1. General information and definition of the consolidated entity

Description and principal activities

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 18 November 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 Commercial Register of Luxembourg under number B 112.044. The Company acts only as a holding company.

On 14 December 2005, the Company acquired full control over the activities of PEGAS a.s. (now PEGAS NONWOVENS s.r.o.)

PEGAS NONWOVENS s.r.o. is incorporated in the Czech Republic. Its registered office is located in Znojmo, Přímětická 86, 669 04. PEGAS NONWOVENS s.r.o. and its subsidiaries are engaged in the production of non-woven textiles.

The consolidated financial statements of the Company as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group"). The financial statements for the period ended 31 December 2005 were prepared for the period from 18 November 2005 to 31 December 2005. As a result, the information about revenues, expenses, results of operations, cash flows and changes in equity is not fully comparable.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) for use in the European Union.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on 19 April 2007.

(b) Functional Currency

The financial statements are presented in thousands of Euro ("TEUR"). In accordance with IAS 21, the underlying functional currency of PEGAS NONWOVENS s.r.o. and its subsidiaries is Czech Koruna ("CZK"). Their financial statements were translated from the functional currency to the presentation currency. The underlying functional currency of PEGAS NONWOVENS S.A. is Euro.

(c) 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.

(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 recognized 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.

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 have been applied consistently by Group entities.

(a) Consolidation methods

The consolidated financial statements incorporate the financial statements of PEGAS NONWOVENS S.A. and entities controlled by the Company (its subsidiaries). Control exists 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, which fulfill the criteria for accounting recognition pursuant to IFRS 3, are measured to fair value at the date of acquisition.

Any excess of the cost of acquisition over the fair value of the net identifiable assets acquired is accounted for as goodwill. Any excess of the fair value of the net identifiable assets acquired over the cost of acquisition is accounted for in the income statement in the accounting period in which the acquisition takes place.

Minority interests and ownership interests of minority investors of the consolidated subsidiaries are valued at the minority shareholder's proportionate interest in the net fair value of assets and liabilities recognized in the accounting.

As and when necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income, expenses and dividends are eliminated on consolidation.

(b) Foreign currencies

All Czech based companies in the Group operate in the Czech Republic which is their primary economic area. Consequently, the Czech Koruna (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 recognized in profit or loss.

For the purpose of presenting consolidated financial statements, the assets and liabilities are expressed in Euro using exchange rates ruling at the balance sheet date. Income and expense items 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):

	1 January 2006 - 31 December 2006
Period average (P&L)	28.343
	31 December 2006
Balance sheet date	27.495

Exchange differences arising from the above stated exchange rates, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

(c) Revenue recognition

Revenues are recognized 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 recognized when products are delivered and either the title to the products has been passed to the customer or the risks to the products have been passed to the carrier. Revenues from the sale of services are recognized when the service is rendered.

(d) 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.

(e) Research and development

Expenditure on research activities, undertaken with the prospect of acquiring new scientific or technical knowledge and understanding, is recognized in the income statement as an expense as incurred.

Expenditure on development activities is capitalized if the product or process is technically and economically feasible. The expenditure capitalized includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognized in the income statement as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses.

(f) Costs associated with the initial public offering

Costs incurred to increase equity are deducted from the amount of equity, but only to the extent related to the issue of new shares. Transaction costs attributable to the issue of new shares are directly debited to equity less all related tax implications. These costs primarily include external costs incurred for legal, accounting and other advisory services, direct communication with investors and remuneration paid to financial institutions mediating the subscription of shares in the public market. All costs that have been incurred continuously but do not directly relate to the increase in equity are charged to expenses.

(g) Borrowing costs

Borrowing costs are recognized in the income statement in the period to which they relate.

(h) Taxation

The tax expense in the income statement includes current and deferred tax expenses.

Current tax

Current income tax is based on taxable profit and the tax base. Taxable profit differs from net profit as reported in the income statement 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

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 recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

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 realized. 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.

(i) Government grants

Grants and subsidies relating to employees

The Government of the Czech Republic has provided grants to train employees and subsidies to establish new jobs. These grants and subsidies were accounted for in the year in which related expenses were incurred.

Grants relating to income tax

Grants relating to income tax represent investment incentives. The Group does not account for a total tax liability but records its tax liability less the expected amount of investment incentives.

