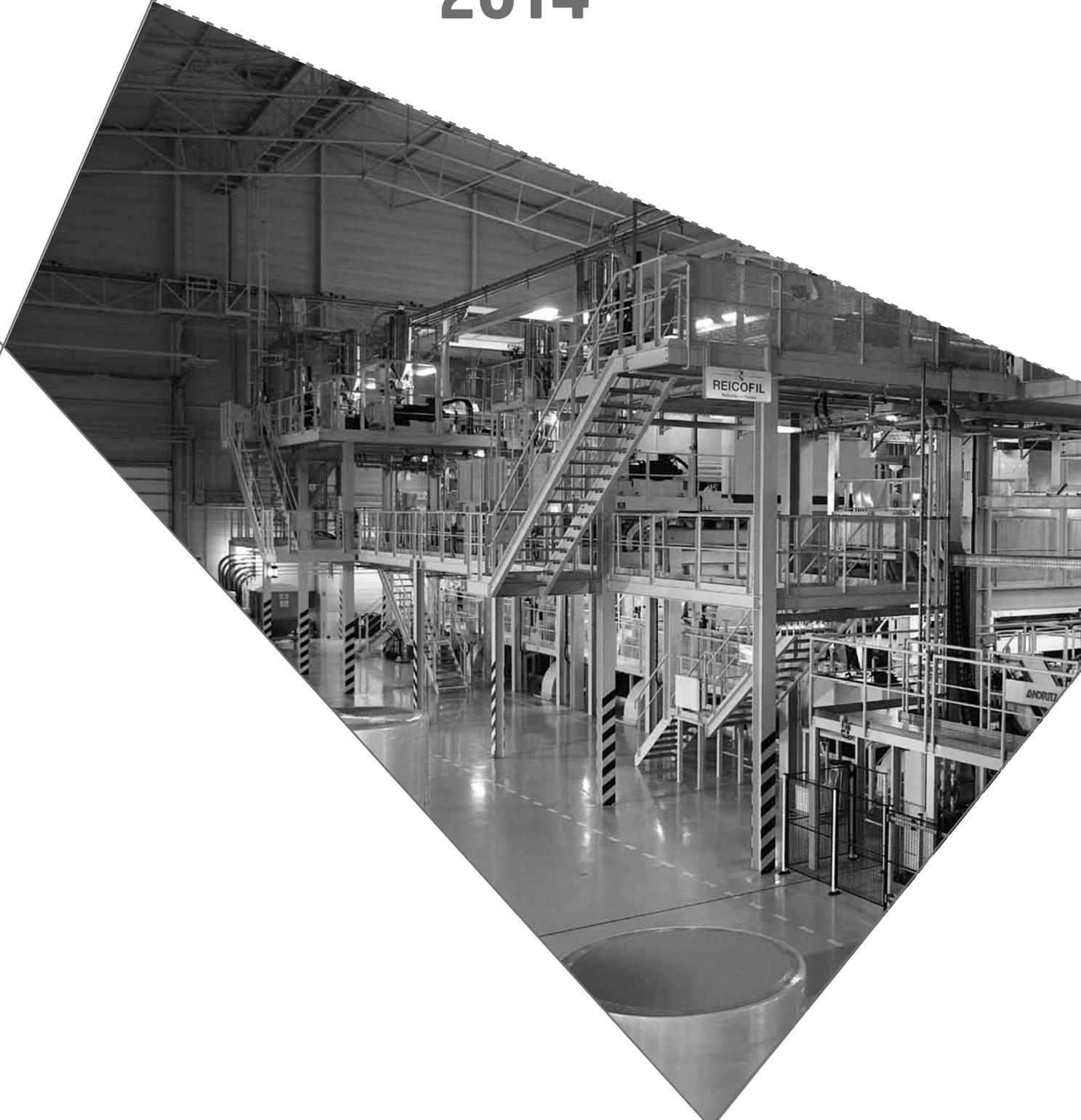




**PEGAS NONWOVENS SA
ANNUAL REPORT
2014**



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INTRODUCTION

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

Founded in 1990, the Company has grown over the past two decades and based on 2014 annual production capacity has become one of the leading producers of spunmelt nonwovens in the EMEA region. Currently PEGAS owns two plants with a total of nine production lines in the Czech Republic and one production line in Egypt which commenced its commercial operation in 2013. The total production capacity of the Company is currently up to 90 thousand tonnes of nonwoven fabric per annum in the Czech Republic and up to 20 thousand tonnes in Egypt. PEGAS

consists of a parent holding company in Luxembourg and four operating companies, PEGAS NONWOVENS s.r.o., PEGAS-NT a.s., PEGAS - NW a.s. and PEGAS - NS a.s., all located in the Czech Republic. For the purpose of international expansion of PEGAS NONWOVENS SA, a new company PEGAS NONWOVENS International s.r.o. was established in 2010 and subsequently PEGAS NONWOVENS EGYPT LLC in June 2011, which invests in the Egyptian production facility. At the end of 2014, PEGAS employed 569 people.

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

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

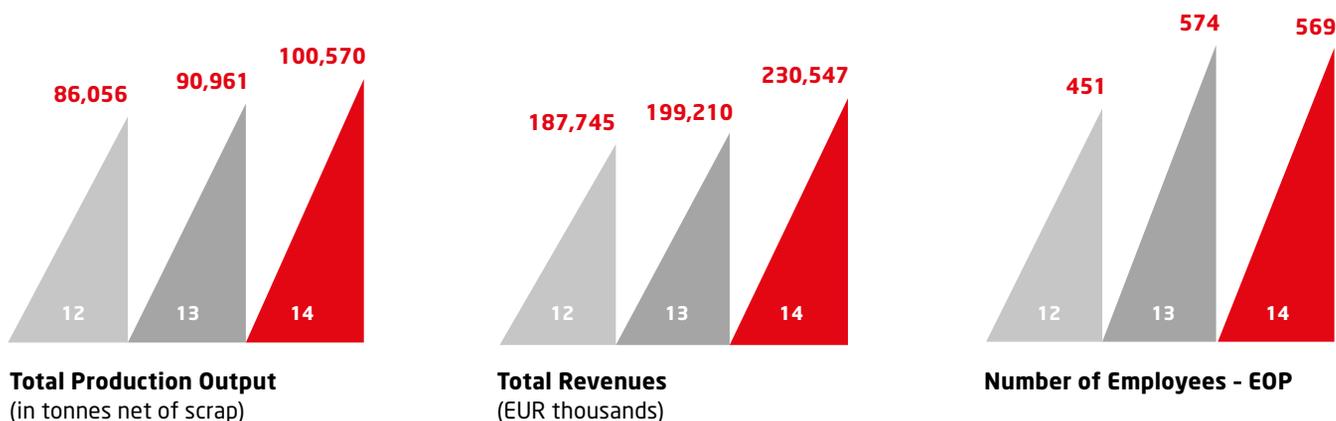
YEAR 2014 IN BRIEF

Financials (EUR thousands)	2014	2013
Total Revenues	230,547	199,210
EBITDA	47,202	38,550
Profit from Operations	32,172	25,471
Net Profit for the Period Attributable to Shareholders	27,096	1,411
No. of Shares - End of Period ("EOP")	9,229,400	9,229,400
Total Assets	356,197	356,742
Total Equity	157,641	125,633
Total Borrowings	150,938	162,386
Net Debt	141,976	149,323
CAPEX	9,964	38,301

Ratios	2014	2013
EBITDA Margin	20.5%	19.4%
Operating Profit Margin	14.0%	12.8%
Margin of Net Profit Attributable to Shareholders	11.8%	0.7%
CAPEX as % of Revenues	4.3%	19.2%

Operations:	2014	2013
Total Production Output (in tonnes net of scrap)	100,570	90,961
Number of Employees - EOP	569	574

Exchange Rates	2014	2013
EUR/CZK average	27.533	25.974
EUR/CZK EOP	27.725	27.425
EUR/USD average	1.3286	1.3281
EUR/USD EOP	1.2141	1.3791



STATEMENT BY THE CHIEF EXECUTIVE OFFICER



Dear shareholders, business partners, colleagues,

As is the case every year, I would like to take this opportunity to present a summary of the most important aspects and events that occurred last year and outline the plans that will affect the near-term development and direction of our Company.

