioned regulations, will be communicated through a supplement to this Prospectus, if required. In case the supplement is published after commencement of the Subscription Period and relates to events or circumstances which occurred prior to the Allotment Date and about which we, the Selling Shareholder or the Managers have learnt prior to the allotment, investors who have placed their subscription orders before publication of the supplement will have a right to withdraw their subscriptions within two business days from the publication of the supplement to this Prospectus. In such a case and if necessary the Settlement Date will be adjusted in order to enable the investors to withdraw their subscriptions.

### **Cancellation of the Offering**

We may cancel this Offering, upon recommendation of the Managers or at our own initiative, at any time prior to the Allotment Date. We may also change the dates of opening and closing of the Subscription Period, or decide that the Offering will be postponed and that new dates of the Offering will be provided by us later. Information on change of dates or suspension of the Offering will be published in the form of a supplement to the Prospectus.

We may also cancel this Offering, upon recommendation of the Managers or at our own initiative, at any time after opening of the Subscription Period, but not later than on the Allotment Date, if we consider it impracticable or inadvisable to proceed with the Offering. Such reasons include, but are not limited to: (i) suspension or material limitation in trading in securities generally on the WSE and the PSE, as well as any other official stock exchange in the United States and the EU; (ii) sudden and material adverse change in the economic or political situation in the Czech Republic, Poland, Luxembourg or worldwide; (iii) a material loss or interference with our business; (iv) any material change or development in or affecting the general affairs, management, financial position, shareholders' equity or results of our operations or the operations of our subsidiaries, or (v) an insufficient, in our opinion or that of the Managers, expected free float of our Shares on the WSE and the PSE. In such event, subscriptions for the Offer Shares that have been made will be disregarded, and any subscription payments made will be returned without interest or any other compensation.

All dealings in the Offer Shares prior to the commencement of the official trading on the PSE and the WSE, and in particular transactions executed under the conditional trading regime on the PSE, will be at the sole risk of the investor concerned. Any decision on cancellation of the Offering will be published by way of a press release in the Czech Republic and in Poland, and in a manner compliant with applicable regulations, as well as market practices in Luxembourg, the Czech Republic and Poland. The Offering may not be cancelled or suspended after the Settlement Date.

## **Purchase by the Selling Shareholder and the members of the Board of Directors**

To the best of our knowledge, neither the Selling Shareholder nor any members of our Board of Directors intend to purchase any Offer Shares in the Offering.

## **Share Allotments**

Neither we nor the Selling Shareholder will give preferential treatment to or discriminate against and between retail investors. Should there be an excess demand indicated by the retail investors compared with the final number of the Offer Shares allotted to them, we will reduce their allocations pro-rata (separately for Czech and Polish retail investors, if any), regardless of the price per Offer Share proposed by each of them, as long as such price is not lower than the Offer Price. Retail investors should note that subscription orders placed at a price lower than the Offer Price will be disregarded and fractional allocations (after the proportional reduction, if any) will be rounded down. Any unallocated shares will then be allocated to the remaining orders, from the largest to the smallest, with any remaining shares allocated by the Managers at their discretion.

With regard to Institutional Investors, we and the Selling Shareholder will allocate the Offer Shares to those Institutional Investors who: (i) will be invited by the Managers to participate in the book-building, (ii) will subscribe for the Offer Shares for a price not lower than the Offer Price, and (iii) will be included in the allotment list. The allocation to Institutional Investors will be made in our and the Selling Shareholder's absolute discretion, but upon consultation with the Managers.

We will publicise the results of this Offering, including in particular the final Offer Price (which for Czech and Polish retail investors shall also be expressed in the local currency equivalent of euro, as described in detail below) and the final number of the Offer Shares, including allocation among the various categories of investors, as defined above, promptly upon allotment, by means of a press release in the Czech Republic and Poland, and in a manner compliant with applicable regulations, as well as market practices in Luxembourg, the Czech Republic and Poland.

It is expected that the Company, the Selling Shareholder, EMF Luxembourg SA. and NFF LP Inc., an affiliate of EMF Luxembourg SA, will enter into a Supplemental Agreement to the Mezzanine Share Warrant Instrument, whereby NFF LP Inc. will be entitled to subscribe for a portion of the Offer Shares to be offered by the Selling Shareholder in the Offering at a price equal to the nominal value per Share. This number is currently expected not to exceed 200,000 Shares. For more information concerning the number of Shares which NFF LP Inc. may purchase from the Selling Shareholder, you should read "*Principal Shareholders*".

Institutional investors will be notified of their allocations by the Managers. Retail investors will receive relevant notifications in accordance with the regulations of their brokerage accounts.

## **General rules for placing subscription orders**

All investors have a right to place multiple subscriptions (also at various price levels) and, until the end of the Subscription Period, orders may be withdrawn and/or modified.

By placing subscription orders, each prospective investor will be deemed to have read this Prospectus, accepted the terms of this Offering, consented to being allotted a lower number of the Offer Shares than the number specified in such investor's order (also, in the case of retail investors, as a result of a shortfall in funds paid in due to exchange rate differences between euro and Czech crown and between euro and Polish zloty, between the date of initial payment by a given investor and the date on which the Exchange Rates are published), or to not being awarded any Offer Shares at all, pursuant to the terms and conditions set forth in the Prospectus.

Investors should be aware that they may receive various numbers of the New Shares and the Sale Shares as a proportion of their total allocation of the Offer Shares. Consequently, investors may be allocated only New Shares, only Sale Shares, a combination of both or no Offer Shares at all. However, all Offer Shares have equal rights which are the same for all of our Shares. We and the Selling Shareholder will attempt to allocate first the New Shares, and the Sale Shares will be allocated only after all New Shares have been allocated.

Amounts due for the Offer Shares will be expressed in euro as a base currency. However, Czech and Polish retail investors (if any), will generally pay for the Offer Shares allocated to them in Czech crowns and Polish zloty respectively (see below). For the purposes of currency conversion from euro to Czech crowns, an official exchange rate published by the CNB on its web page ([www.cnb.cz](http://www.cnb.cz)) on the date of Pricing, shall apply. Similarly, for conversion from euro to Polish zloty, the official exchange rate published by the National Bank of Poland on its web page ([www.nbp.gov.pl](http://www.nbp.gov.pl)) on the date of Pricing shall be used. We refer to these currency exchange rates as the "Exchange Rates".

### **Subscription and Payment of the Offer Price by Institutional Investors**

Institutional Investors, which will be included on the allotment list, will be required to pay amounts in euro, corresponding to the product of the number of the Offer Shares that was allocated to them and the Offer Price, not later than on the Settlement Date and in a manner agreed with the Managers.

Institutional Investors, and in particular, entities managing securities portfolios on behalf of their clients should liaise with the Managers in order to discuss actions required to place subscription orders and to pay for allocated Offer Shares.

### **Subscription and Payment of the Offer Price by retail investors in Poland**

Retail investors, subscribing for the Offer Shares in Poland, will be required to pay in, when placing their orders, an amount of money (either in cash or by wire transfer), equal to the product of the number of the Offer Shares they wish to purchase and the price per Share they are prepared to pay. Payments will only be accepted in Polish zloty. Any overpayments (either as a result of the Offer Price being lower than the price proposed, exchange rate differences, or as a result of any proportional reduction) will be returned within seven business days of the Settlement Date without any interest or any other compensation in the same manner as the original payment was made. Should there be a shortfall of money as a result of changes in the exchange rate between the date of order placement by a given retail investor and the Exchange Rate, the Polish Manager will adjust the number of the Offer Shares allocated to such an investor to ensure his or her full payment for the Offer Shares at the Offer Price.

Payment details (such as bank account number) will be publicised by the Polish Manager not later than on the first day of the Subscription Period.

Subscription orders from retail investors in Poland will be accepted only from those of the prospective investors, who at the time of the order placement before the end of the Subscription Period, will have opened securities accounts with entities of their choice, licensed to provide such services within the territory of Poland. However, their subscription orders may only be placed in the Polish Manager's customer service points or at any other place that may be publicly communicated by the Polish Manager before the Allotment Date. Investors who, at the time of this Offering, will have a brokerage and cash account open with the Polish Manager, may place their orders by telephone, fax or through the internet, provided that their agreements for provision of brokerage services so permit, and pursuant to the terms of such agreements.

### **Subscription and Payment of the Offer Price by retail investors in the Czech Republic**

Retail investors subscribing for the Offer Shares in the Czech Republic ("Czech Retail Investors") are required to follow the information which will be published by Česká spořitelna, a.s. (the "Czech Retail Manager") or its subsidiary brokerjet České spořitelny, a.s., both intermediating in the Czech Retail Offering.

It will then be at the discretion of the Czech Retail Manager after having consulted us, the Selling Shareholder and the Global Coordinator and Bookrunner whether and how the Czech Retail Manager will administer the Czech Retail Offering. The Czech Retail Offering will in particular depend on market conditions and the results of the book-building process.

Czech Retail Investors will be required to pay a deposit equal at least to the product of the highest price accepted by such retail investor and the number of Offer Shares it is willing to purchase. The deposit must be paid in immediately available funds into an account of the respective Czech Retail Investor held with the Czech Retail Manager. Until the end of the Subscription Period, the relevant Czech Retail Investor must not dispose of the cash balance in such account.

If the Offer Price is higher than the highest price accepted by the respective Czech Retail Investor, no Offer Shares will be delivered to such an investor. Any excess in cash balance at the internal account of the respective Czech Retail Investor with the Czech Retail Manager after the Delivery Date will be disposed of in accordance with the instructions of such investor.

The manner in which Czech Retail Investors will hold Offer Shares purchased by them (for instance, whether for the applicant's own account opened with UNIVYC or through a custodial account), and the manner of funding the purchase of such Offer Shares shall be agreed between the applicant and its local custodian. No assurance can be given that the Offer Shares will be properly delivered unless the applicant and its local custodian comply with all of the above procedures and all relevant instructions of the Czech Retail Manager or its agents.

Should the Company, in agreement with the Global Coordinator and Bookrunner and the Czech Retail Manager, decide to modify the terms of the Czech Retail Offering, such change will be published as a supplement to this

Prospectus to be approved by the CSSF, notified to the CNB and, separately to the PSE and published on the Company's website ([www.pegas.lu](http://www.pegas.lu)) and on the websites of Česká spořitelna, a.s. ([www.csas.cz](http://www.csas.cz)) and brokerjet České spořitelny, a.s. ([www.brokerjet.cz](http://www.brokerjet.cz)), and hard copies of such supplement shall be available during regular business hours at the offices of the Company. Investors who have submitted purchase orders will not be notified individually. Changing the terms of the Czech Retail Offering will invalidate purchase orders that have already been submitted.

Purchase orders from the Czech Retail Investors can be submitted through Česká spořitelna, a.s. and brokerjet České spořitelny, a.s. and in Czech crowns only, unless otherwise agreed with the Czech Retail Manager. The Czech Retail Investors who have not been allotted any Offer Shares or whose orders have been reduced shall receive reimbursements in accordance with instructions provided by them, without any interest or any other compensation.

### **Share Allotment**

The investors in the Czech Retail Offering who have not been allotted any Offer Shares or whose purchase of Offer Shares have been reduced shall receive reimbursements of cash payments and of excess payments in accordance with the instruction provided by each investor in the Czech Retail Offering. The excess payments and payments will be reimbursed without any interest, damages or costs incurred by the retail investors in the course of subscribing for the Offer Shares.

With respect to the Czech Retail Offering, the Global Coordinator and Bookrunner, we and the Selling Shareholder may enter into a purchase agreement with the Czech Retail Manager, for the sale of a certain amount of the Offer Shares to the public in the Czech Republic, such amount to be determined on or around the Allotment Date based on market conditions and the results of the bookbuilding process (the "Czech Purchase Agreement"). Subject to the terms and conditions of the Czech Purchase Agreement, and, if applicable, also the terms and conditions of the Underwriting Agreement (see: "*Placing and Underwriting*"), we and the Selling Shareholder may agree to issue and/or sell, as the case may be, to the Czech Retail Manager, and the Czech Retail Manager may agree to purchase from us and the Selling Shareholder, an amount of Offer Shares, to be allocated by us and the Selling Shareholder in consultation with the Managers to the Czech Retail Offering. If the Czech Purchase Agreement is entered into, we and the Selling Shareholder will give certain representations and warranties to the Czech Retail Manager and will agree to indemnify it against certain liabilities, including liabilities under applicable securities laws.

### **Listing and Trading**

We have applied for admission to listing and trading on the main market of the PSE of all of our Shares, including the Offer Shares. In addition we are planning to apply for admission to listing and trading on the main market of the WSE of all of our Shares, including the Offer Shares, immediately after the Settlement Date.

The Listing Committee of the PSE approved the admission to trading on December 1, 2006. We expect that the conditional trading in our Shares on the PSE will commence on or about December 15, 2006 and official trading will commence on or about December 21, 2006, or as soon as possible thereafter. With respect to our listing on the WSE we expect that the approval for the admission to listing and trading will be granted on or about December 20, 2006 and official trading will commence on or about December 21, 2006, or as soon as possible thereafter.

In addition, in connection with the planned listing of our shares on the WSE, all the Offer Shares will be registered with and cleared, with respect to trades executed at the WSE, through the NDS which is the central clearing house and depository of securities in Poland, including those listed on the WSE.

With respect to the planned listing of our Shares on the PSE, all trades in the Offer Shares executed at the PSE will be settled and cleared through UNIVYC. UNIVYC is a 100% subsidiary of the PSE and acts as the clearing and settlement system of the PSE.

### **Listing Agents**

We have appointed ING Bank N.V., organizační složka (Prague Branch) to act as our listing agent with respect to our Shares for the purposes of admission to trading on the main market of the PSE and ING Securities S.A. to act as our listing agent with respect to our Shares for the purposes of admission to trading on the main market of the WSE.

Investors trading on the WSE should consider that since under the laws of Luxembourg, no court registration process is needed in order validly to issue any shares, our New Shares will be eligible for the listing application promptly after payment by investors (subject to relevant registration procedures with the NDS), on par with our remaining Shares. Consequently, we will not be seeking to apply for listing on the WSE of any temporary share receipts, such as “rights to shares” (*prawa do akcji*) within the meaning of the Polish Act on Trading in Financial Instruments.

At present we do not intend to seek a listing of our Shares at any stock exchange other than the PSE and the WSE.

### **Registration and Delivery of the Offer Shares**

In accordance with Luxembourg law, all of our Shares are and will be generally in registered form. Shareholders may hold them, either by being directly entered into the Share register kept in Luxembourg at the Company’s registered office, or in book entry form with a bank or professional securities depository or other qualified financial intermediary, which will hold them through Clearstream, Luxembourg or Euroclear, either directly as a participant of that system or indirectly through participants of UNIVYC and participants of NDS. Investors should note that in order to trade the Shares on either the WSE or the PSE, the Shares must be in book entry form.

Upon issue, the Shares which are to be held in book entry form through Clearstream, Luxembourg or Euroclear will be registered in the name of Fortis, acting as common depository in the name and on behalf of Clearstream, Luxembourg or Euroclear, in the share register kept at the Company’s registered office.

Delivery of the Offer Shares will be made in accordance with settlement instructions placed by investors upon subscription, through the facilities of Clearstream, Luxembourg and/or Euroclear and onwards through the facilities of the NDS (for those of the investors who will elect to deposit their shares with custodians and brokers which are members of the NDS) and of UNIVYC (for those of the investors who will elect to deposit their shares with custodians and brokers which are members of UNIVYC).

Delivery of the Offer Shares is expected to take place on or about December 21, 2006 (the “Delivery Date”), barring unforeseen circumstances. The exact delivery date will depend on timing of a share transfer from Clearstream, Luxembourg to the Univyc and NDS systems. Investors who will elect to hold the Offer Shares through direct participants of Clearstream, Luxembourg or Euroclear are expected to receive their shares on or about December 19, 2006.

As of the date of publication of the Prospectus, all of our existing Shares and New Shares to be issued in connection with the Offering have been assigned ISIN code LU0275164910 and Common Code 027516491. See also “*Description of Our Shares*”.

### ***Paying agents and common depository***

After the successful closing of the Offering, the Shares which are to be held in book entry form through Clearstream, Luxembourg or Euroclear will be registered in the name of Fortis, with its registered office at 50, avenue J.F. Kennedy, L-2951 Luxembourg, acting as common depository in the name and on behalf of Clearstream, Luxembourg or Euroclear, in the share register kept at the Company’s registered office.

Fortis will also act as a principal paying agent in Luxembourg for the Shares further to a paying agency agreement to be signed on or about the Allotment Date. NDS, with its registered office at ul Książęca 4, 00-498 Warsaw, Poland will act as a sub-paying agent in Poland and UNIVYC, with its registered address at Rybná 14, 110 05 Prague 1, the Czech Republic will act as a sub-paying agent in the Czech Republic.