(j) Property, plant and equipment

Property, plant and equipment is stated at cost (including costs of acquisition) less accumulated depreciation and any recognized 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:

Major groups of assets	Number of years
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 recognized in profit or loss.

(k) 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.

The carrying amounts of intangible assets are reassessed to identify impairment losses where events or changes of facts indicate that the carrying amount of each individual asset exceeds its recoverable amount.

Intangible assets primarily include software, which is amortised on a straight-line basis over its estimated useful life, which is eight years.

(l) Goodwill

Goodwill represents a positive difference between the cost of acquisition and the fair value of the acquired interest in net identifiable assets and liabilities of a subsidiary as at the date of acquisition. Goodwill arising on an acquisition of subsidiaries is included in intangible assets. After the initial recognition, goodwill is stated at cost less impairment losses.

At the acquisition date, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination.

(m) 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 recognized immediately in profit or loss.

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 recognized for goodwill is not reversed in a subsequent period.

The management has determined that for goodwill testing purposes all acquired subsidiaries are considered as one cash generating unit.

(n) 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 average method. The net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

The cost of finished products comprises direct materials and direct labour costs and a proportion of production overheads based on normal operating capacity, excluding finance costs.

(o) Financial instruments

Financial assets and financial liabilities are recognized in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(p) Derivative financial instruments

The Group's operating activities are primarily exposed to the financial risks such as changes in foreign exchange rates and interest rates. Where necessary, the Group uses derivative financial instruments to hedge these risks.

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:

- 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
- 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
- it is settled at a future date.

Derivative financial instrument which do not fulfill the criteria for 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 it arises.

The Group uses interest rate swaps to hedge the risk of changes in interest rates. As the group does not perform hedge accounting, these swaps are regarded as held-for-trading and changes in their fair values are recognized directly in the income statement.

(q) Trade receivables

Short-term trade receivables do not carry any interest and are stated at their nominal value reduced by appropriate allowances for estimated irrecoverable amounts.

Long-term trade receivables are discounted to their present value.

(r) 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.

(s) 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.

For convertible debts, the part which corresponds to a potential interest in equity of the Company is reported as part of equity.

(t) Borrowings

Interest-bearing bank loans

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings using the effective interest rate method.

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).

(u) Provisions

Provisions are recognized 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 management's 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.

(v) Trade payables

Short-term trade payables are stated at their nominal value. Long-term trade payables are discounted to their present value.

(w) New standards and interpretations not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published. There application is mandatory for accounting periods beginning on or after 31 December 2006. The Company has not opted for their early adoption. These include:

- *Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures* (effective for annual periods beginning on or after 1 January 2007). The Standard will require increased disclosure in respect of the Group's capital. Amendments arise from the issue of IFRS 7. The management will apply this amendment from the annual period beginning on 1 January 2007.
- *IFRS 7 Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2007). The Standard requires the entities to provide disclosures in the financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance, and the nature and extent of risks arising from financial instruments and how the entity manages the risks. Management does not expect any significant effects on adoption of this Standard.
- *IFRS 8 Operating Segments:* Management does not expect any significant effects on adoption of this Standard.
- *IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning on or after 1 March 2006). The Interpretation contains guidance on how an entity would restate its financial

statements pursuant to IAS 29 in the first year it identifies the existence of hyperinflation in the economy of its functional currency. IFRIC 7 is not relevant to the Group as its functional currency is not a currency of a hyperinflationary economy.

- *IFRIC 8 Scope of IFRS 2* (effective for annual periods beginning on or after 1 May 2006). The Interpretation clarifies that the accounting standard IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. IFRIC 8 is not relevant to the Group.
- *IFRIC 9 Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006). The Interpretation requires that a reassessment of whether an embedded derivative should be separated from the underlying host contract should be made only when there are changes in the terms of the contract that significantly modify the cash flows that otherwise would be required under the contract. The Group has not yet completed its analysis of the impact of the new Interpretation.
- *IFRIC 10 Interim Financial Reporting and Impairment:* The Group has not yet completed its analysis of the impact of the new Interpretation.
- *IFRIC 11 Group and Treasury Share Transactions:* The Group has not yet completed its analysis of the impact of the new Interpretation.
- *IFRIC 12 Service Concession Arrangements:* The Group has not yet completed its analysis of the impact of the new Interpretation.

4. Financial risks

In connection with its activities the Group is exposed to financial risks, in particular currency and interest rate risks. When managing its financial risks, the Group concentrates on unpredictability of financial markets and endeavours to minimise potential negative effects on the results of operations.