From a financial point of view, last year was the most successful year in our history. EBITDA reached EUR 47.2 million, which represents an increase of 22.4%. The primary driver was the new Egyptian production line which performed in line with our expectations throughout the entire year and to a large extent was instrumental in achieving these record financial results. We consider the Egyptian production plant to be a strategic investment and, subject to favourable market conditions, we intend to expand its production capacity in the future. The present stabilisation of the political and security situation in the country bodes well for these plans.

The year 2014 was not only a record year in terms of financial results but also in terms of production output, which for the first time in our history exceeded 100,000 tonnes. This result is all the more valuable as it is based on a great deal of good work carried out in the area of commercialisation of new technologically advanced materials and the optimisation of production processes from which we are currently benefiting and from which I sincerely hope we will continue to benefit in the future.

Last year also saw the Company's first bond issue that was successfully completed in November. The interest expressed in this bond issue exceeded our expectations and as a result we could secure medium-term financing in the amount of CZK 2.5 billion under very advantageous conditions. We utilised the proceeds from this bond issue to repay a portion of our existing bank loans, thus there was no increase in the Company's net debt. The bond issue also represents an important promise for the future and provides us and investors with an interesting alternative for potential future debt financing needs.

None of these achievements would have been possible without satisfied customers. Customers and their needs are our utmost priority. The fact that our efforts are valued by our customers is demonstrated by us receiving the „Excellence Award“ from Procter & Gamble for the seventh time in a row. The prestigious Partner of the Year Award was then just the icing on the cake. This award was given to only the best 7 suppliers from a total of 75 thousand, whilst we were the only partner from the nonwoven textile industry to be awarded this prize last year.

In 2015, we intend to build upon last year's achievements. We expect that in connection with the implementation of production optimisation measures, we will continue to be able to increase production output and this expectation allows us to raise the EBITDA outlook into the range of EUR 44.0 to 48.5 million.

One of our tasks for 2015 is also the refinancing of existing bank debt. Its outcome will subsequently affect the decision of the Company's Board of Directors about the potential execution of the share buyback authorisation and recommendation for its extension at the following annual general meeting.

To conclude, I would take this opportunity to thank our business partners for the trust and support that they expressed last year. I would also like to thank our shareholders, who I hope will be pleased with the dividend payout of EUR 1.15 per share proposed by the Board of Directors.

A great expression of thanks must primarily go to our employees, who in the last couple of years managed to accomplish very demanding goals, and not only in the area of development and commercialisation of new products or optimisation of production processes which considerably contributed to the achieved financial results. They certainly deserve great acknowledgement for the successful completion of our project in Egypt. I firmly believe that they will keep up their diligent work and that together we will continue to advance and develop PEGAS.



František Řezáč
Executive director
and Member of the Board
PEGAS NONWOVENS SA

MANAGEMENT REPORT

Description of the Company's Business and Market

BASIC INFORMATION ON THE COMPANY

Name

PEGAS NONWOVENS SA, a public limited liability company (société anonyme) existing under the laws of the Grand-Duchy of Luxembourg

Address:

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

Registry and registration number:

Registered with the Luxembourg Trade and Companies Register ("Registre de commerce et des sociétés de Luxembourg") under number B 112.044

Incorporated:

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

Jurisdiction:

Grand-Duchy of Luxembourg

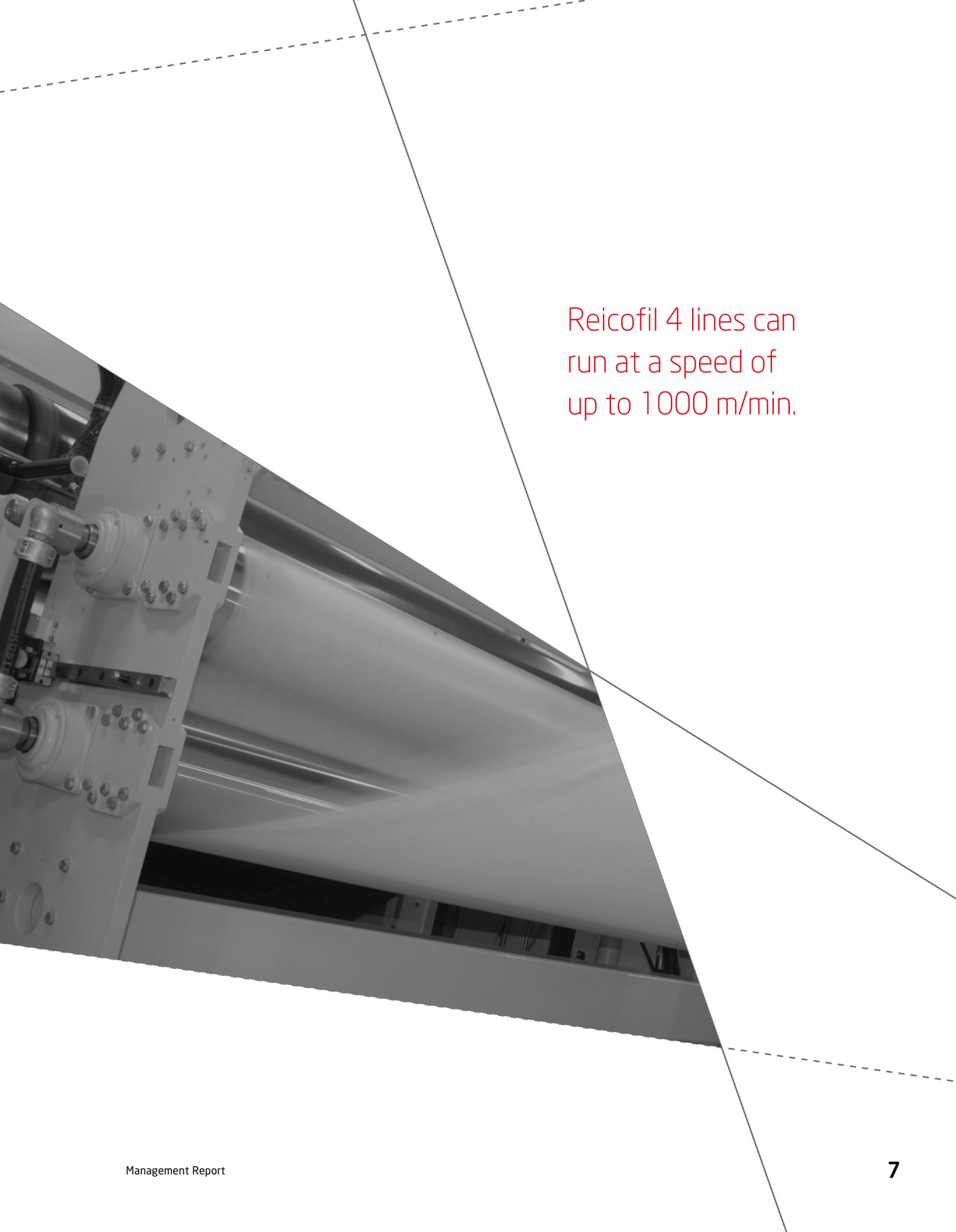
The holding company of PEGAS, PEGAS NONWOVENS SA, was incorporated in Luxembourg as a public limited liability company (société anonyme) for an unlimited duration on 18 November 2005 under the name Pamplona PE Holdco 2 SA and is registered with the Luxembourg trade and companies register under number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

Scope of business (according to Article 3 of the Articles of Association):

The object of the Company is:

- a) to take participation and interests, in any form whatsoever, in any commercial, industrial, financial or other, Luxembourg or foreign entities;
- b) to acquire any securities and rights through participation, contribution, underwriting firm purchase or option,

- negotiation or in any other way and namely to acquire patents and licences, and other property, rights and interest in property as the Company shall deem fit, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as the Company may think fit, and in particular for shares or securities of any Company purchasing the same;
- c) to enter into, assist or participate in financial, commercial and other transactions, and to grant to any holding Company, subsidiary, or fellow subsidiary, or any other Company associated in any way with the Company, or the said holding Company, subsidiary of fellow subsidiary, in which the Company has a direct or indirect financial interest, any assistance as, e.g., pledges, loans, advances or guarantees;
 - d) to borrow and raise money in any manner and to secure the repayment of any money borrowed;
 - e) to borrow funds and issue bonds and other securities; and
 - f) to perform any operation which is directly or indirectly related to this purpose.