## PLACING AND UNDERWRITING

We and the Selling Shareholder intend to enter, on or about the Allotment Date, into an underwriting agreement (the “Underwriting Agreement”) in respect of the Offering with the Managers, in which the Global Coordinator and Bookrunner and the Co-Lead Manager will commit, subject to certain other conditions, to procure subscribers for, or failing that, to subscribe in their own name and pay for, the Offer Shares which are allocated pursuant to the Offering at the final Offer Price. Neither the Polish Manager nor the Czech Manager will underwrite any portion of the Offering. The underwriting commitment is summarized below:

<u>Name</u>	<u>Underwriting commitment (% of Offer Shares)</u>
ING Bank N.V., London Branch, 60 London Wall, London EC2M 5TQ, United Kingdom . .	85%
Česká spořitelna, Olbrachtova 1929/62, 140 00 Praha 4, Czech Republic . . . . .	15%
<b>Total</b> . . . . .	100%

### Over-allotment Option

In connection with the placement of the Offer Shares, we have granted the Global Coordinator and Bookrunner an option (referred to as the “Over-allotment Option”), solely for the purpose of covering over-allotments, to purchase an additional 689,250 Sale Shares at the Offer Price (referred to as the “Over-allotment Shares”). The Over-allotment Option is exercisable, in whole or in part, during the period which runs from the date of this Prospectus until thirty days after the announcement of the Offer Price.

### Over-allotment and stabilisation

In connection with the Offering, the Global Coordinator and Bookrunner as stabilisation manager or its affiliates or agents may engage in transactions on the WSE and on the PSE with the aim of supporting the market price of the Shares at a level higher than would otherwise prevail. Such stabilisation shall be conducted in accordance with the rules set out in the European Commission Regulation (EC) No. 2273/2003 of December 22, 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments (the “Stabilisation Regulation”).

No assurance can be given that stabilisation transactions will actually be effected. If such stabilisation is commenced, however, it may be discontinued at any time without prior notice. The stabilising actions, if any, will be undertaken, between the first day of trading or conditional trading in our Shares on the WSE and the PSE, whichever is earlier, and no later than thirty days after the announcement of the Offer Price and may result in a market price of our Shares that is higher than the price that would otherwise prevail. Stabilisation of the Shares will not, in any circumstance, be executed above the Offer Price.

The Global Coordinator and Bookrunner will disclose all details of any stabilisation transactions effected by it to the KNF (with respect to transactions carried out on the WSE) and the CNB (with respect to transactions carried out on the PSE) no later than the end of the seventh daily market session following the date of execution of such transactions. Within one week of the end of the stabilisation period the Global Coordinator and Bookrunner will disclose to the public in a manner compliant with applicable regulations, as well as market practices in Luxembourg, the Czech Republic and Poland (i) whether or not stabilisation was undertaken, (ii) the date on which stabilisation started, (iii) the date on which stabilisation last occurred and (iv) the price range within which stabilisation was carried out, for each of the dates during which stabilisation transactions were carried out.

For the purpose of the aforementioned stabilisation, additional Shares up to the number of the Over-allotment Shares may be over-allocated to investors by the Global Coordinator and Bookrunner on the Allotment Date at the Offer Price. Should a short position arise as a result of such over-allocation, the Global Coordinator and Bookrunner may close such short position by exercising the Over-allotment Option (in whole or in part) or by open-market purchases or by a combination of both. The exercise of the Over-allotment Option will be promptly disclosed to the public. This disclosure will contain all appropriate details, including the date of exercise and the number of the Over-allotment Shares purchased.

### Lock up agreements

Except for the issue of the New Shares in the Offering, we have agreed that in the period of 180 days from the Settlement Date, we will not, without the prior written consent of the Global Coordinator and Bookrunner, which consent shall not be unreasonably withheld, propose or otherwise support an offering of any of our Shares, announce any intention to offer new shares and/or to issue any securities convertible into our stock or securities



that in any other manner represent the right to acquire our shares, or conclude any transaction (including any transaction involving derivatives) whose economic effect would be similar to the effect of selling our stock.

Furthermore, the Selling Shareholder (who, excluding the New Shares and as of the date hereof, holds 97.5% of our share capital) and certain members of our management (who, excluding the New Shares and as of the date hereof, hold in total 2.5% of our share capital) have severally agreed that each of them, save for the sale of the Sale Shares in the Offering by the Selling Shareholder, in the period of 180 days from the Settlement and Payment Date shall not: (i) sell or announce an intention to sell any of our Shares they will hold as of the Settlement and Payment Date (excluding the Sale Shares), (ii) issue any securities exchangeable into our stock, (iii) issue any securities that in any other manner represent the right to acquire our shares, as well as not (iv) conclude any transaction (including any transaction involving derivatives) whose economic effect would be similar to the effect of selling our stock, without the prior consent of the Global Coordinator and Bookrunner, which consent shall not be unreasonably withheld. In addition, the Selling Shareholder and certain members of our management have undertaken severally not to propose, vote in favour of or otherwise support: (v) any increase of our share capital, (vi) any issuance of securities convertible into our stock or (vii) any issuance of any other securities that in any other manner represent the right to acquire our Shares, as well as not (viii) to conclude any transaction (including any transaction involving derivatives) whose economic effect would be similar to the effect of causing us to issue such instruments.

### **Fees**

In connection with the Offering, we have agreed to pay the Managers a combined management, underwriting and placing commission of 3.5% of the gross proceeds from the Offering, including the shares placed under the Over-allotment Option, if any, and to reimburse them for reasonable expenses incurred in connection therewith.

We and the Selling Shareholder also agreed to pay all commissions and expenses in connection with the Offering. However, investors will bear their own costs connected with the evaluation and participation in the Offering.

The Managers will not charge any commission or fees on the subscription orders collected from investors participating in the Offering.

### **Conditions of the Underwriting Commitment**

The Underwriting Agreement will provide that the obligations of the Managers, and of the Global Coordinator and Bookrunner in particular, are subject to certain conditions precedent. If any or all of these conditions (such as delivery of customary legal opinions and comfort letters), are not met or waived, a breach of our representations and warranties occurs or if any of the circumstances which will be referred to in the Underwriting Agreement occur prior to payment for and delivery of the Offer Shares, the Global Coordinator and Bookrunner may, at their sole discretion, terminate the Underwriting Agreement and its obligation to subscribe for any Offer Shares will lapse.

We and the Selling Shareholder envisage that the Global Coordinator and Bookrunner and the Co-Lead Manager shall agree to subscribe for Shares which are not subscribed and paid for at the Settlement Date, provided *inter alia* that no material adverse change will occur in our financial and/or legal standing from the date when this Prospectus is published until the date of settlement of this Offering. We and the Selling Shareholder will also agree that the Offer Shares subscribed for by the Global Coordinator and Bookrunner and the Co-Lead Manager may be transferred at any time, without any restrictions whatsoever, on the terms and conditions set forth by the applicable laws,

We and the Selling Shareholder will also undertake: (i) to take all actions necessary to list our Shares on the WSE and the PSE, and in particular to file relevant applications, (ii) not to enter into any other underwriting agreement in respect of the Shares and (iii) to use the proceeds from the Offering for the purposes indicated in the Prospectus. Each of the Managers will be able to terminate the Underwriting Agreement in the event of any occurrence of *force majeure* (as defined in the Underwriting Agreement, but in any case including publication or an intention to publish a supplement to this Prospectus), upon prompt written notice by the terminating party.

In addition, we have agreed to indemnify each of the Managers, their affiliates and their respective directors and employees against certain liabilities, including liabilities under applicable securities laws. These indemnifications will survive expiry and termination, if any, of the Underwriting Agreement.

## Dilution

Upon completion of the Offering the amount and percentage of the immediate maximum dilution of our Shares will be as follows:

	Before the Offering		After the Offering		After the Offering and after full Exercise of the Over-allotment Option	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Existing Shares(*)	7,419,400	100.00%	4,844,400	51.33%	4,155,150	44.02%
New Shares	0	0.00%	2,020,000	21.40%	2,020,000	21.40%
Sale Shares	0	0.00%	2,575,000	27.28%	3,264,250	34.58%
<b>Total</b>	<b>7,419,400</b>	<b>100.00%</b>	<b>9,439,400</b>	<b>100.00%</b>	<b>9,439,400</b>	<b>100.00%</b>

(\*) includes Shares held by the Selling Shareholder and certain members of our management.

## Other Relationships with the Managers

The Managers and their respective affiliates have in the past engaged and may in the future engage in investment and commercial banking and other commercial dealings in the ordinary course of business with the Selling Shareholder, for which they received customary fees and commissions.

## SELLING RESTRICTIONS

No action has been taken by us, the Selling Shareholder or the Managers that would permit, other than under the Offering, an offer of the Offer Shares or possession or distribution of this Prospectus or any other offering material in any jurisdiction where action for that purpose is required.

### **No Public Offering Outside the Czech Republic and Poland**

No action has been or will be taken by us, the Selling Shareholder or the Managers in any jurisdiction other than the Czech Republic and Poland that would permit a public offering of the Offer Shares, or the possession or distribution of this Prospectus or any other offering material relating to us or the Shares in any jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the Shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

The distribution of this Prospectus and the offer of the Offer Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions.

### **European Economic Area**

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) (except for the Czech Republic and Poland), each Manager has represented and agreed that it has not made and will not make an offer of Shares to the public in that Relevant Member State prior to the publication of a Prospectus in relation to the Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may make an offer of Shares to the public in that Relevant Member State under the following exemptions under the Prospectus Directive, if such exemptions have been implemented in that Relevant Member State:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) total balance sheet assets of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons in such Relevant Member State or to fewer than 100 natural or legal persons in all Member States, depending on the method of calculation provided for under applicable regulations of such Relevant Member State; and
- in any other circumstances which do not require the publication by us of a Prospectus or obtaining any approvals pursuant to article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Shares to the public” in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive.

### **The Grand Duchy of Luxembourg**

In addition to the cases described in the European Economic Area selling restrictions in which each Manager can make an offer of Shares to the public in an EEA Member State (including Luxembourg), each Manager can also make an offer of Shares to the public in Luxembourg:

- (h) at any time, to national and regional governments, central banks, international and supranational institutions (such as the International Monetary Fund, the European Central Bank, the European Investment Bank) and other similar international organisations;
- (i) at any time, to legal entities which are authorised or regulated to operate in the financial markets (including, credit institutions, investment firms, other authorised or regulated financial institutions, insurance compa-

nies, undertakings for collective investment and their management companies, pension and investment funds and their management companies, commodity dealers) as well as entities not so authorised or regulated whose corporate purpose is solely to invest in securities; and

- (j) at any time, to certain natural persons or small and medium-sized enterprises (as defined in the Prospectus Act 2005 recorded in the register of natural persons or small and medium-sized enterprises considered as qualified investors as held by the CSSF as competent authority in Luxembourg in accordance with the Prospectus Directive.

### **United Kingdom**

Neither this Prospectus nor any other offering material has been submitted to the clearance procedures of the Financial Services Authority in the United Kingdom. The Offer Shares have not been offered or sold and will not be offered or sold to persons in the United Kingdom except to “qualified investors” as defined in section 86 of the Financial Services and Markets Act 2000 (the “FSMA”). Each Manager will represent, warrant and agree that: it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of the Shares in circumstances in which section 21(1) of the FSMA does not apply to the Company or in respect of which an exemption (as set out in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005) applies; and it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares in, from or otherwise involving the United Kingdom.

### **United States**

THE SHARES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “US SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN TRANSACTIONS NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT. THE SHARES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE US SECURITIES ACT.

### **Canada**

This Prospectus is not, and under no circumstances is to be construed as, a prospectus, an advertisement or a public offering of the securities described herein in any province or territory of Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

### **Japan**

The Shares have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948, as amended), and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (which term as used herein includes any corporation or other entity organised under the laws of Japan), or to others for offering or sale, directly or indirectly, in Japan or to, or for the account of, any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

## Italy

The offering of the Offer Shares has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no Offer Shares may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to the Offer Shares be distributed in the Republic of Italy except: (i) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph of CONSOB Regulation No. 11522 of July 1, 1998, as amended; and (ii) in circumstances which are exempt from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree no. 58 of February 24, 1998, as amended (the “Financial Services Act”) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of May 14, 1999, as amended. Any offer, sale or delivery of the Offer Shares or distribution of copies of this Prospectus or any other document relating to the Offer Shares in the Republic of Italy under (i) or (ii) above must be: (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of September 1, 1993, as amended; and (b) in compliance with any other applicable laws and regulations.

## TAXATION OF OUR SHARES

The information set out below describes the principal Luxembourg, Czech and Polish tax consequences of the acquisition, holding and disposal of the Shares and is included for general information only. This summary does not purport to be a comprehensive description of all Luxembourg, Czech or Polish tax considerations that may be relevant to a decision to acquire, hold or dispose of our Shares. Each prospective investor should consult a professional tax adviser regarding tax consequences of acquiring, holding and disposing of our Shares under the laws of their country and/or state of citizenship, domicile or residence.

This summary is based on tax legislation, published case law, treaties, rules, regulations and similar documentation, in force as of the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect and does not apply to persons who directly or indirectly alone control more than 5% or together with one or more associated or connected persons control more than 10% in our share capital.

### Taxation in Luxembourg

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Shares should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or Luxembourg concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporation income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*impôt de solidarité*) as well as personal income tax (*impôt sur le revenu*) generally. Investors may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax and the solidarity surcharge invariably apply to most corporate taxpayers resident in Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

### *Luxembourg withholding tax*

Under Luxembourg tax laws currently in force, dividends paid by the Company are in principle subject to a Luxembourg withholding tax equal to 20% of the gross dividend (25% of the net dividend if the Company bears the cost of the withholding tax, which is not mandatory under Luxembourg tax laws).

However, if a double tax treaty between Luxembourg and the country of residence of the holder of Shares applies, an exemption or a reduction (in most cases between 5% and 15%) of the Luxembourg withholding tax may be available pursuant to the relevant provisions of such double tax treaty. Please note that Luxembourg currently has 49 double tax treaties in force, including with the Czech Republic and Poland.

In addition, pursuant to Luxembourg tax laws currently in force, an exemption from Luxembourg withholding tax on dividends may apply to the holder of Shares under the following conditions:

- the holder of Shares receiving the dividends is either (a) a Luxembourg resident limited company fully subject to Luxembourg corporation taxes or (b) a corporate entity referred to under Article 2 of the Council Directive of July 23, 1990 concerning the common fiscal regime applicable to parent and subsidiary companies of different member States (90/435/EEC) as amended by the Council Directive of December 22, 2003 (2003/123/EEC), or (c) the Luxembourg permanent establishment of a corporate entity referred to above under (a) or (b) or, (d) the Luxembourg permanent establishment of a limited company resident of a country with which Luxembourg has entered into a double tax treaty or finally, (e) a Swiss resident limited company fully subject to Swiss corporation taxes; and
- at the date of the dividend payment, the holder of Shares holds or commits to hold directly (or even indirectly under certain conditions) for an uninterrupted period of at least twelve months, a minimum participation of 10% in the share capital of the Company or a participation whose acquisition value amounts to at least €1,200,000.

Finally, under Luxembourg tax laws currently in force, no Luxembourg withholding tax is due on the payment of a liquidation surplus.

### ***Taxation of dividend income***

Pursuant to Luxembourg tax laws currently in force, an exemption from Luxembourg tax on dividend income may apply under the following conditions:

- the holder of Shares receiving the dividends is either (a) a Luxembourg resident limited company fully subject to Luxembourg corporation taxes or (b) the Luxembourg permanent establishment of a corporate entity referred to under Article 2 of the Council Directive of July 23, 1990 concerning the common fiscal regime applicable to parent and subsidiary companies of different member States (90/435/EEC) as amended by the Council Directive of December 22, 2003 (2003/123/EEC), or (c) the Luxembourg permanent establishment of a limited company resident of a country with which Luxembourg has entered into a double tax treaty; and
- at the date of the dividend payment, the holder of Shares holds or commits to hold directly (or even indirectly under certain conditions) for an uninterrupted period of at least twelve months, a minimum participation of 10% in the share capital of the Company or a participation whose acquisition value amounts to at least €1,200,000.

With the exception of Luxembourg resident shareholders which fall under the participation exemption regime described above, the holder of Shares who is either a Luxembourg resident individual person or a Luxembourg resident company fully subject to Luxembourg corporation taxes must include the dividends paid by the Company on his/her/its Shares in his/her/its taxable income, 50% of the amount of such dividends being exempted from Luxembourg income tax.

The Luxembourg withholding tax levied at source on the dividends paid may, under certain conditions, be credited against the Luxembourg income tax due on these dividends.