Currency risk

Even though the Group carries out its activities only in the Czech Republic, it makes business on an international level, which results in the exposure to currency risks in respect of both its operating and financial activities. The functional currency of PEGAS NONWOVENS s.r.o. and its subsidiaries is Czech Koruna (CZK) but the majority of purchases are carried out in Euros. The majority of financial activities (such as repayment of loans and interest) are also carried out in Euros. Sales of products are carried out in CZK, EUR and USD.

The sales of own production in EUR and CZK cover the purchases of raw material and debt servicing, which results in natural hedging of the Group’s activities by cash flows in these currencies. (Consequently, the Group did not use any foreign exchange derivatives to reduce currency risk as at 31 December 2006).

Credit risk

The vast majority of sales are on credit to customers. Risks arising from the provision of credit are fully covered by insurance policies in respect of individual customers’ receivables or by receiving advanced payments from customers.

Interest rate risk

The interest rate risk arises from bank loans bearing variable interest rates. Interest rate swaps are used to hedge the interest rate exposure.

5. Notes to the consolidated financial statements

a) Revenue

Product groups

	2006	% of total	**2005**	% of total
Hygiene Sales				
Hygiene - specialty	28 498	23.6	353	7.4
Hygiene - other	78 870	65.2	3 841	80.2
Total hygiene	**107 368**	**88.8**	**4 194**	**87.6**
Non-hygiene	**13 573**	**11.2**	**593**	**12.4**
Total sales	**120 941**	**100.0**	**4 787**	**100.00**

Markets

	2006	2005
Domestic sales	14 729	559
Export	106 212	4 228
Total	**120 941**	**4 787**

b) Segment reporting

The Group solely produces non-woven textiles and the management has not identified any reportable segments.

Geographical segments are defined as follows:

Region	**2006**
Western Europe	52 006
Central and Eastern Europe	31 853
Russia	4 099
Others	32 983
Total	**120 941**

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the customer.

All the assets are located in, and all expenditure on assets is in, the Czech Republic.

c) Raw materials, consumables and services used

	2006	2005
Raw materials consumed	64 207	2 977
Consumed spare parts and repairs	2 623	24
Energy consumed	3 553	125
Other consumables	467	348
Other services	1 086	507
Total raw materials and consumables used	**71 936**	**3 981**

Raw materials consumed amount to 89% of the total amount of raw materials and services consumed.

d) Other operating income / (expense) (net)

	2006	2005
Realized and unrealized foreign exchange gains (losses)	9 334	(1)
Fair value changes of interest rate swap	1 869	--
Gain/(loss) on the sale of equipment	25	12
Interest income	613	22
Insurance proceeds	101	--
Insurance cost	(504)	--
Other taxes	(25)	(6)
Other expenses	(241)	(487)
Other operating income / (expense) net total	**11 172**	**(460)**

e) Research and development

In 2006, the Group invested TEUR 1 803 in research and development. The most significant part represents expenditure on raw materials for products testing in the amount of TEUR 1 423.

f) Average number of employees and executive managers of the Group and expenses

	Average number of employees	Total	Wages and salaries	Social security and health insurance expenses	Social expenses
Employees	306	3 916	2 827	994	95
Executives	18	1 195	935	254	6
Total	**324**	**5 111**	**3 762**	**1 248**	**101**

Apart from using the company vehicles for both business and private purposes, executive managers do not receive any other benefits in addition to their salaries.

g) Remuneration, advances, loans, guarantees and other kind of performance, both monetary and in kind, provided to current and former board members

In 2006, remuneration to members of the board of directors and supervisory board amounted to TEUR 217.
Board members did not receive any loans, share options, advances or any other benefit in kind in both 2006 and 2005.

h) Depreciation and amortization expense

	2006	2005
Depreciation of tangible assets	12 056	535
Amortization of intangible assets	96	--
Total	**12 152**	**535**

i) Finance costs / (income) (net)

	2006	2005
Interest and debt settlement expenses on loans and borrowings	18 238	622
Interest on employee deposits	77	92
Other	490	--
Total	**18 805**	**714**

j) Income tax expense

	2006	2005
Current income tax	1 703	345
Deferred income tax	(102)	(90)
Total	**1 601**	**255**