Reicofil 4 lines can
run at a speed of
up to 1 000 m/min.

Principal Subsidiaries

Subsidiaries in which PEGAS NONWOVENS SA has a direct or an

indirect interest amounting to at least 10% of the consolidated equity or 10% of the consolidated net profit:

Name	Registered Office	Identification number	Activity
PEGAS NONWOVENS s.r.o.	Znojmo, Přímětická 3623/86, PSČ 66904, Czech Republic	25478478	Production of textiles
PEGAS-NT a.s.	Znojmo, Přímětická 3623/86, PSČ 66904, Czech Republic	26287153	Production of textiles
PEGAS - NW a.s.	Znojmo, Přímětická 3623/86, PSČ 66904, Czech Republic	26961377	Production of textiles
PEGAS - NS a.s.	Znojmo, Přímětická 3623/86, PSČ 66904, Czech Republic	27757951	Production of textiles
PEGAS NONWOVENS International s.r.o.	Znojmo, Přímětická 3623/86, PSČ 66904, Czech Republic	29249708	Special purpose vehicle for potential investments
PEGAS NONWOVENS EGYPT LLC	Plot No. 06,08 in Zone No. 3 - Northern Expansions Area, 6th of October City, Egypt	Commercial registry No. 52 190	Production of textiles

Expenses of PEGAS Group related to external auditors' services in year 2014

EUR thousands	Audit	Other*	Total
PEGAS NONWOVENS SA	18.3	45.2	63.5
Other companies within PEGAS Group	118.4	8.3	126.7
TOTAL	136.7	53.5	190.2

* Item "Other" includes also expenses for advisory services, which are not directly linked to audit.

OVERVIEW OF THE NONWOVENS MARKET

PEGAS's key market is geographically defined as EMEA – Europe (Western, Central and Eastern Europe, Russia and Turkey), Middle East and North Africa.

The EMEA personal hygiene market, with a 40% share of the total annual European nonwoven production or 0.7 million tonnes¹, denotes the core area of business activity for PEGAS. This sector is defined by three major product application groups: disposable baby diapers, adult incontinence products and feminine hygiene products. Hygiene products have become a modern necessity, the demand for which is non-cyclical and compared to other market sectors is relatively unaffected by economic developments.

Geographically, the Company's core market continues to be the broader European area, consisting of traditional Western European countries, Central and Eastern Europe (CEE), including Russia. PEGAS started to serve the Middle East and North Africa region to a greater extent following the opening of the new production plant in Egypt. Lower saturation (lower per capita usage) of hygiene products in Middle East and North Africa region and the developing CEE countries compared with Western Europe explains the accelerated growth in demand for nonwoven consumables in these markets. On the other hand, Western Europe's ageing population, with increasing life expectancy and high income levels will support growth in the adult incontinence market. Modern light-weight and comfortable nonwoven textiles are leading to a greater acceptance of incontinence products by customers.

Competition

PEGAS's competition can be defined as European, Middle East and North African producers of spunmelt PP and PP/PE nonwoven textiles, namely those active in the hygiene sector. PEGAS's main competitors are international and regional companies with production facilities located in Europe. Recently, three of the Company's competitors announced that they are launching new production facilities in Europe. Compared to other continents the EMEA spunmelt PP- and PP/PE-based nonwoven textile market is much more fragmented, numbering more than 30 producers in total.

¹ Source EDANA

OVERVIEW OF THE COMPANY'S PRODUCTS

Hygiene

The core of the Company's product mix are the following nonwoven textiles - **Pegatex® S**, **Pegatex® SMS** and **Pegatex® BICO**, which are tailored to meet the specific needs of each and every customer and are further used for the production of:

- Disposable baby diapers
- Adult incontinence products
- Feminine hygiene products

In order to meet the highest requirements of customers in hygiene applications, PEGAS produces a wide range of light and ultra-light technologically advanced nonwoven textiles with excellent technical properties, which are soft, pleasant to touch and therefore provide improved comfort to the final consumer.

Medical and Protective Clothing

Pegatex® S and **Pegatex® SMS** nonwoven fabrics are semi-finished textile products for the production of single-use protective clothing, meeting and exceeding the technical requirements for high standards of protection in dangerous workplaces for which they have been specifically designed and developed. Their characteristic high barrier qualities provide protection from aggressive liquids and prevent leakage of dust particles and micro-organisms. Due to these qualities they are used as semi-finished textile products for the following applications:

MEDICAL PROTECTIVE CLOTHING:

- Surgical masks
- Surgical gowns and drapes
- Head covers
- Shoe covers

INDUSTRIAL PROTECTIVE CLOTHING:

- Protective overalls and masks

Agriculture

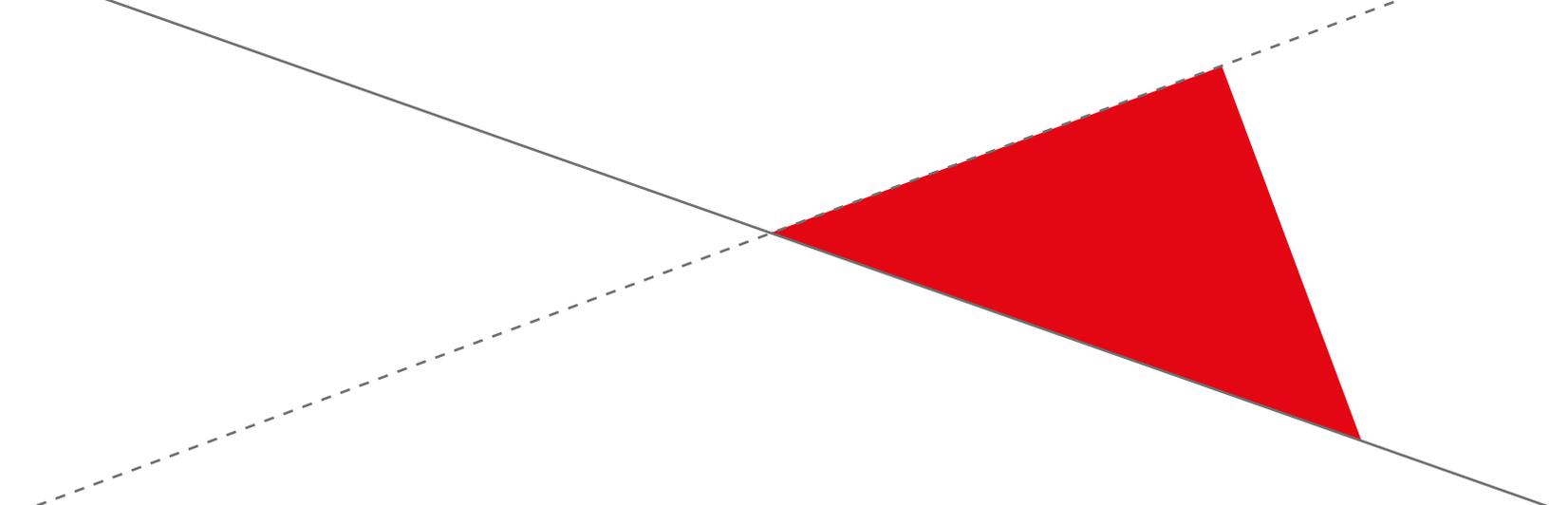
For agriculture, PEGAS offers a nonwoven textile under the brand name **PEGAS-AGRO®**, which is used mainly in vegetable cultivation and gardening and is suitable for large-scale production and mechanisation. This material is used as a covering textile (crop cover) sheltering plants from the weather and other negative effects (air, light frost, hail, pests) and it is also used as a mulching fabric for preventing the growth and spreading of weeds.