The holder of Shares which is a Luxembourg resident entity governed by the Luxembourg law of July 31, 1929 on pure holding companies, as amended, or by Luxembourg laws of March 30, 1988 and December 20, 2002 on undertakings for collective investments, as amended, is not subject to any Luxembourg corporation taxes in respect of dividends received from the Company. No tax credit is then available for Luxembourg withholding tax on dividends received from the Company.

### ***Taxation of capital gains***

Under current Luxembourg tax laws, capital gains realised by a Luxembourg resident holder of Shares who is an individual person acting in the course of the management of his/her private wealth, upon the disposal of his/her Shares, are not subject to Luxembourg income tax, provided this disposal took place more than six months after the Shares were acquired.

Capital gains realised upon the disposal of Shares by a Luxembourg resident holder of Shares which is a limited company fully subject to Luxembourg corporation taxes are in principle fully taxable.

However, an exemption from Luxembourg tax applies under the following conditions:

- the holder of Shares realising the capital gains is either (a) a Luxembourg resident limited company fully subject to Luxembourg corporation taxes or (b) the Luxembourg permanent establishment of a corporate entity referred to under Article 2 of the Council Directive of July 23, 1990 concerning the common fiscal regime applicable to parent and subsidiary companies of different member States (90/435/EEC) as amended by the Council Directive of December 22, 2003 (2003/123/EEC), or (c) the Luxembourg permanent establishment of a limited company resident of a country with which Luxembourg has entered into a double tax treaty; and
- at the date of the disposal, the holder of Shares holds or commits to hold for an uninterrupted period of at least twelve months a minimum participation of 10% in the share capital of the Company or a participation whose acquisition price amounts to at least €6,000,000.

The holder of Shares which is a Luxembourg resident entity governed by the Luxembourg law of July 31, 1929 on pure holding companies, as amended, or by Luxembourg laws of March 30, 1988 and December 20, 2002 on undertakings for collective investments, as amended, is not subject to any Luxembourg corporation taxes in respect of capital gains realised upon disposal of its Shares.

Under Luxembourg tax laws currently in force, capital gains realised by a non Luxembourg resident holder of Shares are not taxable in Luxembourg unless (a) the holder of Shares holds more than 10% of the share capital of the Company and the disposal of the Shares took place less than six months after the Shares were acquired or (b) the holder of Shares has been a former Luxembourg resident for more than fifteen years and had left the country, at the time of transfer, less than five years before.

However, if a double tax treaty between Luxembourg and the country of residence of the holder of Shares applies, the non Luxembourg resident holder of Shares may benefit from an exemption from Luxembourg tax upon disposal of his/her/its shares pursuant to the relevant provisions of such double tax treaty.

#### ***Luxembourg net wealth tax***

A Luxembourg resident holder of Shares which is a company subject to Luxembourg corporation taxes or a Luxembourg permanent establishment to which the Shares are attributable must include the Shares held on January 1, of each year in its net assets for the purposes of Luxembourg net wealth tax.

The holder of Shares which is a Luxembourg resident fully taxable company may be exempt from Luxembourg net wealth tax on its Shares if it holds a minimum participation of 10% in the share capital of the Company or a participation whose acquisition value amounts to at least €1,200,000.

No Luxembourg net wealth tax is applicable to a holder of Shares which is: (a) not a Luxembourg resident and has no permanent establishment or permanent representative in Luxembourg to which the Shares are attributable, (b) a Luxembourg resident individual person, (c) a Luxembourg resident entity governed by the Luxembourg law of July 31, 1929 on pure holding companies, as amended, or by the Luxembourg laws of March 30, 1988 and December 20, 2002 on undertakings for collective investments, as amended, (d) a Luxembourg resident securitisation company governed by the Luxembourg law of March 22, 2004 on securitisation, or (e) a Luxembourg resident capital company governed by the Luxembourg law of June 15, 2004 on venture capital vehicles.

#### ***Luxembourg capital duty***

A capital duty (*droit d'apport*) at the rate of currently 1% is in principle due in Luxembourg on all capital contributions made either at the time of the creation of a company (on the Share Capital) or later, on future capital increases.

#### ***Other Luxembourg taxes***

Under current Luxembourg tax laws, no registration tax or similar tax is in principle payable by the holder of Shares upon the acquisition, holding or disposal of the Shares. In the case of voluntary registration in Luxembourg, only a fixed registration duty of €12 would apply.

When the holder of Shares is a Luxembourg resident for inheritance tax purposes at the time of his/her death, the Shares are included in his/her taxable estate for Luxembourg inheritance tax assessment purposes.

Luxembourg gift tax may be due on a gift or donation of the Shares if embodied in a notarial deed signed before a Luxembourg notary or recorded in Luxembourg.

#### **Taxation in the Czech Republic**

The information set out below is only a summary description of certain material Czech tax consequences of the purchase, holding and disposition of the Shares and it does not purport to be a complete analysis of all Czech tax considerations relating to the Shares that may be relevant to a decision to purchase the Shares. This summary does not take into account or discuss the tax laws of any country other than the Czech Republic nor does it take into account specific double taxation treaties or the individual circumstances, financial situation or investment objectives of an investor in the Shares. Unless provided otherwise, the information set out below describes only certain material Czech tax consequences for beneficial shareholders who (i) are residents for tax purposes in the Czech Republic, (ii) are not residents for tax purposes in Luxembourg and (iii) do not have any permanent establishment outside the Czech Republic with which the Shares are effectively connected (“Czech Shareholders”).

This summary is based on the tax laws of the Czech Republic as in effect on the date of this Prospectus and their prevailing interpretations available on or before such date. All of the foregoing is subject to change, which could apply retroactively and could affect the continued validity of this summary.



As this is a general summary only, shareholders should consult their own tax advisers as to the consequences under the tax laws of the country of which they are residents for tax purposes and the tax laws of the Czech Republic concerning the purchase, holding and disposition of the Shares and receiving dividend payments under the Shares, including, in particular, the application to their particular situation of the tax considerations discussed below as well as the application of state, local, foreign or other tax laws.

### ***Dividends***

Dividend income received by a Czech Shareholder will generally be taxed gross in a separate tax base at a 15% flat rate. A Czech Shareholder who is an individual (“Czech Individual Shareholder”) may alternatively opt for tax at a marginal rate of 12% to 32% by including the dividends income in its ordinary personal income tax base. Withholding tax deducted in Luxembourg, if any, can be credited against the Czech tax provided that the Czech Shareholder can benefit from the double taxation treaty entered into by the Czech Republic and Luxembourg.

### ***Revaluation of the Shares***

Czech Shareholders that are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions and hold the Shares for the purpose of trading will be required to revalue the Shares to fair value for accounting purposes, whereby the revaluation will be accounted for as revenue or expense. Such revenue is generally taxable at a corporate income tax rate of 24% for Czech Shareholders which are legal entities and a personal income tax marginal rate of 12% to 32% for Czech Individual Shareholders. The corresponding expense is generally tax deductible for Czech tax purposes.

### ***Capital gains and losses***

Any gains upon a sale of the Shares will generally be subject to corporate income tax at a rate of 24% for Czech Shareholders which are legal entities and personal income tax at a marginal rate of 12% to 32% for Czech Individual Shareholders. Income from the sale of the Shares derived by a Czech Individual Shareholder will, however, be exempt from tax and therefore no tax will be payable if the Czech Individual Shareholder holds the Shares for a minimum period of more than six months after he has acquired them.

Losses incurred upon a sale of the Shares are generally tax deductible, assuming the general tax deductibility rules are preserved. Losses incurred upon a sale of the Shares by a Czech Individual Shareholder who does not hold the Shares in connection with his business activities are deductible only from taxable income generated upon a sale of other securities in the same tax period and only on condition that the holding period of the Shares does not exceed six months.

### ***Tax security***

According to Czech tax law, a Czech Shareholder will generally be obliged upon purchase of the Shares from a person which is not for tax purposes treated as a resident of the Czech Republic (“Non-Czech Shareholder”) to withhold an amount of 1% of the purchase price on a gross basis, representing tax security, unless the Non-Czech Shareholder is for tax purposes a resident of a member state of the European Union or the European Economic Area. This tax security may, however, be eliminated under a double taxation treaty concluded between the Czech Republic and the state of tax residence of that particular Non-Czech Shareholder, if any.

### ***Value Added Tax***

There will be no Czech value added tax payable in respect of payments in consideration for the issue of the Shares, or in respect of the payment of dividends, or in respect of the transfer of the Shares.

### ***Other Taxes or Duties***

No registration tax, capital tax, custom duty, transfer tax, stamp duty or any other similar tax or duty is payable in the Czech Republic by a Czech Shareholder in respect of or in connection with the purchase, holding or disposition of the Shares, save for disposition in certain cases upon donation or inheritance.

### **Taxation in Poland**

The following summary describes the principal Polish tax consequences of the acquisition, ownership and sale by investors of Offer Shares. This summary is not intended to constitute a comprehensive analysis and is based on regulations in force as of the date of the Prospectus. Potential investors should, therefore, consult their own tax

advisers regarding the tax consequences of acquisition, ownership and sale, both on the grounds of Polish law and the law of the jurisdiction of their residence.

### ***Polish Corporate Investors***

Legal entities, companies in organisation and other entities with no legal personality (with the exception of certain partnerships) that have their registered seats or the place of management in Poland, are subject to Polish Corporate Income Tax on their worldwide income irrespective of the country from which the incomes were derived (“Polish corporate investors”).

#### *Taxation on disposal of shares*

Income earned by Polish corporate investors on disposal of shares of a Luxembourg company is subject to corporate income tax in Poland in accordance with the general rules. The income is computed as the difference between the revenue (in principle, the price agreed for the shares) and tax deductible costs (in principle, the costs of acquisition of the shares and costs related to the sale). This income is combined with the business incomes of the given tax period, and subject to the general 19% Corporate Income Tax rate.

#### *Taxation of dividends*

Dividends earned by a Polish corporate investor from a Luxembourg company are combined with other incomes earned by the Polish corporate investor in the given tax period and subject to Polish Corporate Income Tax at a 19% rate, in accordance with general rules. Tax paid in Luxembourg (if any) on such income can be deducted from the Polish tax payable. The amount of foreign tax deducted cannot exceed the Polish tax on this income calculated as a proportion of total tax payable.

If a Polish corporate investor holds for an uninterrupted period of at least two years at least 20% (15% from 2007 and 10% from 2009 onwards) of the shares of a Luxembourg company, which is subject to tax on its worldwide income in an EU Member State other than Poland, a credit may also be claimed by the shareholder for tax paid by the Luxembourg company, up to a maximum of the Polish tax payable calculated proportionately. A credit can also be claimed for corporate income tax payable by the subsidiaries of the Luxembourg company being tax residents in EU Member States other than Poland, in which the Luxembourg company holds more than 20% (15% from 2007 and 10% from 2009 onwards) of shares.

### ***Polish Individual Investors***

Individuals having their place of residence in Poland (“Polish individual investors”) are subject to the Polish Personal Income Tax on their worldwide incomes irrespective of the country from which the incomes were derived.

#### *Taxation on disposal of shares*

Income earned by a Polish individual investor on sale of shares should be classified as income from capital gains and as such it should not be combined with incomes from other sources but should be subject to the 19% flat rate Personal Income Tax. The income is computed as the difference between the revenue earned on disposal of shares (in principle, the price for the shares) and the related costs (in principle, the costs of acquisition of the shares and costs related to the sale). The tax is settled on annual basis. Annual tax returns should be filed by April 30 of the calendar year following the year in which income was earned.

The above is not applicable if a Polish individual investor holds the shares within the scope of its business activity. If this is the case, the income should be classified as a business income.

#### *Taxation of dividends*

Income earned by a Polish individual investor on dividends from a Luxembourg company is considered to be income from capital gains and it is not combined with incomes from other sources. Such income is subject to the 19% flat rate Personal Income Tax. The tax is settled on an annual basis. Annual tax returns should be filed by April 30 of the calendar year following the year in which income was earned.

Tax paid in Luxembourg (if any) on such income can be deducted from the Polish tax payable. The amount of foreign tax deducted cannot exceed the Polish tax on this income calculated as a proportion of total tax payable.

It is not absolutely clear whether the tax due on dividend income earned by a Polish individual investor from a Luxembourg company shall be withheld by a Polish brokerage house assisting in the payment or not. On the one

hand, there is a regulation (Article 41 section 4 of the Personal Income Tax Act) that clearly imposes on brokerage houses the obligation to withhold the tax. On the other hand, there is a regulation which provides that amounts of tax due on dividends earned outside Poland and the amounts of tax paid outside Poland on such dividends should be shown by a taxpayer (i.e. Polish individual investor) in the annual tax return (Article 30a section 11). Most tax advisers seem to regard the latter provision as overruling the first one, and are thus of the opinion that a Polish brokerage house should not withhold any tax.

### ***Foreign Investors***

Individuals who do not have their place of residence in Poland and legal entities, companies in organisation and other entities with no legal personality (with the exception of certain partnerships) that have their registered office and place of management outside Poland (foreign investors) are subject to Polish Personal Income Tax only with respect to the profits that they derive from the territory of Poland.

Although this is not expressly provided for in Polish tax law, it should be noted that dividends from a Luxembourg company should not be treated as income derived from Poland, even if the company is listed on the Warsaw Stock Exchange. Consequently, it should be noted that dividends paid by a Luxembourg company to a foreign investor should not be subject to Polish income tax.

Polish tax law does not give clear direction on whether income from a sale of shares of a Luxembourg company should be treated as income derived from Poland if the shares are traded on the Warsaw Stock Exchange. It seems that the prevailing approach of the tax authorities is that trades on the Warsaw Stock Exchange shall be treated as a separate, Polish source of income. Consequently, as a rule, such income would be subject to Polish income tax and settled on general rules. In practice, however, most of the tax treaties would exempt such income from taxation in Poland. This should be verified on a case-by-case basis.

### ***Tax on Civil Law Activities***

The sale of securities to brokerage houses and banks conducting brokerage activity, and the sale of securities involving the intermediation of a brokerage house or a bank conducting brokerage activity, are exempt from the tax on Civil Law Activities in Poland.

A sale of securities in other circumstances would most probably trigger 1% tax on Civil Law Activities. Both parties to the transaction would be jointly and severally liable to settle the tax.

## INDEPENDENT AUDITORS

KPMG Česká republika Audit s.r.o., incorporated under the laws of the Czech Republic, with its registered office at Pobřežní 648/1a, 186 00 Praha 8, has been the statutory auditor of PEGAS a.s. and its subsidiaries for the three years to December 31, 2005, and the statutory auditor of ELK INVESTMENTS s.r.o. and CEE Enterprises a.s. for the year to December 31, 2005. The appointment of statutory auditors in the Czech Republic is done annually by contract.

KPMG Česká republika s.r.o. was appointed by the Company on November 16, 2006 to audit the consolidated financial statements as at, and for each of the years ended, December 31, 2003, 2004 and 2005 of PEGAS a.s. prepared in accordance with IFRS and the consolidated financial statements as at, and for the period ended, December 31, 2005 of the Company prepared in accordance with IFRS. KPMG Česká republika s.r.o. was appointed by the Company on November 16, 2006 to review the condensed consolidated interim financial statements as at, and for the 6 month ended, June 30, 2006 for both the Company and PEGAS NONWOVENS s.r.o.

KPMG audit S.à r.l., a private limited liability company (*société à responsabilité limitée*) incorporated under the laws of Luxembourg, with its registered office at 31, allée Scheffer L-2520 Luxembourg and registered with the Luxembourg Trade and Companies Register under number B.103.590, was designated, during the General Meeting of Shareholders of the Company held on November 30, 2006, the Company's external auditor (*réviseur d'entreprise*) for a fixed period terminating on the date of the General Meeting of Shareholders approving the Company's accounts for the financial year ending December 31, 2006. KPMG Audit S.à r.l. will audit the consolidated financial statements as at, and for the year ended, December 31, 2006 of the Company. KPMG Audit S.à r.l. is registered as a corporate body with the official table of company auditors drawn up by the Luxembourg Ministry of Justice and is a member of the Institute of Auditors (*l'Institut des Réviseurs d'Enterprises*). Ernst & Young S.A., a public limited liability company incorporated under the law of Luxembourg, with its registered office at 7, parc d'activité Syrdall L-5365 Munsbach and registered with the Luxembourg Trade and Companies Register under number B. 47.771 was designated the Company's statutory auditor (*commissaire aux comptes*) from November 18, 2005 until the General Meeting of Shareholders held on November 30, 2006.

## GENERAL INFORMATION

### Prospectus

This Prospectus constitutes a prospectus within the meaning of the Prospectus Directive and the Prospectus Act 2005 (which implemented the Prospectus Directive into Luxembourg law), for the purpose of giving the information with regard to the Company and the Shares it intends to offer pursuant to this Prospectus which is necessary to enable prospective investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company.