Effective tax rate

	2006		2005	
Profit/(loss) before tax	**22 306**		**(1 112)**	
Income tax calculated using the effective tax rate	5 353	24.0 %	(289)	26.0 %
Effect of tax non-deductible expenses	70	0.3 %	--	--
Effect of non-taxable revenues	(28)	(0.1) %	--	--
Effect of consolidation and IFRS adjustments that do not have impact on deferred tax	1 140	5.1 %	--	--
Effect of tax incentives	(4 951)	(22.2) %	(149)	13.4 %
Tax relating to prior periods	(112)	(0.5) %	--	--
Effect of items deductible from the tax base	(60)	(0.3) %	--	--
Effect of unrecognized deferred tax asset in the Czech Republic	(2)	0.0 %	--	--
Effect of the difference between the tax rate in the Czech Republic and Luxembourg and effect of unrecognized deferred tax asset relating to PEGAS NONWOVENS S.A. in Luxembourg	190	0.9 %	--	--
Tax discounts	(7)	0.0 %	--	--
Lump sum tax PEGAS NONWOVENS S.A.	8	0.0 %	693	(62.3) %
Total income tax / effective tax rate	**1 601**	**7.2 %**	**255**	**(22.9) %**

Three companies of the Group received investment incentives in the Czech Republic.

Investment incentives are tax savings granted by the government provided certain conditions have been fulfilled (such as level of incremental investments) by the Group. When considering the principle of prudence and the fact that the amount of a subsidy depends on the actual economic performance, the companies do not account for any intangible asset that arise from investment incentives and correspond to income tax subsidies. The estimate of the unrecognized asset would not be reliable.

Since nearly all taxable income were generated from the operating activity in the Czech Republic, the tax rate of 24 % (2005 - 26 %) in the Czech Republic was used to calculate the total income tax.

k) Earnings (loss) per share

The calculation of basic earnings per share as at 31 December 2006 was based on the net profit attributable to equity holders of TEUR 20 274 and a weighted average number of ordinary shares in 2006. Diluted earnings per share are calculated based on a weighted average number of shares in circulation (determined similarly as in the case of basic earnings per share) adjusted by the effect of the expected issue of all potential diluted securities, i.e. the effect of convertible loan notes in the case of the Group. Convertible bonds are the bonds with a right to convert to ordinary shares.

As at 31 December 2006, there were no minority interests in subsidiary companies. Minority interest was attributable to the 6 manager's participation in CEE Enterprise. The participation commenced in January 2006 and was terminated in November 2006 when the 6 managers became the shareholders of the Company.

Weighted average number of ordinary shares

2005

	Number of outstanding shares in 2005	Weighted average
November - December	100 806	100 806

2006

	Number of outstanding shares in 2006	Weighted average
January - November	100 806	91 692
December	9 229 400	730 302
Total		**821 994**

Basic earnings (loss) per share

		2006	2005
Net profit attributable to equity holders	TEUR	20 274	(1 367)
Weighted average number of ordinary shares	Number	821 994	100 806
Basic earnings (loss) per share	EUR	**24.66**	**(13.56)**

Earnings Per Share (EPS) is calculated as net profit for the year attributable to equity holders of the Company divided by weighted average of number of shares existing each day in the year 2006.

The Basic EPS attributable to equity holders of the Company based on the number of shares existing as at 31 December 2006 is 2.20 EUR.

Weighted average number of ordinary shares for calculation of diluted earnings per share

2005

	Number of outstanding shares in 2005	Weighted average
Shares:		
November - December	100 806	100 806
Convertible bonds and warrants (recalculated to potential ordinary shares):		
November - December	8 588 659	8 588 659
Total		**8 689 465**

2006

	Number of outstanding shares in 2006	Weighted average
Shares:		
January - November	100 806	91 692
December	9 229 400	730 302
Convertible bonds and warrants (recalculated to potential ordinary shares):		
January - November	8 592 541	7 872 123
Total		**8 694 117**

Diluted earnings (loss) per share

		2006	2005
Net profit (loss) for the year / period attributable to equity holders	TEUR	20 274	(1 367)
Finance costs related to convertible bonds	TEUR	5 375	59
Tax effect of the finance costs	TEUR	(240)	--
Net profit attributable to equity holders adjusted by finance costs related to convertible bonds including income tax effect	TEUR	25 409	(1 308)
Weighted average number of ordinary and potential ordinary shares	Number	8 694 117	8 689 465
Diluted earnings (loss) per share	EUR	**2.92**	**(0.15)**

l) Acquisition of subsidiary

On December 14, 2005, the Group acquired full control over the activities of PEGAS a.s. (now PEGAS NONWOVENS s.r.o.) and its subsidiaries. The net assets acquired in the transaction and the goodwill arising were as follows:

	Pre-acquisition carrying amounts	Fair value adjustments EUR '000	Recognised values on acquisition
Property, plant and equipment	93 439	17 420	110 859
Intangible assets	192		192
Inventories	8 508	603	9 111
Trade and other receivables	24 968		24 968
Cash and cash equivalents	25 366		25 366
Bank loans and overdrafts	2 000		2 000
Deferred tax liabilities	9 681	4 215	13 896
Trade and other payables	16 760		16 760
Tax payables	18		18
Net identifiable assets and liabilities	**124 014**	**13 808**	**137 822**
Goodwill on acquisition			78 949
Cost of combination			**216 771**

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.

m) Property, plant and equipment

	Land and buildings	Production machinery	Other equipment	Under Construction	Pre-payments	Total
Acquisition cost						
Balance at 18/11/2005	--	--	--	--	--	--
Effect of acquisition of subsidiaries at 14/12/2005	28 271	77 015	5 005	220	348	110 859
Additions	--	643	47	7	--	697
Exchange differences	(22)	(83)	(6)	--	(1)	(112)
Balance at 31/12/2005	28 249	77 575	5 046	227	347	111 444
Additions	--	1 166	523	1 119	2 893	5 701
Disposals	(49)	--	(187)	(2)	--	(238)
Transfers	17	356	--	(17)	(356)	--
Exchange differences	1 756	6 653	484	46	98	9 037
Balance at 31/12/2006	29 973	85 750	5 866	1 373	2 982	125 944
Accumulated depreciation						
Balance at 18/11/2005	--	--	--	--	--	--
Depreciation expense	32	441	62	--	--	535
Exchange differences	(3)	(198)	(3)	--	--	(204)
Balance at 31/12/2005	29	243	59	--	--	331
Depreciation expense	1 189	10 464	403	--	--	12 056
Disposals	--	--	(100)	--	--	(100)
Exchange differences	245	2 681	209	--	--	3 135
Balance at 31/12/2006	1 463	13 388	571	--	--	15 422
Net book value						
18/11/2005	**--**	**--**	**--**	**--**	**--**	**--**
31/12/2005	**28 220**	**77 332**	**5 807**	**227**	**347**	**111 113**
31/12/2006	**28 570**	**72 362**	**5 295**	**1 373**	**2 982**	**110 522**

n) Intangible fixed assets

	Software	Goodwill	Total
Acquisition cost			
Balance at 18/11/2005	--	--	--
Effect of acquisition of subsidiaries at 14/12/2005	192	78 949	79 141
Disposals	(168)	--	(168)
Balance at 31/12/2005	24	78 949	78 973
Restatement	--	1 042	1 042
Balance at 31/12/2005 as restated	24	79 991	80 015
Additions	63	--	63
Exchange differences	46	4 393	4 439
Balance at 31/12/2006	133	84 384	84 517
Accumulated amortisation			
Balance at 18/11/2005	--	--	--
Balance at 31/12/2005	--	--	--
Amortisation expense	96	--	96
Exchange differences	(65)	--	(65)
Balance at 31/12/2006	31	--	31
Net book value			
18/11/2005	**--**	**--**	**--**
31/12/2005	**24**	**78 949**	**78 973**
31/12/2005 as restated	**24**	**79 991**	**80 015**
31/12/2006	**102**	**84 384**	**84 486**

The Group reassessed the amount of a deferred tax liability as at the date of acquisition in respect of subsidiaries drawing investment incentives in the form of tax relief. As at the date of acquisition, the deferred tax liability was increased by TEUR 1 042 together with an increase in goodwill.