Furniture and Construction Industries

In the construction industry the **Pegatex® S** nonwoven fabric is used primarily as a component of a composite material (modified by lamination) for the production of under-roofing covers, heat and sound insulation and wind barriers.

In the furniture-making industry the **Pegatex® S** and **Pegatex® SMS** nonwoven fabric is used as a neatening fabric (either on the back or bottom parts of upholstered furniture), and for seam reinforcement in the production of mattresses or as disposable hygienic bed covers.

Product name	Application area	Key applications
Pegatex® S	Hygiene products	Baby diapers, feminine hygiene products, adult incontinence products
	Medical and protective clothing	Gowns, head and shoe covers
	Agriculture	Crop cover, mulching textile
	Furniture and construction industry	Mattresses, neatening fabrics, interlinings, wind barriers, roofing membranes
Pegatex® SMS	Hygiene products	Baby diapers, adult incontinence products
	Medical and protective clothing	Surgical drapes, gowns, face masks, industrial protective apparel
	Construction industry	Wind barriers
Pegatex® S BICO	Hygiene products	Baby diapers, feminine hygiene products, adult incontinence products
	Various industries	Composite fabrics, laminates
Pegatex® SMS BICO	Hygiene products	Baby diapers, feminine hygiene products, adult incontinence products
PEGAS-AGRO® Crop cover	Agriculture	Plant protection
PEGAS-AGRO® Mulching fabric	Agriculture	Soil cover



Technology and Production

The Group owns and operates technologically advanced equipment necessary for the production of high-quality spunmelt nonwoven textiles. Production management is focused on continuous maintenance and modernisation of the equipment and machinery, ensuring that the Company continues to rank among the leading EMEA region producers of nonwoven textiles.

All ten production lines were manufactured by Reicofil, a leading German global supplier of spunmelt nonwoven production equipment that currently dominates the market for PP- and PP/PE-based spunmelt nonwoven machines worldwide.

Three production lines are located at the Bučovice plant near Brno and six production lines are located in Přímětice near Znojmo. The output of the first and the second line, installed in 1992 and 1996, is primarily sold for technical and agricultural applications. The meltblown line, installed in 1996 and used for technical applications requiring a high

absorption capacity, such as industrial wipes and absorbents, is currently not operated. The remaining production lines are dedicated to the production of hygiene materials.

In 1998, PEGAS was the first spunmelt manufacturer to install Reicofil technology with a microfilament option. In 2000, PEGAS installed a Reicofil 3 production line capable of producing bi-component materials, the first such production line in Europe.

The Reicofil 4 line, which was installed at the end of 2004, employs a new technology leading to high-speed production with improved nonwoven textile formation and uniformity. PEGAS's "SSMMMS² 3200 Reicofil 4 Special" production line was installed in autumn 2007. It is state-of-the-art technology and the very first of its kind in the world, able to produce ultra light-weight nonwoven textiles for the hygiene sector as well as for other applications.

In the second half of 2011, the Company launched its 9th production line. The Reicofil 4 BiCo type production line produces mainly hygiene materials

with the option of production for other applications. This new production line has enabled the expansion of the Company's annual production capacity by up to 20 thousand tonnes (depending on the product portfolio) and has a width of 4.2 meters.

In 2013, the Company completed its first line Reicofil 4S in Egypt which has a capacity of approximately 20 thousand tonnes (depending on the product portfolio). Commercial production commenced in the third quarter of 2013 and the line operated in standard commercial production mode for the whole year of 2014.

In addition to these production lines, PEGAS operates three small finishing lines, which enable the cutting, gluing and perforation of processed fabrics according to customer specifications.

² „S“ indicates a spunbond layer, „M“ indicates a meltblown layer

Plants and Premises

PEGAS operates two production facilities located approximately 100 kilometres from each other in the south east of the Czech Republic. The original site in Bučovice has three production lines installed and further space for expansion is now limited. The newer site in Přímětice was developed on the outskirts of Znojmo and has six production lines. In addition to these production sites, the Company owns an administrative building in Znojmo, close to the Přímětice

production plant. All premises have been constructed as greenfield projects.

In connection with its investment in Egypt, PEGAS purchased land to be used for the construction of the plant in the industrial zone at the City of 6th October near Cairo. The area of the parcel is 42,000 square meters.

In 2014, the Company purchased additional 50,000 square meters of land adjacent to the site in Přímětice.

The production sites in both the Czech Republic and Egypt cover a total of approximately 150,000 square meters, of which 65,000 square meters are occupied by buildings and other structures.

Machine	Year of Installation	Technology Configuration	Plant Location	Line width in metres	Annual production capacity in tonnes
Reicofil 2	1992	S	Bučovice	3.2	2,600
Reicofil 2	1996	SMS	Bučovice	3.2	4,700
Reicofil meltblown	1996	M	Přímětice	1.6	700
Reicofil 3	1998	SMS	Bučovice	3.2	6,900
Reicofil 3 BiCo	2000	SSMMS	Přímětice	3.2	10,400
Reicofil 3 BiCo	2001	SSS	Přímětice	3.2	9,700
Reicofil 4	2004	SSS	Přímětice	4.2	20,000
Reicofil 4 Special	2007	SSMMMS	Přímětice	3.2	15,000
Reicofil 4S Advanced BiCo	2011	SSMMS	Přímětice	4.2	20,000
Reicofil 4S	2013	SSMMXS	6th of October City	4.2	20,000
Total Production Capacity					110,000

Customers

PEGAS's position as one of the market leaders in the EMEA hygiene nonwovens market has enabled it to develop close and longstanding relationships with those customers that are leading corporations in their end markets. PEGAS intends to strengthen its existing customer relationships further by taking advantage of its in-depth understanding of customer needs, using technological expertise and through the introduction of new and improved products and technologies. PEGAS works in close cooperation with its customers as well as suppliers in order to introduce new and improved products and product properties that address specific customer needs for softer, lighter and cost reducing materials.

The top five customers represented an 81.5% share of total revenues in 2014 (78% in 2013). The present customer mix concentration of the Company reflects the situation in the hygiene market, which is divided among a small number of end producers, each having a substantial market share.

In 2014, PEGAS was awarded for the third time the prestigious "Business Partner of the Year" award from Procter & Gamble. This award was given to only seven companies out of a total of 75,000 suppliers worldwide. At the same time, PEGAS also obtained for the seventh year in a row the "Excellence Award" from Procter & Gamble, which is given to suppliers providing the highest level of service over the long term.

Suppliers

The main raw materials used for spunmelt nonwovens are polymers, most importantly polypropylene followed by polyethylene. In 2014, the consumption of PP and PE accounted for 79% (78% in 2013) of the Company's total operating costs (excluding depreciation and amortization). During 2014, the Company has sourced polymer raw materials from a total of ten suppliers. The polymer raw materials are purchased under both one year and multi-year agreements. The competitiveness of the suppliers is maintained by on-going benchmarking.