This Prospectus constitutes a prospectus in the form of a single document within the meaning of article 5 of Prospectus Directive and article 8 of the Prospectus Act 2005. This Prospectus has been filed with, and was approved on December 4, 2006 by the CSSF, which is the competent authority in Luxembourg to approve this document as a prospectus. Under the Prospectus Directive and the Prospectus Act 2005, this Prospectus, once approved by the competent authority of one member state of the EU (“home member state”) may be used for making a public offering and admission of securities to listing on a regulated market in another member state of the EU (“host member state”), provided that the competent authority of the home member state provides the competent authority of the host member state with a certificate of approval of the Prospectus (in accordance with article 18 of the Prospectus Directive and article 13 of the Prospectus Act 2005).

For the purposes of the public offering in the Czech Republic and Poland, we will publish a Czech and Polish translation, respectively, of the summary of the Prospectus.

### The Company

The Company 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 S.A. and is registered with the Luxembourg trade and companies register under number B. 112.044. The Company’s name was changed to PEGAS NONWOVENS SA on October 25, 2006. 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. Its registered office and principal place of business is at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg. The telephone number of the Company’s registered office is +352 26 49 65 and its fax number is +352 26496564. The registered office and principal place of business of our main operating and trading company, PEGAS NONWOVENS s.r.o., is at Přímětická 86, 669 04 Znojmo, Czech Republic. Its telephone number is +420 515 262 411 and its fax number is +420 515 262 511.

The object of the Company is (i) to take participations and interests, in any form whatsoever, in any commercial, industrial, financial or other, Luxemburg or foreign enterprises; (ii) to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or in any other way and namely to acquire patents and licences, and other property, rights and interest in property as the Company shall deem fit, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as the Company may think fit, and in particular for shares or securities of any company purchasing the same; (iii) to enter into, assist or participate in financial, commercial and other transactions, and to grant to any holding company, subsidiary, of fellow subsidiary, or any other company associated in any way with the Company, or the said holding company, subsidiary or fellow subsidiary, in which the Company has a direct or indirect financial interest, any assistance as e.g. pledges, loans, advances or guarantees; (iv) to borrow and raise money in any manner and to secure the repayment of any money borrowed; (v) to borrow funds and issue bonds and other securities; and (vi) to perform any operation which is directly or indirectly related to its purpose. The Company can perform all commercial, technical and financial operations, connected directly or indirectly in all areas as described above in order to facilitate the accomplishment of its purpose.

### Corporate Resolutions

Our Articles of Incorporation authorise the Board of Directors to issue new shares until the amount of the issued share capital of the Company reaches a threshold of €999,999.24, such threshold having been exceeded as of the date of this Prospectus. Currently, 7,419,400 shares have been issued and are outstanding.

Upon the Company’s incorporation on November 18, 2005, its issued and paid-up share capital was €125,000, divided into 12,500 Shares with a par value of €10 each.

In connection with the Offering, our General Meeting of Shareholders will issue up to 2,020,000 Shares, under exclusion of pre-emptive rights of the existing shareholders.

The sale of the Shares by the Selling Shareholder does not require any approval by the Company.

### **Availability of Documents**

Copies of the following documents will, when published, be available for inspection free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company:

- the most recent versions of the Articles of Incorporation of the Company;
- (i) the audited consolidated financial statements of PEGAS a.s., as at and for each of the three years ended December 31, 2005, 2004 and 2003, (ii) the unaudited condensed consolidated financial statements of PEGAS NONWOVENS s.r.o. as at and for the six months ended June 30, 2006, with comparative statements of income, cash flows and changes in equity for PEGAS a.s. for the six months ended June 30, 2005 and the comparative balance sheet of PEGAS a.s. as at December 31, 2005, (iii) the audited consolidated financial statements of the Company as at and for the year ended December 31, 2005 and (iv) the unaudited consolidated financial statements of the Company as at and for the six months ended June 30, 2006;
- the audited consolidated balance sheet of PEGAS NONWOVENS SA as at December 31, 2005 and June 30, 2006; together with the unaudited condensed consolidated accounts of PEGAS NONWOVENS SA as at and for the six months ended June 30, 2006;
- this Prospectus;
- all future audited annual accounts of the Company; and
- no later than fifteen days before any General Meeting of the Shareholders of the Company:
  - (i) the balance sheet and profit and loss account of the Company;
  - (ii) the list of sovereign debt, shares, bonds and other company securities issued by the Company;
  - (iii) the list of the holders of Shares in the Company who have not paid-up their Shares with an indication of the number of their Shares and their domicile; and
  - (iv) the report of the statutory auditors.

In addition, copies of the Prospectus are available on the website of the Company ([www.pegas.lu](http://www.pegas.lu)) and on the website of the financial intermediaries [www.ingsecurities.pl](http://www.ingsecurities.pl), [www.ing.cz](http://www.ing.cz), [www.csas.cz](http://www.csas.cz) and [www.brokerjet.com](http://www.brokerjet.com).

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**KPMG Česká republika, s.r.o.**  
Pobřežní 648/1a  
186 00 Praha 8  
Česká republika

Telephone +420 222 123 111  
Fax +420 222 123 100  
Internet www.kpmg.cz

## Independent Auditors' Report

The Directors  
PEGAS NONWOVENS s.r.o.

We have audited the accompanying consolidated balance sheets of PEGAS a.s. ("the Company") as of December 31, 2003, 2004 and 2005, and the related consolidated statements of income, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company as of December 31, 2003, 2004 and 2005, and of the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

*KPMG Česká Republika*

KPMG Ceska Republika  
Prague  
November 22, 2006

KPMG Česká republika, s.r.o., a Czech limited liability company incorporated under the Czech Commercial Code, is a member firm of KPMG International, a Swiss cooperative

Obchodní rejstřík vedený  
Městským soudem v Praze  
oddíl C, vložka 326

IČ 00553115  
DIČ CZ00553115

Živnostenská banka  
Praha 1

č. ú./account no  
CZK 40040904/0400  
USD 1176210014/0400  
EUR 1176210006/0400



**PEGAS a.s.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31 2003, 2004 AND 2005**  
**IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS,**  
**AS ADOPTED BY THE EUROPEAN UNION**

**PEGAS a.s.**  
**Consolidated Income Statement for years 2003, 2004 and 2005**  
**EUR as presentation currency**

	<u>Notes</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
		<b>EUR'000</b>		
Revenue .....	4	109,491	72,819	67,368
Raw materials and consumables used .....		(63,296)	(40,770)	(36,787)
Staff costs .....	19	(4,669)	(3,899)	(3,481)
Depreciation and amortisation expense .....		(9,910)	(7,546)	(7,132)
Other operating income/(expense) (net) .....	6	(846)	1,167	(671)
<b><i>Profit from operations</i></b> .....		<b>(30,770)</b>	<b>21,771</b>	<b>19,297</b>
Finance costs .....	7	(158)	(438)	(955)
<b><i>Profit before tax</i></b> .....		<b>30,612</b>	<b>21,333</b>	<b>18,342</b>
Income tax expense .....	8	(3,975)	(3,312)	(1,352)
<b><i>Net profit for the year</i></b> .....		<b><u>26,637</u></b>	<b><u>18,021</u></b>	<b><u>16,990</u></b>

PEGAS a.s.

Consolidated Balance Sheet for the years ended December 31, 2003, 2004 and 2005  
EUR as presentation currency

	Notes	31 Dec 2005	31 Dec 2004	31 Dec 2003
EUR'000				
<b>Assets</b>				
<i>Non-current assets</i>				
Property, plant and equipment .....	9	93,439	101,528	78,386
Intangible assets .....	10	<u>192</u>	<u>260</u>	<u>303</u>
Total non-current assets .....		93,631	101,788	78,689
<i>Current assets</i>				
Inventories .....	11	8,508	5,496	4,540
Trade and other receivables .....	12	25,101	15,005	10,523
Bank balances and cash .....	13	<u>25,366</u>	<u>5,810</u>	<u>2,913</u>
Total current assets .....		<u>58,975</u>	<u>26,311</u>	<u>17,976</u>
<b>Total assets .....</b>		<b><u>152,606</u></b>	<b><u>128,099</u></b>	<b><u>96,665</u></b>
<b>Equity and Liabilities</b>				
<i>Capital and reserves</i>				
Share capital .....	14	6,335	6,335	6,335
Legal reserve fund .....	15	3,301	2,780	2,380
Translation reserve .....	15	9,080	3,750	(1,473)
Accumulated profits .....	15	<u>105,431</u>	<u>79,315</u>	<u>61,694</u>
Total share capital and reserves .....		124,147	92,180	68,936
<i>Non-current liabilities</i>				
Bank loans — due after one year .....	16	0	998	2,996
Deferred tax liabilities .....	17	9,681	8,430	7,633
Other payables due after one year .....		<u>69</u>	<u>125</u>	<u>182</u>
Total non-current liabilities .....		9,750	9,553	10,811
<i>Current liabilities</i>				
Trade and other payables .....	18	16,691	23,803	6,522
Tax liabilities .....		18	566	669
Bank overdrafts and loans .....	16	<u>2,000</u>	<u>1,997</u>	<u>9,727</u>
Total current liabilities .....		18,709	26,366	16,918
Total liabilities .....		<u>28,459</u>	<u>35,919</u>	<u>27,729</u>
<b>Total equity and liabilities .....</b>		<b><u>152,606</u></b>	<b><u>128,099</u></b>	<b><u>96,665</u></b>

PEGAS a.s.

Consolidated Statement of Changes in Equity for years 2003, 2004 and 2005  
 EUR as presentation currency

	<u>Share capital</u>	<u>Legal reserve fund</u>	<u>Translation reserves</u> EUR'000	<u>Accumulated profits and profits for the year</u>	<u>Total</u>
<b>Balance at January 1, 2003</b> . . . . .	<b>6,335</b>	<b>1,910</b>	<b>0</b>	<b>48,338</b>	<b>56,583</b>
Transfer profit . . . . .		470		(470)	0
Effect of changes in foreign exchange rates . . . .			(1,473)		(1,473)
Net profit for the year . . . . .				16,990	16,990
Dividends declared . . . . .	_____	_____	_____	(3,164)	(3,164)
<b>Balance at December 31, 2003</b> . . . . .	<b>6,335</b>	<b>2,380</b>	<b>(1,473)</b>	<b>61,694</b>	<b>68,936</b>
Transfer profit . . . . .		400		(400)	0
Effect of changes in foreign exchange rates . . . .			5,223		5,223
Net profit for the year . . . . .				18,021	18,021
<b>Balance at December 31, 2004</b> . . . . .	<b>6,335</b>	<b>2,780</b>	<b>3,750</b>	<b>79,315</b>	<b>92,180</b>
Transfer profit . . . . .		521		(521)	0
Effect of changes in foreign exchange rates . . . .			5,330		5,330
Net profit for the year . . . . .				26,637	26,637
<b>Balance at December 31, 2005</b> . . . . .	<b>6,335</b>	<b>3,301</b>	<b>9,080</b>	<b>105,431</b>	<b>124,147</b>

**PEGAS a.s.**  
**Consolidated Cash Flow Statement for years 2003, 2004 and 2005**  
**EUR as presentation currency**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
		EUR'000	
<b>OPERATING ACTIVITY:</b>			
Profit before tax .....	30,612	21,333	18,342
Amortisation/depreciation .....	9,910	7,546	7,132
Foreign exchange .....	566	(517)	450
Interest expense .....	158	438	955
Change in inventories .....	(3,012)	(956)	134
Change in receivables .....	(4,798)	(4,482)	(718)
Change in payables .....	1,587	8,469	(5,768)
Income tax paid .....	(3,272)	(2,618)	(2,798)
Interest paid .....	<u>(158)</u>	<u>(438)</u>	<u>(955)</u>
<b>NET CASH FLOW FROM OPERATING ACTIVITY .....</b>	<b><u>31,593</u></b>	<b><u>28,775</u></b>	<b><u>16,774</u></b>
<b>INVESTMENT ACTIVITY:</b>			
Purchases of property, plant and equipment .....	<u>(11,042)</u>	<u>(16,150)</u>	<u>(4,738)</u>
<b>CASH FLOW FROM INVESTMENT ACTIVITY .....</b>	<b><u>(11,042)</u></b>	<b><u>(16,150)</u></b>	<b><u>(4,738)</u></b>
<b>FINANCIAL ACTIVITY:</b>			
Change in loans .....	(995)	(9,728)	(9,289)
Dividends paid .....	<u>—</u>	<u>—</u>	<u>(3,164)</u>
<b>CASH FLOW FROM FINANCIAL ACTIVITY .....</b>	<b><u>(995)</u></b>	<b><u>(9,728)</u></b>	<b><u>(12,453)</u></b>
<b>BANK BALANCES AND CASH AT THE BEGINNING OF THE YEAR</b>	<b>5,810</b>	<b>2,913</b>	<b>3,330</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS ...</b>	<b>19,556</b>	<b>2,897</b>	<b>(417)</b>
<b>BANK BALANCES AND CASH AT THE END OF THE YEAR .....</b>	<b>25,366</b>	<b>5,810</b>	<b>2,913</b>

**PEGAS a.s.**

**Notes to the Consolidated Financial Statements  
For the years ended December 31, 2003, 2004 and 2005**

**1. GENERAL INFORMATION**

PEGAS a.s. (the “Company”) was incorporated in the Czech Republic. The Company’s registered office is located in Znojmo, Přímětická 86, 669 04. The Company and its subsidiaries (the “Group”) are engaged in the production of non-woven textiles.

The Group consists of the following entities:

<u>Company</u>	<u>Year of incorporation</u>	<u>Business</u>	<u>Position within the Group</u>
PEGAS a.s. . . . .	1990	Production of non-woven textiles	Parent company
PEGAS — DS a.s. . . . .	1999	Production of non-woven textiles	Wholly owned subsidiary
PEGAS-NT a.s. . . . .	2002	Production of non-woven textiles	Wholly owned subsidiary
PEGAS — NW a.s. . . . .	2005	Production of non-woven textiles	Wholly owned subsidiary

Prior to December 14, 2005, the Company was controlled by Mr Travnicek.

On December 14, 2005, ELK INVESTMENTS, s.r.o. acquired full control over the activities of PEGAS a.s. by purchasing 100 percent of its issued share capital.

**2. BASIS OF PREPARATION**

**a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (‘IFRS’) as adopted by the European Union (“EU”) and interpretations adopted by the International Accounting Standards Board (‘IASB’).

The consolidated financial statements were approved by the Board of Directors on November 22, 2006.

**b) Basis of measurement**

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

**c) Basis for the preparation of financial statements**

These are the Group’s first consolidated financial statements and IFRS 1 has been applied. Information regarding the transition from Czech Accounting Standards (‘CAS’) to IFRS, the disclosure of which is required by IFRS 1, is presented in Note 20 Reconciliation of equity (CAS to IFRS) to the consolidated financial statements.

The financial statements were prepared for the years ended December 31, 2003, 2004 and 2005 and are presented in thousands of Euro (‘EUR thousand’) as a presentation currency.

The underlying functional currency of the Group is CZK. The financial statements were translated from the functional currency to the presentation currency.

**d) Use of estimates and judgements**

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

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

**PEGAS a.s.**

**Notes to the Consolidated Financial Statements  
For the years ended December 31, 2003, 2004 and 2005 — (Continued)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS balance sheet at January 1, 2003 for the purposes of the transition to IFRS.

The accounting policies have been applied consistently by the Group entities.

**a) Consolidation principles**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) presented as of December 31, of the relevant year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

As and when necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income, expenses and dividends are eliminated on consolidation.

**b) Revenue recognition**

Revenues are recognised at fair value of the consideration received or the consideration to be received and represent receivables for goods and services delivered in the normal course of business, net of discounts, VAT and other sales-related taxes.

Revenues from the sale of products are recognised when products are delivered and the title to the products has passed to the customer. Revenues from the sale of services are recognised when the service is rendered.

**c) Borrowing costs**

Borrowing costs are recognised in the profit and loss account in the period to which they relate.

**d) Taxation**

The tax expense presented in the profit and loss account includes the current tax payable and the change in the deferred tax balance.

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the profit or loss account.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**PEGAS a.s.**

**Notes to the Consolidated Financial Statements  
For the years ended December 31, 2003, 2004 and 2005 — (Continued)**

**e) Intangible assets**

Purchased intangible assets are stated at cost less accumulated amortisation. They are amortised on a straight-line basis over their estimated useful lives.

**f) Property, plant and equipment**

Property, plant and equipment is stated at cost (including costs of acquisition) less accumulated depreciation and any recognised impairment loss.