Item of the financial statements	***Balance at 31.12.2005***	***Restatement***	***Balance at 31.12.2005 as restated***
Goodwill	78 949	1 042	79 991
Deferred tax liability	13 910	1 042	14 952

o) Inventories

	2006	2005
Materials	3 724	5 043
Products	2 593	1 903
Semi-finished products	395	333
Spare parts	1 482	1 256
Other	169	87
Total	**8 363**	**8 622**

”Spare parts” include items with useful life shorter than one year or of immaterial individual value.

p) Short-term receivables

	2006	2005
Receivables from sales of products	19 632	21 410
Advance payments	41	--
Fair value of interest rate swaps	1 869	--
Value added tax receivables	1 842	1 368
Prepaid expenses	126	87
Accrued income	40	833
Other	90	87
Total	**23 640**	**23 785**

In 2006, the Group concluded interest rate swaps at a fixed interest rate of 3.236 % p.a. These swaps hedged 69.9 % of the Group’s debts as at 31 December 2006.

q) Cash and cash equivalents

	2006	2005
Cash in hand	24	32
Current accounts	5 739	2 319
Overnight-deposits	16 251	24 683
Total	**22 014**	**27 034**

r) Share capital

Until November 2006, the Company’s share capital consisted of 12 500 shares at EUR 10 per share. In November 2006, this number was split into 100 806 shares at EUR 1.24 per share.

Subsequently, on 28 November 2006, the Company increased the share capital by EUR 9 075 056.56 by incorporation of debt into capital and by issuing 7 318 594 shares at EUR 1.24 per share. Pamplona Capital Partners I, LP acquired 7 133 109 shares and some of the Group's management 185 485 shares.

Within the issue of shares in the public market, in December 2006 the Group issued 1 810 000 new ordinary shares. These newly issued shares were subscribed by investors at EUR 27 per share.

The difference between the subscribed value of newly issued shares (EUR 27) and the nominal value (EUR 1.24) was recorded in equity as share premium in the total amount of TEUR 46 626.

The total number of shares as at 31 December 2006 is 9 229 400 shares at EUR 1.24 per share.

s) Retained earnings

There were no dividends paid in the year ended 31 December 2006.

The statement of equity line item 'Exchange differences' represents the effect of the translation of the financial statements from the functional to the presentation currency.

t) Bank overdrafts and loans

2006	Bank loan liability	Arrange-ment fees	Due amount	Short-term	Long-term	Interest rate	Interest rate at 31/12/2006
Bank loans:							
Revolving loan	--	(126)	(126)	--	(126)	--	--
Credit tranche A	75 485	(1 504)	73 981	13 320	60 661	1,3,6M EURIBOR +2.25% (+2.00)*	5.674 %
Credit tranche B	26 781	(464)	26 317	--	26 317	1,3,6M EURIBOR +2.75%	6.424 %
Credit tranche C	36 648	(649)	35 999	--	35 999	1,3,6M EURIBOR +3.25%	6.924 %
Bank loans total	**138 914**	**(2 743)**	**136 171**	**13 320**	**122 851**		

* 2.25% margin was applied till 13 December 2006. From 14 December 2006 2.00% margin is applied.

2005	Bank loan liability	Convertible part	Arrange-ment fees	Due amount	Short-term	Long-term	Interest rate
Bank loans:							
Revolving loan	2 000	--	--	2 000	2 000	--	1M EURIBOR +2%
Mezzanine loan	15 000	(1 444)	(150)	13 406	--	13 406	3M EURIBOR +10%
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	37 700	--	(741)	36 959	--	36 959	1,3,6M EURIBOR +3.25%
Bank loans total	**178 200**	**(1 444)**	**(3 238)**	**173 518**	**16 250**	**157 268**	

Rate of 1M EURIBOR was 2.401 % at December 31, 2005.

These bank loans are secured by:

1) the ownership interest in PEGAS NONWOVENS s.r.o.,
2) security over the enterprise of PEGAS NONWOVENS s.r.o.,
3) security over the plant and machinery of PEGAS NONWOVENS s.r.o.,
4) bank accounts of PEGAS NONWOVENS s.r.o. and
5) shares of subsidiaries PEGAS - DS a.s., PEGAS–NT a.s. and PEGAS - NW a.s.

The carrying amount of the bank loans approximates their fair value.

u) Other payables due after one year

	2006	2005
Convertible preferred equity certificates	--	10 645
Less: Equity element	--	(2 929)
Non convertible preferred equity certificates	--	29 000
Preferred equity certificates	--	36 716
Other	275	508
Total	**275**	**37 224**

In 2006, all payables to Pamplona Capital Partners I LP of TEUR 36 716 and the interest accrued in 2006 were settled by cash and shares.