Quality Management and the Environment

PEGAS is ISO 9001 and ISO 14001 certified. It first received these quality certifications in 1997. In connection with the amendment of the ISO standards of the 9001 series in 2000, the existing system was partially revised and subsequently, the Quality Management System and Environmental Management System were integrated in 2002. PEGAS has a certified integrated system of quality according to ISO 9001 by CQS, IQNet and environmental management EN ISO 14001 by CQS, IQNet. Through its performance, PEGAS intends to keep improving and developing this integrated system with the ultimate goal of always achieving the highest possible standards. All certificates were renewed in December 2014 and are currently valid until 2017. Subsequently, certificates will be validated and renewed again.

QUALITY MANAGEMENT SYSTEM

Primary goals include customer satisfaction and the achievement of the highest product quality.

The high QMS and EMS standards and the quality of the products are based on three fundamental principles:

- Advanced Technology
- Quality Management Tools
- Results

In addition to the general quality requirements imposed by ISO 9001, the Company is constantly looking to improve and adjust its production processes and relevant assets in order to provide superior output quality.

In order to enhance the current QMS - ISO 9001, the management of the Company decided to implement an extended in-house quality management system - PQS (PEGAS Quality System) based on knowledge and experience with quality management tools in the whole production chain. The goal of the project which has already been successfully implemented, is not just the training employees but also changing company culture and perception of the quality as a key factor of the Company's prosperity and a guarantee of constantly high quality of products.

All production premises are equipped with overpressure air control to eliminate the risk of insects contaminating textiles during production. Camera detection systems have been installed on the hygiene production lines to monitor all types of defects including any external contamination. Investments into these

systems have been substantial and have led to a significantly decreased number of customer complaints.

When production started at the production plant in Egypt, the same quality management system was also implemented at this facility in comparable scope as at the plants in the Czech Republic. The Egyptian plant has also been certified according to EN ISO 9001 by TÜV Nord.

Customer satisfaction with the Company's products and services remains one of the key priorities for PEGAS and the Company is fully committed to on-going cooperation with its customers. This dedication is regularly rewarded by customers.

ENVIRONMENTAL MANAGEMENT SYSTEM

Environmental protection and the creation of safe and healthy work conditions for employees of the Company and their constant improvement, including pollution prevention and continuous efforts to reduce the negative impact of the Company's activities on the environment belong to the highest priorities of the Company.

PEGAS has implemented and maintains an environmental management system to take care of all environmental aspects as required by ISO 14001. The production process involves the transformation of PP or PE raw materials into the form of fibres through the application of heat and pressure. This process results in minimal chemical changes to the material and produces only limited atmospheric emissions. All environmental aspects implemented by the Company are monitored and reviewed.

The management of the Group has adopted key principles to meet all environmental requirements. All employees are aware of and recognise their responsibility for the fulfilment and observance of the principles of the environmental policy of the PEGAS Group.

Details related to environmental activities are available on PEGAS's website www.pegas.cz or www.pegas.lu.

Research

RESEARCH AND TECHNICAL SUPPORT

The development of new applications, products and technology optimisation is one of the most important components of PEGAS's current and future strategic focus. This platform is supported by a team of technicians, who are dedicated to product development, customer and technology support. This team has been built over a period of more than 10 years.

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

From the technological point of view, the technical department has two main goals:

- a) to improve quality, performance and production efficiency of standard products and
- b) to develop products with added value using both current and/or new technologies including bi-co technology.

Both objectives are achieved in cooperation with raw material suppliers, using standard and special new polymers, and/or with machinery suppliers, allowing the Company to provide a competitive edge to its customers.

In the technology field, PEGAS is continuing in the commercialisation of ultra-lightweight materials produced on the latest Czech production line. The latest line confirmed the anticipated parameters of the final product and the overall efficiency of the machinery. In addition, this line enables the Company to bring new technological and product designs to the market, allowing PEGAS to strengthen its position among technology leaders.

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

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

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

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

In order to better utilise its production lines and accelerate the development of its projects, PEGAS uses several pilot lines, which are made available under certain agreements at suppliers' sites. All projects are related either to new technologies themselves or to the utilisation of newly developed raw materials in technologies or projects, which are designed directly for specific customers. There are several projects where all three parties cooperate, and thereby involve the whole supplier chain.

Research costs in 2014 were EUR 2.0 million (EUR 2.2 million in 2013).

INTELLECTUAL PROPERTY

PEGAS protects its trademark and logos in key Countries in Europe, the Americas, Africa and Asia in order to provide protection in the main international markets.

The Company has a Czech and European registered patent for a special nonwoven microfilament spunmelt material with high barrier properties and a patent granted by the South African Republic providing protection to the use of special embossing pattern suitable for bulky materials. The Company is also a co-owner of a European patent for the treatment of nonwovens using atmospheric plasma.

In addition, the Company has filed six patent applications since 2010. Three of these patent applications are a result of Company's proprietary research activities and the remaining three resulted from a co-operation with key business partners. One of the patent applications is an outcome of research supported by the Czech Ministry of Industry and Trade. Each application was filed first in the Czech Republic. Subsequently, the Company has gradually filed each application at an international level in order to cover its interests not only in Europe but also in Africa, Asia, the Americas and in the Middle East.

The proceedings leading to granting a patent commonly take several years and they are separate for each country. The older applications filed previously are now approaching the phase when the protection will be confirmed in the individual countries. The first success being the above mentioned granting of the European and South African patent.

In cooperation with business partners, the Company files so called "sister applications" when a joint invention is divided into two independent patent applications based on the area of interest of both partners. For example, the patent for soft nonwoven textiles production is owned by PEGAS and the patent for baby diaper production containing the soft nonwoven textile is owned by a business partner. This way of co-operation enables the Company to stay in a close contact with the research activities of customers.

The Company is the owner of a utility design registered in the Czech Republic and in Germany.

LITIGATION

As of today, PEGAS is not aware of any pending or threatening litigation or arbitration proceedings against the Group that are likely to have a significant effect on PEGAS's financial position or results of operations.

Strategy

The Company's strategy for 2014 and into the future is to:

- 1) develop and take advantage of growth opportunities to strengthen its market position,
- 2) maintain and extend technological leadership in spunmelt nonwoven textiles for disposable hygiene products in the EMEA region, and
- 3) provide solid returns to shareholders.

PEGAS intends to fulfil its strategy principally by focusing on the following areas:

Continue Investing into Technologically Advanced Production Capacity:

PEGAS will strive to install state-of-the-art production capacities ahead of its European competitors. The Company's latest production line in Znojmo was put into operation in the second half of 2011 and its new Egyptian production line started production in 2013.

Maintain Close Relationships with Customers and Suppliers:

PEGAS will continue to work together with its clients, machinery manufacturers and raw material suppliers to research, develop and implement new products ahead of the competition. PEGAS will endeavour to remain at the forefront of technical developments in the industry, supply its customers with the highest quality products and continually develop new materials.

Focus on Technologically Advanced Products:

PEGAS is EMEA's largest producer of bi-component spunmelt

nonwovens with extensive experience in the design and production of ultra-lightweight materials. During 2012 and 2013, the Company successfully commercialised new materials with unique properties.

Maintain Industry Leading Financial Performance:

PEGAS's principal objectives are to continue to grow with its core target market, deliver revenues in line with this growth and maintain high operating margins relative to its core competitors. PEGAS is effective at generating significant levels of cash, which is subsequently used to support expansion, reduce outstanding debt and enable dividend payments.

Monitoring Investment Opportunities:

The Company will continue to monitor investment opportunities outside the Czech Republic, whether these are acquisitions or the construction of new capacity abroad.

Human Resources

PEGAS benefits from a skilled and motivated workforce, which results in a relatively high profitability per employee and productivity growth.