The cost of assets, other than land and assets under construction, is depreciated over their estimated useful lives, using the straight-line method, on the following basis:

<u>Major groups of assets</u>	<u>Number of years</u>
Production lines .....	12-20
Factory and office buildings .....	30-60
Cars and other vehicles .....	5-6

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

**g) Leases**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**h) Foreign currencies**

All companies in the Group operate in the Czech Republic which is their primary economic area. Consequently, the Czech crown (CZK) is the functional currency of these entities.

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in profit or loss.

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

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Year average (P&L) .....	<u>29,784</u>	<u>31,904</u>	<u>31,844</u>
	<u>31/12/2005</u>	<u>31/12/2004</u>	<u>31/12/2003</u>
Balance sheet date .....	<u>29,005</u>	<u>30,465</u>	<u>32,405</u>
		<u>31/12/2002</u>	<u>31,600</u>

Exchange differences arising on translation, if any, are classified as equity and presented under the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.



PEGAS a.s.

**Notes to the Consolidated Financial Statements  
For the years ended December 31, 2003, 2004 and 2005 — (Continued)**

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

**i) Financial instruments**

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

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

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

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above).

Trade payables

Trade payables are stated at their nominal value.

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

A derivative is a financial instrument or other contract which fulfils the following conditions:

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

Hedging derivatives are defined as derivatives that comply with the company's risk management strategy, the hedging relationship is formally documented and the hedge is effective, that is, at inception and throughout the period, changes in the fair value or cash flows of the hedged and hedging items are almost fully offset and the results are within a range of 80 percent to 125 percent. Changes in fair value of hedging derivatives are recognised in equity.

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading and carried at fair value, with changes in fair value included in net profit or loss of the period in which they arise.

Fair values are obtained from quoted market prices or discounted cash-flow models, as appropriate. All non-hedge derivatives are carried as current assets when their fair value is positive and as current liabilities when their fair value is negative.

PEGAS a.s.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2003, 2004 and 2005 — (Continued)

**j) Impairment of assets**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the asset is not a separate cash-generating unit, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

**k) Provisions**

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

**l) Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. The cost is calculated using the weighted arithmetic average method. The net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**m) Segment reporting**

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

**n) Government grants**

Government grants toward staff re-training costs are recognised in profit or loss over the periods necessary to match them with the related costs.

**4. REVENUE**

Set out below is a breakdown of the Group's revenue:

<u>Markets</u>	<u>Year ended 31/12/2005</u>	<u>Year ended 31/12/2004</u>	<u>Year ended 31/12/2003</u>
		<b>EUR'000</b>	
Domestic sales.....	15,707	12,716	13,833
Export .....	93,784	60,103	53,535
<b>Total .....</b>	<b><u>109,491</u></b>	<b><u>72,819</u></b>	<b><u>67,368</u></b>

PEGAS a.s.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2003, 2004 and 2005 — (Continued)

<u>Product group</u>	<u>Year ended 31/12/2005</u>	<u>Year ended 31/12/2004</u> EUR'000	<u>Year ended 31/12/2003</u>
Hygiene general .....	79,142	50,601	53,779
Hygiene special .....	17,886	11,398	3,660
Non-hygiene .....	<u>12,463</u>	<u>10,820</u>	<u>9,929</u>
<b>Total</b> .....	<b><u>109,491</u></b>	<b><u>72,819</u></b>	<b><u>67,368</u></b>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group solely produces non-woven textiles. The production is located entirely in the Czech Republic. Therefore no product or geographical segments were identified by the management.

6. OTHER OPERATING INCOME/(EXPENSE) (NET)

	<u>Year ended 31/12/2005</u>	<u>Year ended 31/12/2004</u> EUR'000	<u>Year ended 31/12/2003</u>
Other taxes .....	(136)	—	—
Foreign exchange differences (net) .....	(168)	105	(199)
Gain/(loss) on the sale of property and materials .....	16	(19)	(36)
Sundry income .....	419	1,014	10
Interest revenue .....	213	84	74
Insurance proceeds .....	5	230	269
Insurance cost .....	(538)	(479)	(442)
Other gains/(losses) .....	<u>(657)</u>	<u>232</u>	<u>(347)</u>
<b>Total</b> .....	<b><u>(846)</u></b>	<b><u>1,167</u></b>	<b><u>(671)</u></b>

7. FINANCE COSTS

	<u>Year ended 31/12/2005</u>	<u>Year ended 31/12/2004</u> EUR'000	<u>Year ended 31/12/2003</u>
Interest costs .....	65	343	806
Interest on employee deposits .....	93	95	102
Finance lease costs .....	<u>0</u>	<u>0</u>	<u>47</u>
<b>Total</b> .....	<b><u>158</u></b>	<b><u>438</u></b>	<b><u>955</u></b>

8. INCOME TAX EXPENSE

	<u>Year ended 31/12/2005</u>	<u>Year ended 31/12/2004</u> EUR'000	<u>Year ended 31/12/2003</u>
Income tax current .....	3,170	3,016	2,791
Income tax deferred .....	<u>805</u>	<u>296</u>	<u>(1,439)</u>
<b>Total</b> .....	<b><u>3,975</u></b>	<b><u>3,312</u></b>	<b><u>1,352</u></b>

PEGAS a.s.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2003, 2004 and 2005 — (Continued)

	Year ended <u>31/12/2005</u>	Year ended <u>31/12/2004</u> EUR'000	Year ended <u>31/12/2003</u>
Profit before tax .....	30,612	21,333	18,342
Domestic rate .....	26%	28%	31%
<b>Tax at domestic rate</b> .....	<b>7,959</b>	<b>5,973</b>	<b>5,686</b>
Investment incentives .....	(3,441)	(2,715)	(2,470)
Change in tax rate .....	—	—	(2,012)
Other non-deductable expenses or non-taxable income .....	(543)	54	148
<b>Income tax expense</b> .....	<b><u>(3,975)</u></b>	<b><u>3,312</u></b>	<b><u>1,352</u></b>

Investment incentives are tax savings provided by the government that are subject to certain conditions being fulfilled (such as level of incremental investments) by the Group. As granting of investment incentive depends on actual performance of the Group, no related deferred tax is recognized.

PEGAS a.s.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2003, 2004 and 2005 — (Continued)

9. PROPERTY, PLANT AND EQUIPMENT

<u>Cost</u>	<u>Land and buildings</u>	<u>Production machinery</u>	<u>Other equipment</u>	<u>Property under construction</u>	<u>Pre-payments</u>	<u>Total</u>
	EUR'000					
<i>At January 1, 2003</i> .....	23,287	76,074	5,406	413	1,454	<b>106,634</b>
Additions .....	416	412	619	300	3,448	<b>5,195</b>
Disposals .....	0	0	(52)	(285)	(91)	<b>(428)</b>
Exchange differences .....	(584)	(1,897)	(145)	(10)	(95)	<b>(2,731)</b>
<i>At December 31, 2003</i> .....	23,119	74,589	5,828	418	4,716	<b>108,670</b>
Additions .....	6,106	21,317	2,524	16	50	<b>30,013</b>
Disposals .....	(1)	0	(180)	(412)	(4,790)	<b>(5,383)</b>
Exchange differences .....	1,760	5,757	481	7	77	<b>8,082</b>
<i>At December 31, 2004</i> .....	30,984	101,663	8,653	29	53	<b>141,382</b>
Additions .....	67	562	1,129	206	338	<b>2,302</b>
Disposals .....	(5,038)	0	(1,591)	(15)	(54)	<b>(6,698)</b>
Exchange differences .....	1,425	5,133	423	7	10	<b>6,998</b>
<i>At December 31, 2005</i> .....	27,438	107,358	8,614	227	347	<b>143,984</b>
<b>Depreciation and impairment</b>						
<i>At January 1, 2003</i> .....	2,082	20,071	1,845	0	0	<b>23,998</b>
Depreciation .....	657	5,753	631			<b>7,041</b>
Disposals .....	0	0	(39)			<b>(39)</b>
Exchange differences .....	(63)	(598)	(55)			<b>(716)</b>
<i>At December 31, 2003</i> .....	2,676	25,226	2,382	0	0	<b>30,284</b>
Depreciation .....	675	6,051	717			<b>7,443</b>
Disposals .....	0	0	(146)			<b>(146)</b>
Exchange differences .....	202	1,892	179			<b>2,273</b>
<i>At December 31, 2004</i> .....	3,553	33,169	3,132	0	0	<b>39,854</b>
Depreciation .....	546	8,074	1,186			<b>9,806</b>
Disposals .....	(490)	0	(856)			<b>(1,346)</b>
Exchange differences .....	179	1,886	166			<b>2,231</b>
<i>At December 31, 2005</i> .....	3,788	43,129	3,628	0	0	<b>50,545</b>
<b>Net book value</b>						
<i>At December 31, 2003</i> .....	20,443	49,363	3,446	418	4,716	<b>78,386</b>
<i>At December 31, 2004</i> .....	27,431	68,494	5,521	29	53	<b>101,528</b>
<i>At December 31, 2005</i> .....	23,650	64,229	4,986	227	347	<b>93,439</b>

10. INTANGIBLE FIXED ASSETS

The Group's intangible fixed assets primarily comprise purchased software. The amounts as of December 31, 2005, December 31, 2004 and December 31, 2003 were EUR 192 thousand, EUR 260 thousand and EUR 303 thousand respectively.

PEGAS a.s.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2003, 2004 and 2005 — (Continued)

11. INVENTORIES

	Year ended 31/12/2005	Year ended 31/12/2004	Year ended 31/12/2003
	EUR'000		
Materials .....	4,992	2,802	1,751
Semi-finished products .....	333	218	232
Products .....	1,902	1,390	1,593
Spare parts .....	1,256	918	904
Other .....	<u>25</u>	<u>168</u>	<u>60</u>
<b>Total</b> .....	<b><u>8,508</u></b>	<b><u>5,496</u></b>	<b><u>4,540</u></b>

Under 'Spare parts' there are items having a useful life of less than one year.

12. TRADE AND OTHER RECEIVABLES

	Year ended 31/12/2005	Year ended 31/12/2004	Year ended 31/12/2003
	EUR'000		
Receivables from sales of products .....	16,056	10,525	8,879
Advance payments made .....	40	51	55
Receivable from the sale of non-core asset .....	5,769	0	0
Value added tax receivable .....	1,334	1,580	1,318
Estimated receivables .....	1,024	429	257
Accrued income .....	711	2,304	0
Other .....	<u>167</u>	<u>116</u>	<u>14</u>
<b>Total</b> .....	<b><u>25,101</u></b>	<b><u>15,005</u></b>	<b><u>10,523</u></b>

13. BANK BALANCES AND CASH

	Year ended 31/12/2005	Year ended 31/12/2004	Year ended 31/12/2003
	EUR'000		
Current accounts .....	651	381	2,055
Short-term deposits .....	24,683	5,408	837
Cash in hand .....	<u>32</u>	<u>21</u>	<u>21</u>
<b>Total</b> .....	<b><u>25,366</u></b>	<b><u>5,810</u></b>	<b><u>2,913</u></b>

14. SHARE CAPITAL

The share capital of the Company in the amount of CZK 200,200 thousand (EUR 6,335 thousand) comprises of 770 shares with a nominal value of CZK 100 thousand (EUR 3,174) and 770 shares with a nominal value of CZK 160 thousand (EUR 5,079).

15. RETAINED EARNINGS

In 2003, there was a movement in the statement of equity of EUR 3 164 thousand arising from declared dividends. This dividend was not paid in 2003 but used as a source of short-term financing which was paid out partially in 2004 and fully in 2005, see also Note 21 Related Party.

The Group made annual profit allocations to the legal reserve fund.

The statement of equity line item 'Effect of changes in foreign exchange rates' represents the effect of the translation of the financial statements from the functional to the presentation currency.

PEGAS a.s.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2003, 2004 and 2005 — (Continued)

16. BANK OVERDRAFTS AND LOANS

	Year ended 31/12/2005	Year ended 31/12/2004	Year ended 31/12/2003
	EUR'000		
Short-term bank loans .....	2,000	1,997	9,727
Long-term bank loans .....	<u>0</u>	<u>998</u>	<u>2,996</u>
<b>Total</b> .....	<b><u>2,000</u></b>	<b><u>2,995</u></b>	<b><u>12,723</u></b>

The interest rates for 2005, 2004 and 2003 were 1M EURIBOR +2%, 6M EURIBOR +1,4%, 6M EURIBOR +1,8% and 1,3,6M EURIBOR +1,1%, respectively. All interest is repriced at least annually.

The loans as at December 31, 2005 are part of the credit facility which the Group started to draw in December 2005. The loans are secured by:

- 1) security over the shares in PEGAS, a.s.
- 2) security over the enterprise of PEGAS, a.s.
- 3) security over the plant and machinery of PEGAS, a.s.
- 4) bank accounts of PEGAS a.s. and
- 5) shares of subsidiaries PEGAS — DS a.s., PEGAS-NT a.s. and PEGAS — NW a.s.

17. DEFERRED TAX LIABILITY

	Year ended 31/12/2005	Year ended 31/12/2004	Year ended 31/12/2003
	EUR'000		
Property, plant and equipment .....	9,671	8,251	7,315
Other .....	<u>10</u>	<u>179</u>	<u>318</u>
<b>Total</b> .....	<b><u>9,681</u></b>	<b><u>8,430</u></b>	<b><u>7,633</u></b>

	Balance 1/1/2003	Recognised in profit or loss	Balance 1/1/2004	Recognised in profit or loss	Balance 31/12/2004	Recognised in profit or loss	Balance 31/12/2005
	EUR'000						
Property, plant and equipment .....	8,909	(1,594)	7,315	936	8,251	1,420	9,671
Other .....	<u>368</u>	<u>50</u>	<u>318</u>	(139)	<u>179</u>	(169)	<u>10</u>
<b>Total</b> .....	<b><u>9,277</u></b>	<b><u>(1,644)</u></b>	<b><u>7,633</u></b>	<b><u>797</u></b>	<b><u>8,430</u></b>	<b><u>1,251</u></b>	<b><u>9,681</u></b>

18. TRADE AND OTHER PAYABLES

	Year ended 31/12/2005	Year ended 31/12/2004	Year ended 31/12/2003
	EUR'000		
Trade payables .....	12,663	16,897	1,593
Advance payments received .....	31	51	18
Liabilities to employees .....	1,710	1,839	1,612
Borrowings from shareholders .....	0	2,664	2,623
Deferred income .....	1,694	1,879	0
Other .....	<u>593</u>	<u>473</u>	<u>676</u>
<b>Total</b> .....	<b><u>16,691</u></b>	<b><u>23,803</u></b>	<b><u>6,522</u></b>

PEGAS a.s.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2003, 2004 and 2005 — (Continued)

Item 'Borrowings from shareholders' relates to the loan described in Note 21 'Related Party Disclosures.

19. STAFF COSTS

	Year ended 31/12/2005	Year ended 31/12/2004	Year ended 31/12/2003
Wages and salaries .....	3,413	2,851	2,544
Social security and health insurance expenses .....	1,183	985	877
Social expenses .....	<u>73</u>	<u>63</u>	<u>60</u>
<b>Staff Costs</b> .....	<b><u>4,669</u></b>	<b><u>3,899</u></b>	<b><u>3,481</u></b>
Average number of employees .....	<u>333</u>	<u>311</u>	<u>299</u>

20. RECONCILIATION OF EQUITY (CAS TO IFRS)

	Current year's profit 2005	Current year's profit 2004	Current year's profit 2003
	EUR'000		
<b>Czech Accounting Standards</b> .....	<b>23,544</b>	<b>16,069</b>	<b>13,215</b>
Change in the useful lives of assets .....	4,969	3,882	5,569
Spare parts reclassification to assets .....	456	(29)	(7)
Capitalization of finance leases .....	(1,360)	(1,281)	(635)
Deferred expenses .....	14	39	193
Change in deferred tax .....	(986)	(659)	442
Release of provision for repairs .....	—	—	(1,856)
Other .....	<u>—</u>	<u>—</u>	<u>69</u>
<b>Total IFRS adjustments</b> .....	<b><u>3,093</u></b>	<b><u>1,952</u></b>	<b><u>3,775</u></b>
<b>IFRS</b> .....	<b><u>26,637</u></b>	<b><u>18,021</u></b>	<b><u>16,990</u></b>

	Equity at the end of the period 2005	Equity at the end of the period 2004	Equity at the end of the period 2003	Equity at the end of the period 2002
	EUR'000			
<b>Czech Accounting Standards</b> .....	<b>93,518</b>	<b>65,886</b>	<b>47,096</b>	<b>37,766</b>
Change in the useful lives of assets .....	29,816	23,472	18,498	13,245
Spare parts reclassification to assets .....	802	331	338	354
Capitalization of finance leases .....	9,025	9,948	10,546	11,466
Deferred expense .....	(215)	(220)	(240)	(444)
Change in deferred tax .....	(9,514)	(8,088)	(6,976)	(7,607)
Release of provision for repairs .....	—	—	(32)	1,871
Other .....	<u>715</u>	<u>851</u>	<u>(294)</u>	<u>(68)</u>
<b>Total IFRS adjustments</b> .....	<b><u>30,629</u></b>	<b><u>26,294</u></b>	<b><u>21,840</u></b>	<b><u>18,817</u></b>
<b>IFRS</b> .....	<b><u>124,147</u></b>	<b><u>92,180</u></b>	<b><u>68,936</u></b>	<b><u>56,583</u></b>

21. RELATED PARTY DISCLOSURES

In November 2005, the former shareholder purchased non-core assets for the net book value of EUR 5,769 thousand.