The balance of other payables of TEUR 275 comprises:

1) TEUR 204 representing the funds received from Pamplona Equity Advisors I Ltd. to cover operating expenses before IPO;
2) TEUR 71 representing an interest-free loan provided by the state to fund research and development projects.

v) Deferred tax

Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Property, plant and equipment	--	--	(15 642)	(14 969)	(15 642)	(14 969)
Inventories	65	27	--	--	65	27
Other	352	--	--	(10)	352	(10)
Deferred tax asset / (liability)	417	27	(15 642)	(14 979)	(15 225)	(14 952)
Offset of deferred tax assets and liabilities	(417)	(27)	417	27	--	--
Deferred tax asset / (liability)	--	--	(15 225)	(14 952)	(15 225)	(14 952)

The Group reassessed the amount of a deferred tax liability presented as at 31 December 2005. For detail refer to Note 5 n.

The increase in deferred tax of TEUR 273 consists of deferred tax income of TEUR (102) and effect of foreign exchange loss of TEUR 375.

w) Short-term trade and other payables

	2006	2005
Trade payables	15 980	13 243
Advances received	67	--
Liabilities to employees	1 797	1 500
Deferred income	1 735	5 700
Other	633	1 227
Total	**20 212**	**21 670**

x) Tax liabilities and other tax liabilities

Tax liabilities of TEUR 192 comprise employment tax (TEUR 66) and corporate income tax liability reduced by income tax prepayments (TEUR 126).

y) Group Entities

To translate the registered capital of Czech subsidiaries, the CZK/EUR 27.495 rate of exchange effective on 31 December 2006 was used.

Subsidiaries included in the consolidated entity

Company	*Acquisition date*	*Share in the subsidiary*	*Registered capital TCZK*	*Registered capital TEUR*	*Number and nominal value of shares*
CEE Enterprise a.s.	5.12.2005	100 %	3 600	131	100 shares at TCZK 20 per share and 1 600 thousand shares at CZK 1 per share
PEGAS NONWOVENS s.r.o. *	5.12.2005	100 %	3 633	132	100% interest of TCZK 3 633
PEGAS - DS a.s.	14.12.2005	100 %	800 000	29 096	64 shares at TCZK 10 000 per share and 64 shares at TCZK 2 500 per share
PEGAS–NT a.s.	14.12.2005	100 %	550 000	20 004	54 shares at TCZK 10 000 per share and 10 shares at TCZK 1 000 per share
PEGAS - NW a.s.	14.12.2005	100 %	5 000	182	5 shares at TCZK 1 000 per share

* PEGAS NONWOVENS s.r.o. was registered on 14 November 2003 as ELK INVESTMENTS s.r.o and changed its name to PEGAS NONWOVENS s.r.o. in 2006. PEGAS a.s., the subsidiary of PEGAS NONWOVENS s.r.o., was established in 1990. It merged with PEGAS NONWOVENS s.r.o. with effect from 1 January 2006 and was deleted from the Commercial Register on 12 May 2006.

6. Related parties transactions

a) In 2006, there were no transactions with Pamplona Capital Partners I LP other than described under Note 5 r and 5 u;

b) As at 31 December 2006, the Group had a liability to Pamplona Equity Advisors I Ltd. in the amount of TEUR 204 as described in Note 5 u;

c) The Group was paying an advisory fee to Pamplona Capital Management, LLP of EUR 62 500 per quarter. However, this fee ceased being paid following the IPO;

d) In connection with termination of the Shareholder Agreement due to IPO, the Group agreed to pay to the Pamplona Capital Management, LLP a fee amounting to TEUR 1 250 for corporate development and know-how. The fee also represented a settlement for the cancellation of the annual advisory fee referred under c);

e) One of the current board members rendered his advisory services to the Group for a total amount of TEUR 30;

f) The Group accrued TEUR 150 representing an expected emolument for one of the members of the Board of Directors in connection with his advice on the IPO;

g) Some of the managers of the Group sold their shares in CEE Enterprise a.s. to the Company in November 2006 for a total consideration of TEUR 253 and subsequently subscribed for newly issued shares in the Company for a total consideration of TEUR 230;

h) Except for the information provided under Note 5 f and 5 g there were no other transactions between the Group and the management.

7. Contingencies and commitments

The Group has no material contingencies or commitments which would not be reported in the balance sheet except for potential liabilities arising from bank loan security as described in Note 5 t.

8. Material subsequent events

The management of the Group are not aware of any events that have occurred since the balance sheet date that would have any material impact on the consolidated financial statements as at 31 December 2006.