By focusing on retaining highly skilled employees, the Company is able to maintain a low staff turnover rate. The table below indicates the number and functional breakdown of employees:

Number of employees	As at 31 December		
	2012	2013	2014
Non-executive Directors	2	2	2
Executive Directors	3	3	3
Management	19	19	16
Specialists	59	69	72
Laboratory Staff	45	59	61
Foremen	74	70	73
Qualified Workers	249	352	342
Total	451	574	569
Average no. of employees	437	549	566

PEGAS provides continuous training, some of which is compulsory, in areas such as workplace safety, computer skills and foreign languages.

The monthly wage of the Company's employees (including management) is still significantly below the average in Western Europe, but significantly higher than the average in

the South Moravian region of the Czech Republic. The remuneration structure is highly motivational, with the fixed component of the basic salary ranging from approximately 80% for manual workers and down 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.



Corporate Social Responsibility

PEGAS is more than just a major manufacturer and employer in the Znojmo and Vyškov regions. The Company understands its commitment to social responsibility in its neighbourhood, the local community and a healthy environment.

In 2014, the Company continued in the support of a number of cultural, social and sports events in these regions.

CHILDREN'S CENTRE

In 2009, PEGAS began its cooperation with the Children's Centre in Znojmo, which provides paediatric, neurological, rehabilitation, psychological, educational and social care services to threatened or handicapped children and their families. Complex care is provided in the form of ward, stationary and outpatient care to threatened or handicapped children up to the age of 15.

Employees of the Company have been actively involved in providing assistance to these children.

ZLÍN CHILDREN FILM FESTIVAL

The Zlín Children Film Festival is the oldest and largest children's film festival of its kind in the world. The festival screenings are conducted not only in Zlín, but also in many other towns in the Czech Republic. Each year, the festival presents around 300 films from more than 50 countries around the world. Since 2010, the festival's attendance has exceeded 95,000 children and adults. PEGAS has been a supporter of the Zlín Film Festival since 2013.

VOLLEYBALL CLUB ZNOJMO - PŘÍMĚTICE

VK Znojmo - Přímětice is the only volleyball club in the Znojmo District with players in all age categories in both boy's and girl's leagues starting with prep, student, cadet and junior level teams all the way up to adult men's and women's teams. In all these categories the club ranks among the best in Czech volleyball.

PEGAS has been the general partner of the volleyball club since 2010.

CITY OF BUČOVICE

The Company supports cultural and social life in the City of Bučovice, where one of the production plants is based. A part of this support goes to local educational and sports institutions.

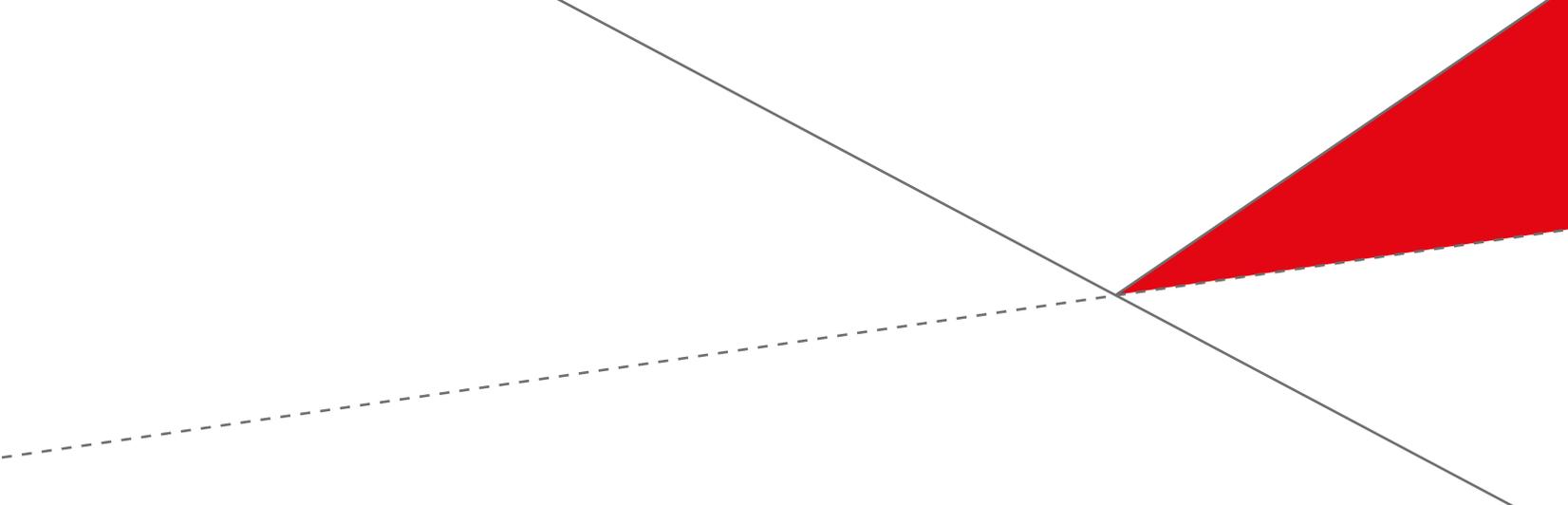
Comments on Financial Results

REVENUES, COSTS AND EBITDA

In 2014, consolidated revenues (revenues from sales of the Company's products) reached EUR 230.5 million, up by 15.7% yoy. In the fourth quarter of 2014, consolidated revenues reached EUR 58.8 million, up by 10.4% yoy. The year-on-year growth in revenues was the result of higher sales of finished products thanks to the production from the new production line in Egypt as well as a slight increase in polymer prices, which culminated in the third quarter and, as a result of the delay in the polymer price pass through mechanism, were thus to a greater extent still reflected in the fourth quarter.

In 2014, total consolidated operating costs without depreciation and amortization (net) increased by 14.1% yoy to EUR 183.3 million. In the fourth quarter of 2014, the total consolidated operating costs without depreciation and amortization reached EUR 45.6 million, an increase of 7.1% yoy. The main factor impacting the growth of operating costs was the increased consumption of raw materials, in particular related to the increase in production volumes on the Egyptian line compared to prior periods.

In 2014, EBITDA amounted to EUR 47.2 million, up by 22.4% yoy. The achieved result means that the Company slightly surpassed the ceiling of the range which was set at 12-22% of last year's EBITDA. The production from the Egyptian plant, which was in full commercial production mode throughout 2014, was a substantial contributor to this growth. An increase in sales of technologically advanced materials also had a positive effect. The Company continued to benefit from the low CZK/EUR exchange rate. The year-on-year appreciation of the USD against the EUR has thus far had a negligible effect on results as the appreciation occurred namely in the last quarter of the year. The raw material price pass through mechanism had a negative impact on the year-on-year comparison. This impact was, to a large degree, mitigated only in the fourth quarter, when polymer purchase prices declined substantially. Also in 2014, the growing price of the Company's shares and the resulting revaluation of the share option plan to fair value had an impact on the financial results, nevertheless, on a year-on-year comparison this negative effect was smaller.



In the fourth quarter of 2014, EBITDA reached EUR 13.2 million, up by 23.8% yoy. The most important factor influencing this growth was the raw material price pass through mechanism, which due to the delay in the transfer into the prices invoiced to customers, meant that the Company profited from the falling polymer purchase prices. Further positive effects that can be mentioned are the increased production volumes in both the Czech Republic and Egypt when compared with comparable periods in the previous year, the reduced impact of the revaluation of the share option plan compared with the 4th quarter of 2013 and the weaker CZK/EUR exchange rate which also had a positive effect.

In 2014, the EBITDA margin was at a level of 20.5%, which is 1.1 percentage points higher compared with 2013. In the fourth quarter of 2014, the EBITDA margin was 22.4%, up by 2.4 percentage points yoy.