A short term loan in the amount of EUR 2,504 thousand was granted to PEGAS a.s. by shareholders in 2003 with interest at a rate of 140% of the discount rate of the Czech National Bank.



**PEGAS a.s.**

**Notes to the Consolidated Financial Statements  
For the years ended December 31, 2003, 2004 and 2005 — (Continued)**

The Balance of the loan was EUR 2,664 thousand as at December 31, 2004. The loan was repaid in full in 2005. Remuneration of Board of Directors was EUR 52 thousand for the year ended at December 31, 2005 (EUR 51 thousand and EUR 38 thousand for years 2004 and 2003).

**22. FINANCIAL INSTRUMENTS**

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. Derivatives are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

***Credit risk***

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives in the balance sheet.

***Interest rate risk***

The Group's interest bearing loans and borrowings are exposed to a risk of change in their fair value due to changes in interest rates.

***Foreign currency risk***

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily Euro (EUR).

In respect of other monetary assets and liabilities held in currencies other than the euro, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

**23. SUBSEQUENT EVENTS**

With effect from January 1, 2006, PEGAS a.s. merged with its immediate holding company ELK INVESTMENTS s.r.o. ("Elk"), a company incorporated in the Czech Republic to form PEGAS NONWOVENS s.r.o. PEGAS NONWOVENS s.r.o. now carries on the trade formerly carried on by PEGAS a.s. Elk did not trade in the year to December 31, 2005. The merger was registered on May 12, 2006.



KPMG Česká republika, s.r.o.  
Pobřežní 648/1a  
186 00 Praha 8  
Česká republika

Telephone +420 222 123 111  
Fax +420 222 123 100  
Internet www.kpmg.cz

## Independent Auditors' Report

The Directors  
PEGAS NONWOVENS SA

We have audited the accompanying consolidated balance sheet of PEGAS NONWOVENS SA ("the Company") as of December 31, 2005, and the related consolidated statements of income, changes in equity and cash flows for the period from November 18, 2005, the date of incorporation, to December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements give a true and fair view of the financial position of the Company as of December 31, 2005, and of the results of its operations and its cash flows for the period November 18, 2005 to December 31, 2005 in accordance with International Financial Reporting Standards, as adopted by the European Union.

*KPMG Česká Republika*

KPMG Ceska Republika  
Prague  
November 22, 2006

KPMG Česká republika, s.r.o., a Czech limited liability company incorporated under the Czech Commercial Code, is a member firm of KPMG International, a Swiss cooperative

Obchodní rejstřík vedený  
Městským soudem v Praze  
oddíl C, vložka 326

IČ 00553115  
DIČ CZ00553115

Živnostenská banka  
Praha 1  
č u/account no  
CZK 40040904/0400  
USD 1176210014/0400  
EUR 1176210006/0400

**PEGAS NONWOVENS SA**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE PERIOD ENDED DECEMBER 31 2005**  
**IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS**  
**ADOPTED BY THE EUROPEAN UNION.**

**PEGAS NONWOVENS SA,**  
**Consolidated Income Statement**  
**for the period ended December 31, 2005**  
**EUR as presentation currency**

	<u>Notes</u>	<u>2005</u> EUR'000 (2 week period)
Revenue .....	4	4,787
Raw materials and consumables used .....		(3,981)
Staff costs .....		(209)
Depreciation and amortisation expense .....		(535)
Other operating income/(expense) (net) .....	6	<u>(460)</u>
<b><i>Profit from operations</i></b> .....		<b><i>(398)</i></b>
Finance costs .....	7	<u>(714)</u>
<b><i>Profit before tax</i></b> .....		<b><i>(1,112)</i></b>
Income tax expense .....	8	<u>(255)</u>
<b><i>Profit after tax</i></b> .....		<b><i>(1,367)</i></b>
Minority interest .....		<u>0</u>
<b><i>Net profit for the year</i></b> .....		<b><i><u>(1,367)</u></i></b>

**PEGAS NONWOVENS SA,**  
**Consolidated Balance Sheet**  
**As of December 31, 2005**  
**EUR as presentation currency**

	<u>Notes</u>	<u>31 Dec 2005</u> <u>EUR'000</u>
<b>Assets</b>		
<i>Non-current assets</i>		
Property, plant and equipment .....	9	111,113
Intangible assets .....	10	<u>78,973</u>
Total non-current assets .....		190,086
<i>Current assets</i>		
Inventories .....	12	8,622
Trade and other receivables .....	13	23,785
Bank balances and cash .....	14	<u>27,034</u>
Total current assets .....		<u>59,441</u>
<b>Total assets</b> .....		<b><u>249,527</u></b>
<b>Equity and Liabilities</b>		
<i>Capital and reserves</i>		
Share capital .....	16	125
Capital reserve .....	15	4,432
Translation reserve .....		(4)
Accumulated profits/(losses) .....	17	<u>(1,367)</u>
Total share capital and reserves .....		3,186
<i>Non-current liabilities</i>		
Bank loans — due after one year .....	18	157,268
Deferred tax liabilities .....	19	13,910
Other payables due after one year .....	22	<u>37,224</u>
Total non-current liabilities .....		208,402
<i>Current liabilities</i>		
Trade and other payables .....	20	21,670
Tax liabilities .....		19
Bank overdrafts and loans .....	18	<u>16,250</u>
Total current liabilities .....		37,939
Total liabilities .....		<u>246,341</u>
<b>Total equity and liabilities</b> .....		<b><u>249,527</u></b>

**PEGAS NONWOVENS SA,**  
**Consolidated Statement of Changes in Equity**  
**for the period ended December 31, 2005**  
**EUR as presentation currency**

	<u>Share capital</u>	<u>Capital reserve</u>	<u>Translation reserves</u>	<u>Accumulated profits and profits for the year</u>	<u>Total</u>
	EUR'000				
Issue of shares.....	125				125
Equity instruments .....		4,432			4,432
Exchange differences .....			(4)		(4)
Net profit for the year.....	—	—	—	(1,367)	(1,367)
<b>Balance at December 31, 2005 .....</b>	<b><u>125</u></b>	<b><u>4,432</u></b>	<b><u>(4)</u></b>	<b><u>(1,367)</u></b>	<b><u>3,186</u></b>

**PEGAS NONWOVENS SA,**  
**Consolidated Cash Flow Statement**  
**for the period ended December 31, 2005**  
**EUR as presentation currency**

	<u>2005</u> EUR'000 (2 week period)
<b>OPERATING ACTIVITY:</b>	
Profit before tax .....	(1,112)
Amortisation/depreciation .....	535
Foreign exchange .....	(4)
Interest expense .....	714
Change in inventories .....	(593)
Change in receivables .....	2,703
Change in payables .....	1,397
Income tax paid .....	0
Interest paid .....	<u>(423)</u>
<b>CASH FLOW FROM OPERATING ACTIVITY .....</b>	<b><u>3,217</u></b>
<b>INVESTMENT ACTIVITY:</b>	
Purchases of property, plant and equipment .....	(77)
Acquisition of subsidiary .....	<u>(191,405)</u>
<b>CASH FLOW FROM INVESTMENT ACTIVITY .....</b>	<b><u>(191,482)</u></b>
<b>FINANCIAL ACTIVITY:</b>	
Change in bank loans .....	173,518
Change in long term debt .....	37,224
Issuance of share capital .....	125
Issuance of convertible debt .....	<u>4,432</u>
<b>CASH FLOW FROM FINANCIAL ACTIVITY .....</b>	<b><u>215,299</u></b>
<b>BANK BALANCES AND CASH AT THE BEGINNING OF THE PERIOD .....</b>	<b>0</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS .....</b>	<b>27,034</b>
<b>BANK BALANCES AND CASH AT THE END OF THE PERIOD .....</b>	<b>27,034</b>





## PEGAS NONWOVENS S.A.

### Notes to the Consolidated Financial Statements For the period ended December 31, 2005 — (Continued)

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating units and a suitable discount rate in order to calculate present value.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **a) Consolidation principles**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) presented as of December 31, 2005. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell, plus any costs directly attributable to the business combination.

Any positive difference between the acquisition cost and the fair value of acquired identifiable net assets is recognised as goodwill. Any negative difference between the acquisition cost and the fair value of acquired identifiable net assets (i.e. discount upon acquisition) is recognised in the profit and loss account in the acquisition period.

The interest of minority shareholders is measured as the minority proportion of the net fair value of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the relevant minority interest in the subsidiary's equity are allocated against the interests of the parent company except to the extent that the minority shareholder has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

As and when necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income, expenses and dividends are eliminated on consolidation.

#### **b) Goodwill**

Goodwill arising on an acquisition represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is initially recognised as an asset and is tested for impairment at least annually. An impairment loss recognised for goodwill in the profit and loss account cannot be reversed in a subsequent period.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

**PEGAS NONWOVENS S.A.**

**Notes to the Consolidated Financial Statements  
For the period ended December 31, 2005 — (Continued)**

The management has determined that for goodwill testing purposes all acquired subsidiaries are considered as one cash generating unit.

**c) Revenue recognition**

Revenues are recognised at fair value of the consideration received or the consideration to be received and represent receivables for goods and services delivered in the normal course of business, net of discounts, VAT and other sales-related taxes.

Revenues from the sale of products are recognised when products are delivered and the title to the products has passed to the customer. Revenues from the sale of services are recognised when the service is rendered.

**d) Borrowing costs**

Borrowing costs are recognised in the profit and loss account in the period to which they relate.

**e) Taxation**

The tax expense in the profit and loss account includes the current tax expense and the change in the deferred tax balance.

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the profit or loss account.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**f) Intangible assets**

Purchased intangible assets are stated at cost less accumulated amortization. They are amortized on a straight-line basis over their estimated useful lives.

**g) Property, plant and equipment**

Property, plant and equipment is stated at cost (including costs of acquisition) less accumulated depreciation and any recognised impairment loss.

**PEGAS NONWOVENS S.A.**

**Notes to the Consolidated Financial Statements  
For the period ended December 31, 2005 — (Continued)**

The cost of assets, other than land and assets under construction is depreciated over their estimated useful lives, using the straight-line method, on the following basis:

<u>Major groups of assets</u>	<u>Number of years</u>
Production lines .....	12-20
Factory and office buildings .....	30-60
Cars and other vehicles .....	<u>5-6</u>

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

**h) Foreign currencies**

All companies in the Group operate in the Czech Republic which is their primary economic area. Consequently, the Czech crown (CZK) is the functional currency of these entities.

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date and are recognised in profit or loss.

For the purpose of presenting consolidated financial statements, the assets and liabilities are expressed in Euro using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period from November 18, 2005 to December 31, 2005.

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

	<u>18 November - December 31, 2005</u>
<b>Period average (P&amp;L)</b> .....	<u><b>28.957</b></u>
	<u>31 December 2005</u>
<b>Balance sheet date</b> .....	<u><b>29.005</b></u>

Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

Fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

**i) Financial instruments**

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

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

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

## PEGAS NONWOVENS S.A.

### Notes to the Consolidated Financial Statements For the period ended December 31, 2005 — (Continued)

#### Financial liabilities and equity

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

#### Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above).

#### Convertible loan notes

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

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

#### Trade payables

Trade payables are stated at their nominal value.

#### Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

A derivative is a financial instrument or other contract which fulfils the following conditions:

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

Hedging derivatives are defined as derivatives that comply with the Company's risk management strategy, the hedging relationship is formally documented and the hedge is effective, that is, at inception and throughout the period, changes in the fair value or cash flows of the hedged and hedging items are almost fully offset and the results are within a range of 80 percent to 125 percent. Changes in fair value of hedging derivatives are recognised in equity.

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading and carried at fair value, with changes in fair value included in net profit or loss of the period in which they arise.

**PEGAS NONWOVENS S.A.**

**Notes to the Consolidated Financial Statements  
For the period ended December 31, 2005 — (Continued)**

Fair values are obtained from quoted market prices or discounted cash-flow models, as appropriate. All non-hedge derivatives are carried as current assets when their fair value is positive and as current liabilities when their fair value is negative.

**j) Impairment of assets**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the asset is not a separate cash-generating unit, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

**k) Provisions**

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

**l) Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. The cost is calculated using the weighted arithmetic average method. The net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**m) Government grants**

Government grants toward staff re-training costs are recognised in profit or loss over the periods necessary to match them with the related costs.

**n) Segment reporting**

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

**4. REVENUE**

Set out below is a breakdown of the Group's revenue:

<u>Markets</u>	<u>Period ended 31 Dec 2005</u>
	<u>EUR'000</u>
Domestic sales .....	559
Export .....	<u>4,228</u>
<b>Total</b> .....	<b><u>4,787</u></b>

**PEGAS NONWOVENS S.A.**

**Notes to the Consolidated Financial Statements  
For the period ended December 31, 2005 — (Continued)**

<u>Product group</u>	<u>Period ended 31 Dec 2005</u> EUR'000
Hygiene general .....	3,841
Hygiene special .....	353
Non-hygiene .....	<u>593</u>
<b>Total</b> .....	<b><u>4,787</u></b>

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS**

The Group solely produces non-woven textiles. The production is located entirely in the Czech Republic. Therefore no product or geographical segments were identified by the management.

**6. OTHER OPERATING EXPENSE (NET)**

	<u>Period ended 31 Dec 2005</u> EUR'000
Interest revenues .....	22
Gain/(loss) on the sale of property and materials .....	12
Other taxes .....	(6)
Foreign exchange differences (net) .....	(1)
Other gains/(losses) .....	<u>(487)</u>
<b>Total</b> .....	<b><u>(460)</u></b>

**7. FINANCE COSTS**

	<u>Period ended 31 Dec 2005</u> EUR'000
Interest on loans .....	622
Interest on employee deposits .....	<u>92</u>
<b>Total</b> .....	<b><u>714</u></b>

**8. INCOME TAX EXPENSE**

	<u>Period ended 31 Dec 2005</u> EUR'000
Income tax current .....	345
Income tax deferred .....	<u>(90)</u>
<b>Total</b> .....	<b><u>255</u></b>

	<u>Period ended 31 Dec 2005</u> EUR'000
Profit before tax .....	(1,112)
Domestic rate .....	26%
<b>Tax at domestic rate</b> .....	<b>(289)</b>
Investment incentives .....	(149)
Other non-deductable expenses or non-taxable income .....	<u>693</u>
<b>Income tax current</b> .....	<b><u>255</u></b>

**PEGAS NONWOVENS S.A.**

**Notes to the Consolidated Financial Statements  
For the period ended December 31, 2005 — (Continued)**

Investment incentives are tax savings provided by the government that are subject to certain conditions being fulfilled (such as a level of incremental investments) by the Group. As granting of investment incentives depends on actual performance of the Group, no related deferred tax is recognized.

**9. PROPERTY, PLANT AND EQUIPMENT**

At the date of acquisition Property, Plant and Equipment comprised:

<u>14 December 2005</u>	<u>Land and buildings</u>	<u>Production machinery</u>	<u>Other equipment</u>	<u>Under construction</u>	<u>Pre- payments</u>	<u>Total</u>
Cost . . . . .	32,030	120,353	8,573	220	348	161,524
Accumulated depreciation . . . . .	<u>3,759</u>	<u>42,718</u>	<u>3,568</u>	—	—	<u>50,045</u>
<b>Net book value . . . . .</b>	<b><u>28,271</u></b>	<b><u>77,635</u></b>	<b><u>5,005</u></b>	<b><u>220</u></b>	<b><u>348</u></b>	<b><u>111,479</u></b>

There were additions of EUR 77 thousand and depreciation of EUR 535 thousand between December 14, 2005 and December 31, 2005. The effect of translation was EUR 92 thousand.

**10. INTANGIBLE FIXED ASSETS**

The Group's intangible fixed assets primarily comprise goodwill. The amount as of December 31, 2005 was EUR 78 949 thousand.

Purchased software amounted to EUR 24 thousand as of December 31, 2005.

**11. ACQUISITION OF SUBSIDIARY**

On December 14, 2005, the Group acquired full control over the activities PEGAS a.s. and its subsidiaries. The net assets acquired in the transaction and the goodwill arising are as follows:

	<u>Pre-acquisition carrying amounts</u>	<u>Fair value adjustments</u>	<u>Recognised values on acquisitions</u>
	EUR'000		
Property, plant and equipment . . . . .	93,439	17,420	110,859
Intangible assets . . . . .	192	0	192
Inventories . . . . .	8,508	603	9,111
Trade and other receivables . . . . .	24,968	0	24,968
Cash and cash equivalents . . . . .	25,366	0	25,366
Bank loans and overdrafts . . . . .	2,000	0	2,000
Deferred tax liabilities . . . . .	9,681	4,215	13,896
Trade and other payables . . . . .	16 760	0	16,760
Tax payables . . . . .	<u>18</u>	<u>0</u>	<u>18</u>
<b>Net identifiable assets and liabilities . . . . .</b>	<b><u>124,014</u></b>	<b><u>13,808</u></b>	<b><u>137,822</u></b>
Goodwill on acquisition . . . . .			<u>78,949</u>
<b>Cost of combination . . . . .</b>			<b><u>216,771</u></b>

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

PEGAS a.s. contributed all the revenues for the period between December 14, 2005 and December 31, 2005 to the Group's profit before tax. If the acquisition had occurred on November 18, 2005, the Group revenue and net profit would not significantly differ from the values included in the consolidated financial statements.

**PEGAS NONWOVENS S.A.**

**Notes to the Consolidated Financial Statements  
For the period ended December 31, 2005 — (Continued)**

**12. INVENTORIES**

	<b>Balance as at 31 Dec 2005</b>
	<b>EUR'000</b>
Materials .....	5,043
Semi-finished products .....	333
Products .....	1,903
Spare parts .....	1,256
Other .....	<u>87</u>
<b>Total</b> .....	<b><u>8,622</u></b>

Under 'Spare parts' there are items having a useful life of less than one year or the individual value of which is not significant.

**13. TRADE AND OTHER RECEIVABLES**

	<b>Balance as at 31 Dec 2005</b>
	<b>EUR'000</b>
Receivables from sales of products .....	20,381
Value added tax receivable .....	1,368
Estimated rebates .....	1,029
Prepaid expenses .....	87
Accrued income .....	833
Other .....	<u>87</u>
<b>Total</b> .....	<b><u>23,785</u></b>

**14. BANK BALANCES AND CASH**

	<b>Balance as at 31 Dec 2005</b>
	<b>EUR'000</b>
Current accounts .....	2,319
Overnight deposits .....	24,683
Cash in hand .....	<u>32</u>
<b>Total</b> .....	<b><u>27,034</u></b>

**15. CONVERTIBLE LOAN NOTES**

The convertible loan notes were issued on December 14, 2005. The notes are convertible into ordinary shares of the Company at any time between the date of issue of the notes and their settlement date.



**PEGAS NONWOVENS S.A.**

**Notes to the Consolidated Financial Statements  
For the period ended December 31, 2005 — (Continued)**

The net proceeds received from the convertible loan notes have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group as follows:

	<u>Preferred equity certificates</u>	<u>Mezzanine facility with warrants</u>	<u>Total</u>
	<b>EUR'000</b>		
Nominal value of convertible loan notes . . . . .	10,645	15,000	25,645
Equity component . . . . .	2,972	1,460	4,432
Liability component at date of issue . . . . .	<u>7,673</u>	<u>13,540</u>	<u>21,213</u>

The interest charged for the period since the loan notes were issued is EUR 59 thousand. The fair value of the convertible loans as of December 31, 2005 is EUR 21 416 thousand.

**16. SHARE CAPITAL**

As of December 31, 2005 and since the incorporation of the Company, the share capital of the Company amounted to EUR 125 thousand represented by 12 500 shares with par value of EUR 10.00 each, fully paid. All the shares are pledged in favour of financial institutions.

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

**17. RETAINED EARNINGS**

There were no dividends paid in the period from November 18, 2005 till December 31, 2005.

The statement of equity line item 'Effect of changes in foreign exchange rates' represents the effect of the translation of the financial statements from the functional to the presentation currency.

**18. BANK OVERDRAFTS AND LOANS**

	<u>Due amount</u>	<u>Convertible part</u>	<u>Arrangement fees</u>	<u>Bank loan liability</u>	<u>Short- term</u>	<u>Long- term</u>	<u>Interest rate</u>
Bank loans:							
Revolving loan . . . . .	2,000			2,000	2,000		1M EURIBOR +2,0%
Mezzanine loan . . . . .	15,000	1,444	150	13,406		13,406	3M EURIBOR +10,0%
Credit tranche A . . . . .	95,000		1,805	93,195	14,250	78,945	1,3,6M EURIBOR +2,25%
Credit tranche B . . . . .	28,500		542	27,958		27,958	1,3,6M EURIBOR +2,75%
Credit tranche C . . . . .	<u>37,700</u>		<u>741</u>	<u>36,959</u>		<u>36,959</u>	1,3,6M EURIBOR +3,25%
<b>Bank loans total . . . . .</b>	<b><u>178,200</u></b>	<b><u>1,444</u></b>	<b><u>3,238</u></b>	<b><u>173,518</u></b>	<b><u>16,250</u></b>	<b><u>157,268</u></b>	

Rate of 1M EURIBOR is 2.401% at December 31, 2005.

The shareholders pledged all the shares of PEGAS NONWOVENS SA as a guarantee for the Mezzanine loan in favour of the credit institution.

Other bank loans are secured by:

- 1) security over the shares in PEGAS, a.s.
- 2) security over the enterprise of PEGAS, a.s.
- 3) security over the plant and machinery of PEGAS, a.s.
- 4) bank accounts of PEGAS a.s. and
- 5) shares of subsidiaries PEGAS — DS a.s., PEGAS-NT a.s. and PEGAS — NW a.s.

**PEGAS NONWOVENS S.A.**

**Notes to the Consolidated Financial Statements  
For the period ended December 31, 2005 — (Continued)**

**19. DEFERRED TAX LIABILITY/ASSET**

	<u>Deferred tax asset 31 Dec 2005</u>	<u>Deferred tax liability 31 Dec 2005</u>	<u>Balance as at 31 Dec 2005</u>
		<u>EUR'000</u>	
Property .....	—	13,927	13,927
Inventories .....	27	—	(27)
Other .....	—	10	10
<b>Total</b> .....	<u>27</u>	<u>13,937</u>	<u>13,910</u>

From the total change in deferred tax liability an income of EUR 90 thousand was recognized in profit and loss.

**20. TRADE AND OTHER PAYABLES**

	<u>Balance as at 31 Dec 2005</u>
	<u>EUR'000</u>
Trade payables .....	13,243
Liabilities to employees .....	1,500
Deferred income .....	5,700
Other .....	1,227
<b>Total</b> .....	<u>21,670</u>

The management considers that the carrying amount of trade and other payables approximates their fair value.

**21. FINANCIAL INSTRUMENTS**

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. Derivatives are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

*Credit risk*

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives in the balance sheet.

*Interest rate risk*

The Group's interest bearing loans and borrowings are exposed to a risk of change in their fair value due to changes in interest rates.

*Foreign currency risk*

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily Euro (EUR).

In respect of other monetary assets and liabilities held in currencies other than the euro, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

**PEGAS NONWOVENS S.A.**

**Notes to the Consolidated Financial Statements  
For the period ended December 31, 2005 — (Continued)**

**22. RELATED PARTY DISCLOSURES**

Pamplona Capital Partners I L.P. is the holder of 1 064 500 convertible preferred equity certificates with a nominal value of EUR 10 645 thousand. These preferred equity certificates are described in Note 15.

In addition, Pamplona Capital Partners I L.P. holds 2 900 000 non-convertible preferred equity certificates with a nominal value of EUR 29 000 thousand. These preferred equity instruments were issued for a period of 30 years and the applicable interest rate is 9.875% per annum. The corresponding liability is presented under “Other payables due after one year” in the balance sheet.

	<b>Balance as at 31 Dec 2005</b>
	<b>EUR'000</b>
Convertible preferred equity certificates .....	10,645
less: Convertible part of long term debt .....	(2,929)
Non-convertible preferred equity certificates .....	29,000
<b>Preferred equity certificates .....</b>	<b>36,716</b>
Other .....	<u>508</u>
<b>Total long — term debt .....</b>	<b><u>37,224</u></b>

**23. COMPENSATION OF KEY MANAGEMENT PERSONNEL**

Management received no benefits in excess of their salaries.

**24. SUBSEQUENT EVENTS**

With effect from January 1, 2006, PEGAS a.s. merged with its immediate holding company ELK INVESTMENTS s.r.o. (“Elk”), a company incorporated in the Czech Republic to form PEGAS NONWOVENS s.r.o. PEGAS NONWOVENS s.r.o. now carries on the trade formerly carried on by PEGAS a.s. Elk did not trade in the year to December 31, 2005. The merger was registered on May 12, 2006.



**KPMG Česká republika, s.r.o.**  
Pobřežní 648/1a  
186 00 Praha 8  
Česká republika

Telephone +420 222 123 111  
Fax +420 222 123 100  
Internet www.kpmg.cz

## Independent Report on Review of Interim Financial Information

The Directors  
PEGAS NONWOVENS SA

We have reviewed the accompanying condensed consolidated balance sheet of PEGAS NONWOVENS SA (“the Company”) as at June 30, 2006, and the related condensed consolidated statements of income, changes in equity and cash flows for the 6 month period then ended (the interim financial information). This consolidated interim financial information is the responsibility of the Company’s management. Our responsibility is to issue a report on this interim financial information based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, ‘Interim Financial Reporting’.

*KPMG Česká Republika*

KPMG Ceska Republika  
November 22, 2006  
Prague

KPMG Česká republika, s.r.o., a Czech limited liability company incorporated under the Czech Commercial Code, is a member firm of KPMG International, a Swiss cooperative

Obchodní rejstřík vedený  
Městským soudem v Praze  
oddíl C, vložka 326

IČ 00553115  
DIČ CZ00553115

Živnostenská banka  
Praha 1  
č.ú./account no  
CZK 40040904/0400  
USD 1176210014/0400  
EUR 1176210006/0400

**PEGAS NONWOVENS SA,**  
**Condensed Consolidated Interim Income Statement**  
**for the 6 months ended June 30, 2006**  
**EUR as presentation currency**

	<u>Notes</u>	<u>2006</u>
		<u>EUR'000</u>
Revenue .....	5	60,065
Raw materials and consumables used .....		(36,865)
Staff costs .....		(2,462)
Depreciation and amortisation expense .....		(6,153)
Other operating income/(expense) (net) .....	10	<u>5,126</u>
<b><i>Profit from operations</i></b> .....		<b><i>19,711</i></b>
Finance costs .....		<u>(8,075)</u>
<b><i>Profit before tax</i></b> .....		<b><i>11,636</i></b>
Income tax expense .....	6	<u>(723)</u>
<b><i>Profit after tax</i></b> .....		<b><i>10,913</i></b>
Minority interest .....		<u>273</u>
<b><i>Net profit for the period</i></b> .....		<b><u><u>10,640</u></u></b>

**PEGAS NONWOVENS SA,**  
**Condensed Consolidated Interim Balance Sheet**  
**as at June 30, 2006**  
**EUR as presentation currency**

	<u>Notes</u>	<u>30 Jun 2006</u>	<u>31 Dec 2005</u>
		EUR'000	
<b>Assets</b>			
<i>Non-current assets</i>			
Property, plant and equipment .....	7	111,133	111,113
Intangible assets .....	8	<u>80,435</u>	<u>78,973</u>
Total non-current assets .....		191,568	190,086
<i>Current assets</i>			
Inventories .....		7,379	8,622
Trade and other receivables .....		24,777	23,785
Bank balances and cash .....		<u>28,292</u>	<u>27,034</u>
Total current assets .....		<u>60,448</u>	<u>59,441</u>
<b>Total assets .....</b>		<b><u>252,016</u></b>	<b><u>249,527</u></b>
<b>Equity and Liabilities</b>			
<i>Capital and reserves</i>			
Share capital .....		125	125
Capital reserve .....		4,432	4,432
Translation reserve .....		(22)	(4)
Accumulated profits/(losses) .....		<u>9,201</u>	<u>(1,367)</u>
Total share capital and reserves .....		13,736	3,186
Minority interest .....		345	0
<i>Non-current liabilities</i>			
Bank loans — due after one year .....	9	152,958	157,268
Deferred tax liabilities .....		14,124	13,910
Other payables due after one year .....		<u>37,611</u>	<u>37,224</u>
Total non-current liabilities .....		204,693	208,402
<i>Current liabilities</i>			
Trade and other payables .....		18,737	21,670
Tax liabilities .....		0	19
Bank overdrafts and loans .....	9	14,250	16,250
Provisions .....		<u>255</u>	<u>0</u>
Total current liabilities .....		33,242	37,939
Total liabilities .....		<u>237,935</u>	<u>246,341</u>
<b>Total equity and liabilities .....</b>		<b><u>252,016</u></b>	<b><u>249,527</u></b>

**PEGAS NONWOVENS SA,**  
**Condensed Consolidated Interim Statement of Changes in Equity**  
**for the 6 month period ended June 30, 2006**  
**EUR as presentation currency**

	<u>Share capital</u>	<u>Capital reserve</u>	<u>Translation reserves</u>	<u>Accumulated profits</u>	<u>Minority interest</u>	<u>Total</u>
	EUR'000					
<b>Balance at January 1, 2006</b> . . . . .	<u>125</u>	<u>4,432</u>	<u>(4)</u>	<u>(1,367)</u>	<u>0</u>	<u>3,186</u>
Effect of changes in foreign exchange rates	0	0	(18)	0	0	(18)
Net profit for the period . . . . .	0	0	0	10,640	273	10,913
Minority interest . . . . .	<u>0</u>	<u>0</u>	<u>0</u>	<u>(72)</u>	<u>72</u>	<u>0</u>
<b>Balance at June 30, 2006</b> . . . . .	<u>125</u>	<u>4,432</u>	<u>(22)</u>	<u>9,201</u>	<u>345</u>	<u>14,081</u>

**PEGAS NONWOVENS SA,**  
**Condensed Consolidated Interim Cash Flow Statement**  
**for the 6 month period ended June 30, 2006**  
**EUR as presentation currency**

	<b>2006</b>
	<b>EUR'000</b>
<b>OPERATING ACTIVITY:</b>	
Profit before tax (without minority interest) .....	11,363
Amortisation/depreciation .....	6,153
Foreign exchange .....	(3,482)
Interest expense .....	8,075
Minority interest .....	273
Change in inventories .....	1,243
Change in receivables .....	(992)
Change in payables .....	(5,050)
Income tax paid .....	(528)
Interest paid .....	(3,801)
<b>CASH FLOW FROM OPERATING ACTIVITY .....</b>	<b><u>13,254</u></b>
<b>INVESTMENT ACTIVITY:</b>	
Purchases of property, plant and equipment .....	(4,171)
<b>CASH FLOW FROM INVESTMENT ACTIVITY .....</b>	<b><u>(4,171)</u></b>
<b>FINANCIAL ACTIVITY:</b>	
Change in loans .....	(7,825)
<b>CASH FLOW FROM FINANCIAL ACTIVITY .....</b>	<b><u>(7,825)</u></b>
<b>BANK BALANCES AND CASH AT THE BEGINNING OF THE PERIOD .....</b>	<b>27,034</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS .....</b>	<b>1,258</b>
<b>BANK BALANCES AND CASH AT THE END OF THE PERIOD .....</b>	<b>28,292</b>



## Notes to the condensed consolidated interim financial statements

### 1. Reporting entity

PEGAS NONWOVENS S.A. (the “Company”), originally incorporated under the name Pamplona PE Holdco 2 S.A., is a commercial company incorporated in Luxembourg on November 18, 2005, under the legal form of a “Société anonyme”. The registered office is at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg and the Company is registered with the Register of Commerce of Luxembourg under the number B 112.044.

With effect from January 1, 2006, PEGAS a.s. merged with its immediate holding company ELK INVESTMENTS s.r.o. (“Elk”), a company incorporated in the Czech Republic to form PEGAS NONWOVENS s.r.o. The Company now carries on the trade formerly carried on by PEGAS a.s. Elk did not trade in the year to December 31, 2005. The merger was registered on May 12, 2006.

### 2. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2005.

### 3. Significant accounting policies

The accounting policies applied by the Company in these condensed consolidated financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2005.

### 4. Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements of the Company as at and for December 31, 2005.

### 5. Revenues

<u>Markets</u>	<u>Period ended 30 Jun 2006 EUR’000</u>
Domestic sales .....	6,833
Export .....	53,232
<b>Total</b> .....	<b><u>60,065</u></b>

<u>Product group</u>	<u>Period ended 30 Jun 2006 EUR’000</u>
Hygiene general .....	38,813
Hygiene special .....	13,927
Non-hygiene .....	7,325
<b>Total</b> .....	<b><u>60,065</u></b>

### 6. Income tax expense

The Group’s consolidated effective tax rate in respect of continuing operations for the six months ended June 30, 2006 was 3 percent. The low effective tax rate was mainly due to tax incentives.