OPERATING COSTS

Total raw materials and consumables used last year amounted to EUR 171.8 million, a 14.1% yoy increase. In the fourth quarter of 2014, total raw materials and consumables used reached EUR 42.5 million, up by 4.6% over the same period in 2013. The main factor was the increased raw material consumption connected with full production on the Egyptian production line.

In 2014, total staff costs reached EUR 10.7 million, up by 5.5% yoy. The growth in staff costs was caused by a slight increase in the number of employees and the indexation of wages. The increase also included bonuses for the

achievement of planned financial results of the Company and the impact of the revaluation of the share option plan to fair value. Likewise, the weaker CZK/EUR exchange rate worked against the growth of expenses expressed in EUR. Total staff costs denominated in local currencies, i.e. in Czech crowns and Egyptian pounds, without the revaluation of the share option plan, increased in 2014 by 11% for the same aforementioned reasons.

In the fourth quarter of 2014, staff costs reached EUR 3.0 million, up by 28.1% yoy. This year-on-year growth was primarily the result of the costs of bonuses related to the achievement of planned financial results of the Company.

Other operating expenses (net) reached EUR 0.8 million in 2014, compared with an income of EUR 0.1 million in 2013. In the fourth quarter of 2014, this item amounted to an expense in the amount of EUR 0.1 million.

DEPRECIATION AND AMORTIZATION

In 2014, consolidated depreciation and amortization reached EUR 15.0 million, up by 14.9% yoy. In the fourth quarter of 2014, total consolidated depreciation and amortization amounted to EUR 3.9 million, up by 3.6% compared to the same period in 2013. The increase in depreciation and amortization resulted from the fact that the new Egyptian production line was included into the Company's assets during the course of 2013, whilst in 2014 this depreciation and amortization figure corresponds to the entire accounting period.

PROFIT FROM OPERATIONS

In 2014, profit from operations (EBIT) amounted to EUR 32.2 million, up by

26.3% compared with 2013. In the fourth quarter of 2014, profit from operations (EBIT) increased by 34.9% to EUR 9.2 million.

FINANCIAL INCOME AND COSTS

In 2014, foreign exchange changes and other financial income/(expense) (net) represented a gain of EUR 6.8 million, compared with an expense of EUR 14.9 million recorded in 2013. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The year-on-year change in this item was given by the development of the CZK/EUR exchange rate, though primarily by the increase in the USD/EUR exchange rate, which resulted in unrealized foreign exchange changes related to the revaluation of intra-company loans denominated in EUR that were provided to the Egyptian subsidiary. In the fourth quarter of 2014, foreign exchange gains and other financial income (net) reached EUR 2.3 million compared with foreign exchange losses and other financial expenses (net) in the amount of EUR 11.8 million in the same period in 2013.

Interest expenses (net) related to debt servicing amounted to EUR 7.8 million in 2014, a 20.1% increase compared with 2013. Up to the time that the Egyptian production line was put into operation during the course of 2013, the interest costs connected to the construction of the production plant had been capitalised in the acquisition price of the investment and therefore the interest expenses in 2013 are lower than those in 2014. In the 4th quarter of 2014, interest expenses amounted to EUR 1.9 million, a 7.8% decrease compared with the same period in 2013. The reduction of interest

expenses was primarily the result of the lower interest rate payable on the bank debt due to improved indicators of indebtedness.

INCOME TAX

In 2014, the income tax expense amounted to EUR 4.1 million, up by 49.6% over 2013. Current tax payable amounted to EUR 2.1 million, changes in deferred tax represented an expense of EUR 2.0 million.

In the fourth quarter of 2014, income tax increased by 231.0% yoy to EUR 2.0 million. Current tax payable amounted to EUR 0.4 million, changes in deferred tax represented an expense of EUR 1.6 million.

NET PROFIT

Net profit reached EUR 27.1 million in 2014, up by 1,820.3% yoy. The growth in net profit was the result of growth in operating profit and unrealized FX gains and losses. In 2013, net profit was negatively impacted by unrealized foreign exchange losses resulting from a sharp weakening of the CZK/EUR exchange rate. In 2014, on the other hand, net profit was supported by the strengthening of the USD against the EUR, which led to unrealized foreign exchange gains from the revaluation of inter-company loans provided to the Egyptian subsidiary.

In the fourth quarter of 2014, the Company recorded a net profit in the amount of EUR 7.6 million compared with a loss of EUR 7.6 million in the same period in 2013.

CAPEX AND INVESTMENTS

In 2014, total consolidated capital expenditure amounted to EUR 10.0 million, a 74.0% yoy decrease. Approximately half of this amount, i.e. EUR 5.1 million represented an additional payment for production technology related to the construction of the Egyptian plant. Maintenance CAPEX constituted the remaining EUR 4.9 million, up by 20% compared with the previous year. The Company, therefore, did not exceed its updated estimate of capital expenditures for 2014, which expected a maximum level capital expenditures of EUR 10 million.

In the fourth quarter of 2014, total consolidated capital expenditures amounted to EUR 2.1 million.

CASH AND INDEBTEDNESS

The total amount of consolidated financial debt (both short- and long-term) as at 31 December 2014 was EUR 150.9 million, a 7.0% decrease compared with 31 December 2013. Net debt as at 31 December 2014 was EUR 142.0 million, down by 4.9% yoy. This is equivalent to a Net Debt/EBITDA ratio of 3.01x.

BUSINESS OVERVIEW OF 2014

Last year, the total production output (net of scrap) reached 100,570 tonnes, up by 10.6% compared with 2013. In the fourth quarter, the Company's production volume amounted to 26,286 tonnes, which is 4.9% more than in the same period in 2013. In 2014, operating performance was influenced by the fact that the new Egyptian production line ran in standard commercial operation throughout the entire year 2014. The production volumes achieved in the last quarter of 2014 were the highest in the Company's history.

In 2014, the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 88.0% share of total revenues compared with an 89.0% share in 2013. The high share of products in this category confirms the important position the Company has in this market. In the fourth quarter of 2014, the share of revenues from sales of nonwoven textiles for the hygiene industry on total revenues was 92.3%, a slight increase compared to the 90.4% share achieved in the same period in 2013.

In 2014, revenues from sales of non-hygiene products (for construction, agricultural and medical applications) amounted to EUR 27.6 million, which represented a 12.0% share of total revenues.

In terms of geographical market distribution, 2014 saw substantial growth in the share of sales to other territories. This growth was driven in the same extent by both the increase in sales from the new production plant in Egypt and the growth in the sales of products which are supplied even to more distant locations outside the European region. In 2014, revenues from sales to Western Europe amounted to EUR 76.0 million, which represented a 33.0% share of total revenues, compared with a 36.5% share in 2013. In this period, revenues from sales to Central and Eastern Europe and Russia amounted to EUR 101.4 million and represented a 44.0% share of total revenues. In 2013, this share was 50.5%. Revenues from sales to other territories amounted to EUR 53.1 million, up by 104.3% yoy. They represented a 23.0% share of total revenues compared with a share of 13.0% in the year before.

INVESTMENT IN EGYPT

The Egyptian production line successfully ran in standard commercial production mode for the entire year 2014 and met the expectations. In terms of operating parameters, the production line is achieving parameters comparable to the production lines in the Czech Republic. In 2014, there were no major unexpected interruptions to production. In upcoming years, the Company will focus on further optimisation of production parameters with the objective of increasing production from this line.

GUIDANCE FOR 2015

Based on agreements with customers, the Company's production capacity for 2015 has been sold out.

In 2015, we expect only a slight increase in production output, depending on the successful implementation of optimisation measures in production.

As a result of sufficient cash flows, in 2015 we would like to reduce the indebtedness of the Company.

Based on the above factors and information known to date, the Company has increased the guidance for EBITDA to EUR 44.0 to 48.5 million in 2015.

The Company is planning for total CAPEX in 2015 not to exceed the EUR 10 million level.