**Notes to the condensed consolidated interim financial statements — (Continued)**

**7. Property, plant and equipment**

During the six months period ended June 30, 2006 the Company acquired assets in the amount of EUR 4,171 thousand. The depreciation charge in the same period was in the amount of EUR 5,937 thousand. The effect of translation was EUR 1,786 thousand.

**8. Goodwill**

The Group performed its annual impairment testing of goodwill during the six months ended June 30, 2006. As a result of this testing no impairment was identified.

**9. Loans and borrowings**

	<u>31.12.2005</u>	<u>30.6.2006</u>	<u>Interest rate</u>	<u>Maturity</u>
Bank loans:				
Revolving loan . . . . .	2,000	0	1M EURIBOR +2,0%	23.1.2006
Mezzanine loan . . . . .	13,406	14,686	3M EURIBOR +10,0%	14.12.2014
Credit tranche A . . . . .	93,195	86,220	1,3,6M EURIBOR +2,25%	14.12.2011
Credit tranche B . . . . .	27,958	27,997	1,3,6M EURIBOR +2,75%	14.12.2012
Credit tranche C . . . . .	<u>36,959</u>	<u>38,305</u>	1,3,6M EURIBOR +3,25%	14.12.2013
<b>Bank loans total . . . . .</b>	<b><u>173,518</u></b>	<b><u>167,208</u></b>		
Borrowing from shareholders (presented in line "Other payables due after 1 year) . . .	<u>37,224</u>	<u>37,611</u>		
<b>Bank loans and borrowings total . . . . .</b>	<b><u>210,742</u></b>	<b><u>204,819</u></b>		

Rate of 1M EURIBOR is 2.897% at June 30, 2006.

	<u>31.12.2005</u>	<u>30.6.2006</u>
Long term part of bank loans . . . . .	157,268	152,958
Short term part of bank loans . . . . .	<u>16,250</u>	<u>14,250</u>
<b>Total bank loans . . . . .</b>	<b><u>173,518</u></b>	<b><u>167,208</u></b>

**10. Other operating income/(expense) (net)**

Other operating income consists mainly of foreign exchange gains of EUR 3,294 thousand and revaluation of interest rate swap of EUR 1,775 thousand.

**11. Related parties**

There were no significant related parties transactions in the six months ended June 30, 2006.



**KPMG Česká republika, s.r.o.**  
Pobřežní 648/1a  
186 00 Praha 8  
Česká republika

Telephone +420 222 123 111  
Fax +420 222 123 100  
Internet www.kpmg.cz

## Independent Report on Review of Interim Financial Information

The Directors  
PEGAS NONWOVENS s.r.o.

We have reviewed the accompanying condensed consolidated balance sheet of PEGAS NONWOVENS s.r.o. (“the Company”) as at June 30, 2006, and the related condensed consolidated statements of income, changes in equity and cash flows for the 6 month period then ended (the interim financial information). This consolidated interim financial information is the responsibility of the Company’s management. Our responsibility is to issue a report on this interim financial information based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, ‘Interim Financial Reporting’.

*KPMG Česká Republika*

KPMG Ceska Republika  
November 22, 2006  
Prague

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Živnostenská banka  
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USD 1176210014/0400  
EUR 1176210006/0400

**PEGAS NONWOVENS s.r.o.;**  
**Condensed consolidated interim income statement**  
**for the 6 month period ended June 30, 2006**  
**EUR as presentation currency**

	Notes	2006	6 months to June 30, 2005*
EUR'000			
Revenue . . . . .	5	60,065	52,828
Raw materials and consumables used . . . . .		(36,866)	(30,173)
Staff costs . . . . .		(2,462)	(2,233)
Depreciation and amortisation expense . . . . .		(6,153)	(4,970)
Other operating income/(expense) (net) . . . . .	10	<u>5,123</u>	<u>(259)</u>
<b><i>Profit from operations</i></b> . . . . .		<b><i>19,707</i></b>	<b><i>15,193</i></b>
Finance costs . . . . .		<u>(7,196)</u>	<u>(71)</u>
<b><i>Profit before tax</i></b> . . . . .		<b><i>12,511</i></b>	<b><i>15,122</i></b>
Income tax expense . . . . .	6	<u>(713)</u>	<u>(1,880)</u>
<b><i>Profit after tax</i></b> . . . . .		<b><i>11,798</i></b>	<b><i>13,242</i></b>
<b><i>Net profit for the period</i></b> . . . . .		<b><u>11,798</u></b>	<b><u>13,242</u></b>

**PEGAS NONWOVENS s.r.o.;**  
**Condensed consolidated interim balance sheet**  
**as at June 30, 2006**  
**EUR as presentation currency**

	<u>Notes</u>	<u>June 30, 2006</u>	<u>December 31, 2005*</u>
		EUR'000	
<b>Assets</b>			
<i>Non-current assets</i>			
Property, plant and equipment .....	7	111,133	93,439
Intangible assets .....	8	<u>80,435</u>	<u>192</u>
Total non-current assets .....		191,568	93,631
<i>Current assets</i>			
Inventories .....		7,379	8,508
Trade and other receivables .....		24,776	25,101
Bank balances and cash .....		<u>28,171</u>	<u>25,366</u>
Total current assets .....		<u>60,326</u>	<u>58,975</u>
<b>Total assets .....</b>		<b><u>251,894</u></b>	<b><u>152,606</u></b>
<b>Equity and Liabilities</b>			
<i>Capital and reserves</i>			
Share capital .....		126	6,335
Legal reserve fund .....		0	3,301
Translation reserve .....		0	9,080
Accumulated profits .....		<u>10,504</u>	<u>105,431</u>
Total share capital and reserves .....		10,630	124,147
<i>Non-current liabilities</i>			
Bank loans — due after one year .....	9	138,272	0
Deferred tax liabilities .....		14,124	9,681
Other payables due after one year .....		<u>55,954</u>	<u>69</u>
Total non-current liabilities .....		208,350	9,750
<i>Current liabilities</i>			
Trade and other payables .....		18,420	16,691
Tax liabilities .....		0	18
Bank overdrafts and loans .....	9	14,250	2,000
Provisions .....		<u>244</u>	<u>0</u>
Total current liabilities .....		32,914	18,709
Total liabilities .....		<u>241,264</u>	<u>28,459</u>
<b>Total equity and liabilities .....</b>		<b><u>251,894</u></b>	<b><u>152,606</u></b>

**PEGAS NONWOVENS s.r.o.,**  
**Condensed consolidated statement of changes in equity**  
**for the 6 month period ended June 30, 2006**  
**EUR as presentation currency**

	<u>Share capital</u>	<u>Legal reserve fund</u>	<u>Translation reserves</u>	<u>Accumulated profits</u>	<u>Total</u>
	EUR'000				
<b>Balance at January 1, 2005*</b> .....	<b><u>6,335</u></b>	<b><u>2,780</u></b>	<b><u>3,750</u></b>	<b><u>79,315</u></b>	<b><u>92,180</u></b>
Distribution of profit .....		521		(521)	—
Exchange differences .....			1,308		1,308
Net profit for the year .....				<u>13,242</u>	<u>13,242</u>
<b>Balance at June 30, 2005</b> .....	<b><u>6,335</u></b>	<b><u>3,301</u></b>	<b><u>5,058</u></b>	<b><u>92,036</u></b>	<b><u>106,730</u></b>
	<u>Share capital</u>	<u>Legal reserve fund</u>	<u>Translation reserves</u>	<u>Accumulated profits</u>	<u>Total</u>
<b>Balance at January 1, 2006**</b> .....	<b><u>6</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>(1,294)</u></b>	<b><u>(1,288)</u></b>
Increase of share capital .....	120				120
Net profit for the year .....				<u>11,798</u>	<u>11,798</u>
<b>Balance at June 30, 2006</b> .....	<b><u>126</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>10,504</u></b>	<b><u>10,630</u></b>

\* see reporting entity-note 1

\*\* the balance at January 1, 2006 reflects the impact of the merger on that date — note 1

**PEGAS NONWOVENS s.r.o.,**  
**Condensed consolidated interim cash flow statement**  
**for the 6 month period ended June 30, 2006**  
**EUR as presentation currency**

	<u>2006</u>	<u>6 months to June 30, 2005*</u>
		EUR'000
<b>OPERATING ACTIVITY:</b>		
Profit before tax.....	12,511	15,122
Amortisation/depreciation .....	6,153	4,970
Foreign exchange.....	(3,453)	1,308
Interest expense .....	7,196	71
Change in inventories .....	1,243	(1,151)
Change in receivables .....	(991)	(4,701)
Change in payables .....	(5,040)	(2,071)
Income tax paid.....	(518)	(1,968)
Interest paid .....	<u>(3,801)</u>	<u>(71)</u>
<b>CASH FLOW FROM OPERATING ACTIVITY .....</b>	<b><u>13,300</u></b>	<b><u>11,509</u></b>
<b>INVESTMENT ACTIVITY:</b>		
Purchases of property, plant and equipment .....	<u>(4,171)</u>	<u>(6,361)</u>
<b>CASH FLOW FROM INVESTMENT ACTIVITY .....</b>	<b><u>(4,171)</u></b>	<b><u>(6,361)</u></b>
<b>FINANCIAL ACTIVITY:</b>		
Change in loans.....	(7,825)	(998)
Increase in share capital .....	120	—
<b>CASH FLOW FROM FINANCIAL ACTIVITY .....</b>	<b><u>(7,705)</u></b>	<b><u>(998)</u></b>
<b>BANK BALANCES AND CASH AT THE BEGINNING OF THE YEAR ...</b>	<b>26,747</b>	<b>5,810</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS .....</b>	<b>1,424</b>	<b>4,150</b>
<b>BANK BALANCES AND CASH AT THE END OF THE YEAR .....</b>	<b>28,171</b>	<b>9,960</b>

## Notes to the condensed consolidated interim financial statements

### 1. Reporting entity

With effect from January 1, 2006, PEGAS a.s. merged with its immediate holding company ELK INVESTMENTS s.r.o. (“Elk”), a company incorporated in the Czech Republic to form PEGAS NONWOVENS s.r.o. (the “Company”). The Company now carries on the trade formerly carried on by PEGAS a.s. Elk did not trade in the year to December 31, 2005. The merger was registered on May 12, 2006.

The Company is incorporated in the Czech Republic. Its registered office is located in Znojmo, Přímětická 86, 669 04. The Company and its subsidiaries are engaged in the production of non-woven textiles. The condensed consolidated interim financial statements of the Company as at and for the six months ended June 30, 2006 comprise the Company and its subsidiaries. The comparative figures are for PEGAS a.s. and its subsidiaries.

The Company and its subsidiaries (the “Group”) consist of the following entities:

<u>Company</u>	<u>Year of incorporation</u>	<u>Business</u>
PEGAS — DS a.s. ....	1999	Production of non-woven textiles
PEGAS — NT a.s. ....	2002	Production of non-woven textiles
PEGAS — NW a.s. ....	2005	Production of non-woven textiles

### 2. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting .They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of PEGAS a.s. as at and for the year ended December 31, 2005.

### 3. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by PEGAS a.s. in its consolidated financial statements as at and for the year ended December 31, 2005.

As noted above, on January 1, 2006 PEGAS a.s. merged with Elk to form the Company. This had the following significant effect on the assets of PEGAS a.s.

- The property, plant and equipment has been adjusted to fair value at January 1, 2006,
- Loans received by Elk prior to the merger with PEGAS a.s. are included in the balance sheet as of June 30, 2006,
- The difference between the original value of Elk’s investment in PEGAS a.s. and net assets of PEGAS a.s. prior to fair value adjustments is included in “Goodwill” in intangible assets.

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

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

	<u>01/01-30/06/2006</u>	<u>01/01-30/06/2005</u>
Period average (P&L) .....	28.495	30.071
	30/06/2006	30/06/2005
Balance sheet date .....	<u>28.495</u>	<u>30.030</u>



#### 4. Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements of PEGAS a.s. as at and for the year ended December 31, 2005.

#### 5. Revenues

<u>Markets</u>	Period ended	Period ended
	30 Jun 2006	30 Jun 2005
	EUR'000	
Domestic sales.....	6,833	7,845
Export .....	53,232	44,983
<b>Total</b> .....	<b><u>60,065</u></b>	<b><u>52,828</u></b>
	EUR'000	
<u>Product group</u>	Period ended	Period ended
	30 Jun 2006	30 Jun 2005
	EUR'000	
Hygiene general .....	38,813	38,734
Hygiene special .....	13,927	8,100
Non-hygiene .....	7,325	5,994
<b>Total</b> .....	<b><u>60,065</u></b>	<b><u>52,828</u></b>

#### 6. Income tax expense

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended June 30, 2006 was 3 percent. The low effective tax rate was mainly due to tax incentives.

#### 7. Property, plant and equipment

The balance of property, plant and equipment increased as a result of fair value adjustments by EUR 17,420 thousand.

During the six months period ended June 30, 2006 the Group acquired assets in the amount of EUR 4,171 thousand. The depreciation of assets for this period was EUR 5,937 thousand. The effect of translation was EUR 2 040 thousand.

#### 8. Intangible Assets

The intangible asset relates to goodwill of EUR 80,362 thousand and software of EUR 73 thousand.

The Group performed its annual impairment testing of goodwill during the six months ended June 30, 2006. As a result of this testing no impairment was identified.

## 9. Bank Overdraft and Loans

As a result of the merger with Elk the Group acquired bank loans previously held by Elk.

	<u>30.6.2006</u>	<u>Interest rate</u>	<u>Maturity</u>
Bank loans:			
Credit tranche A . . . . .	86,220	1,3,6M EURIBOR +2,25%	14.12.2011
Credit tranche B . . . . .	27,997	1,3,6M EURIBOR +2,75%	14.12.2012
Credit tranche C . . . . .	<u>38,305</u>	<u>1,3,6M EURIBOR +3,25%</u>	<u>14.12.2013</u>
<b>Bank loans total</b> . . . . .	<b><u>152,522</u></b>		
	<u>30.6.2006</u>		
Long term part of bank loans . . . . .	138,272		
Short term part of bank loans . . . . .	<u>14,250</u>		
<b>Total bank loans</b> . . . . .	<b><u>152,522</u></b>		

Rate of 1M EURIBOR is 2.897% at June 30, 2006.

## 10. Other operating income/(expense) (net)

Other operating income consists mainly of foreign exchange gains of EUR 3,294 thousand and revaluation of interest rate swap of EUR 1,775 thousand.

## 11. Related parties

There were no significant related parties transactions in the six months ended June 30, 2006. Remuneration the Board of Directors amounted to EUR 0 thousand in the period ended June 30, 2006 (30 June 2005 — EUR 27 thousand).

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**The Company**

**PEGAS NONWOVENS SA**  
68-70, boulevard de la Pétrusse  
L-2320 Luxembourg  
Luxembourg

**Global Coordinator, Lead Manager and Bookrunner**

**ING Bank NV, London Branch**

60 London Wall  
London EC2M 5TQ  
United Kingdom

**Co-Lead Manager**

**Česká spořitelna, a.s.**

Olbrachtova 1929/62  
140 00 Praha 4  
Czech Republic

**Auditors**

**KPMG Česká republika s.r.o.**

Pobřežní 1A  
186 00 Praha 8  
Czech Republic

**Legal Advisors**

*To the Company as to Polish Law*

**Allen & Overy, A. Pędzich Spółka komandytowa**  
Sienna Center  
ul. Żelazna 28/30  
00-832 Warsaw  
Poland

*To the Company as to Czech and English Law*

**Allen & Overy, Praha Advokátní kancelář**  
V Celnici 4, 5th Floor  
110 00 Prague 1  
Czech Republic

*To the Company as to Luxembourg Law*

**Allen & Overy Luxembourg**  
58, rue Charles Martel  
L-2134 Luxembourg  
Luxembourg

*To the Managers as to English law*

**Baker & McKenzie LLP**  
100 New Bridge Street  
London EC4V 6JA  
United Kingdom

*To the Managers as to Czech law*

**Baker & McKenzie v.o.s.**  
Praha City Center  
Klimentská 46  
110 02 Prague 1  
Czech Republic

*To the Managers as to Polish law*

**Baker & McKenzie**  
Rondo ONZ 1  
00-124 Warsaw  
Poland

**Listing Agents**

*In the Czech Republic*

**ING Bank NV, organizační složka (Prague Branch)**  
Nádražní 25  
150 00 Prague  
Czech Republic

*In Poland*

**ING Securities S.A.**  
Plac Trzech Krzyży 10/14  
00-499 Warsaw  
Poland