Czech Investment Incentives

INVESTMENT INCENTIVES GRANTED TO PEGAS

PEGAS has obtained investment incentives from the Czech authorities several times. Recipients of the existing investment incentives are subsidiaries PEGAS-NT a.s., PEGAS - NW a.s. and PEGAS - NS a.s. as special purpose companies to accommodate each investment. Tax incentives granted to PEGAS - DS a.s. in 1999 expired in 2010 and this subsidiary ceased to exist following its merger with PEGAS NONWOVENS s.r.o. with effect from 1 January 2011.

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 eligible investment costs (which as at 31 December 2014 amounted to CZK 856 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. Year 2014 was the last year, in which PEGAS-NT a.s. used the investment incentives.

PEGAS - NW A.S.

PEGAS - NW a.s. obtained its investment incentives based on the decision of the Czech government on 10 June 2005. The incentive consists of corporate income tax relief for up to 10 years. The tax relief may not exceed 48% of the eligible investment costs (CZK 1,023 million as at 31 December 2014), and in any case cannot exceed CZK 573.6 million. PEGAS - NW a.s. started making use of the incentives in fiscal year 2008. The last year, in which PEGAS - NW a.s. will be able to use the investment incentives will be 2017.

PEGAS - NS A.S.

PEGAS - NS a.s. received a commitment of investment incentives from the Ministry of Industry and Trade of the Czech Republic based on the decision dated 12 January 2009.

PEGAS - NS a.s. obtained an approval of the following investment incentives:

- corporate income tax relief for a period of 10 years; and
- financial support for job creation in the Znojmo Region in the amount of CZK 200 thousand for every new work position created.

The total amount of incentives may not exceed 30% of the eligible investment costs (CZK 1,187 million as at 31 December 2014). At the same time the total amount of the public grant may not be higher than CZK 403.5 million. In 2014, PEGAS - NS a.s. has not used the investment incentives.

Investment in Egypt

The Egyptian production line successfully ran in standard commercial production mode for the entire year 2014 and met the Company's expectations. In terms of operating parameters, the production line is achieving parameters comparable to the production lines in the Czech Republic. In 2014, there were no major unexpected interruptions to production. In upcoming years, the Company will focus on further optimisation of production parameters with the objective of increasing output from this line.

If the market conditions in the region are favourable, the Company expects to expand the plant and eventually increase its total capacity to 40-45 thousand tonnes.

Shareholder Structure in 2014

The total stake directly held by the management of the Company as of 31 December 2014 was 0.7% and remained unchanged since 2013.

On 22 January 2014, the Company received a notification that Genesis Asset Managers, LLP having its registered office at 1209 Orange Street, Wilmington, Delaware, 19801, USA, was as of 20 January 2014 holding 343,315 shares in the Company, constituting 3.72% of the share capital and of the total voting rights attached to the shares issued by the Company. Prior to 20 January 2014 Genesis Asset Managers, LLP had jointly held 561,200 shares in the Company, constituting 6.08% of the share capital and voting rights attached to the shares issued by the Company.

The company does not have precise information about the composition of its shareholder structure. Based on the list of shareholders at the extraordinary shareholders meeting held on 21 July 2014, the main shareholders at that date were Wood Textiles Holding Limited (19.32% of the share capital and of the total voting rights), Franklin Templeton Investment Funds and Templeton Global Investment Trust (together 8.29% of the share capital and of the total voting rights) and PKO Towarzystwo Funduszy Inwestycyjnych SA (5.72% of the share capital and of the total voting rights). The Company has not received any notification from any existing or new shareholder(s) with respect to their respective participation in the Company since the date of the extraordinary shareholders meeting.

Dividend Policy

The Annual General Meeting of PEGAS NONWOVENS SA held on 16 June 2014 in Luxembourg, approved the proposed pay out of a dividend in the amount of EUR 10,152,340, i.e. EUR 1.10 per share. The source of the dividend payout was 2013 profit and retained earnings of prior years. The record date (i.e. the day at the end of which shares entitled to a dividend are registered at accounts of the entitled persons held by the settlement systems of Centrální depozitář cenných papírů, a.s., Krajový Depozit Papierów Wartościowych Spółka Akcyjna or by other respective settlement systems) was set to 17 October 2014 and the dividend payment date was set to 28 October 2014.

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

Other Information Required by Legislation

PEGAS SHAREHOLDING INFORMATION
Information on shares and shareholders is described in chapter - Investor Information.

DECLARATION ON MANAGEMENT AND CORPORATE GOVERNANCE
Declaration on Management and Corporate Governance is detailed in chapter - Corporate Governance and chapter - Basic Information on the Company.

PRINCIPAL RISKS AND UNCERTAINTIES FACED BY THE COMPANY
Description of principal risks and uncertainties faced by the Company can be found in chapter - Corporate Governance - Risk Factors.

FINANCIAL INSTRUMENTS
Financial Instruments are described in detail in the notes to the consolidated financial statements in note 5aa).

THE OBJECTIVES AND POLICIES OF THE COMPANY'S FINANCIAL RISK MANAGEMENT AND EXPOSURE OF THE RISKS

The objectives and policies of the Company's financial risk management and exposure of the given risks are detailed in the notes to the consolidated financial statements in note 4.

THE EXISTENCE OF BRANCHES OF PEGAS AND THE PEGAS GROUP ENTITIES

Subsidiaries included in the consolidated entity are described in the notes to the consolidated financial statements in note 5cc).

INFORMATION IN RESPECT OF THE ACQUISITIONS OF OWN SHARES

The Company did not acquire any of its shares during the year 2014.

CONFLICT OF INTEREST

During 2014, no decision of the board of directors was taken where a director would have a conflict of interest.

INTERNAL CONTROL AND RISK MANAGEMENT ORGANISATION

The Management of the Company is responsible for the establishment and maintenance of an internal control system at the Company and its efficiency in the process of preparing financial statements. The internal control system covers the entire scope of activities of the Company. The Company has established a continuous process for identifying and managing various potential risks faced by the Company, and confirms that all appropriate actions have been taken, or are being taken, to address any issue.

Financial statements, both for internal and external reporting purposes, are prepared by highly skilled professionals and reviewed by other independent personnel. The annual financial statements are subject to the independent examination by the external auditor.

OTHER CORPORATE INFORMATION (RELATED TO THE ARTICLE 11 OF THE LAW ON TAKEOVER BIDS)

The issued capital of the Company amounts to EUR 11,444,456, being divided into 9,229,400 shares with a par value of EUR 1.24 each.

The rules of appointment and dismissal of the members of the Board of Directors are described in Article 8 of the Articles of Association of the Company. The rules on the amendments of the articles of association are governed by standard Luxembourg law provisions.

In accordance with the resolution Nr. 9 of Annual General Meeting held in June 2011, the Board of Directors has been authorised to decide on the acquisition of up to 922,940 own shares by the Company.

In accordance with the resolution Nr. 5 of Extraordinary General Meeting held in July 2014, the Board of Directors has been authorised to increase the share capital of the Company one or more times by total amount of EUR 1,716,668.40 represented by 1,384,410 shares with a nominal value of EUR 1.24 each up to a maximum amount of share capital EUR 13,161,124.40 by issuing shares and/or granting rights to subscribe

for or to convert any other securities into shares in the share capital of the Company. The authorization is valid for a period of five years. During 2014, the Board of Directors has not used this authorization.

The Company is not a party to any significant agreement which takes effect, alters or terminates upon a change of control of the Company following a takeover bid.

The subsidiaries of the Company are parties to credit agreement which may be terminated upon a change of control of the Company, e.g. following a takeover bid. A change of control occurs if any person or group of persons acting in concert gains ownership of more than 50 per cent of the issued voting share capital of the Company or PEGAS NONWOVENS s.r.o. or acquires the right to direct the management and the policies of the Company or PEGAS NONWOVENS s.r.o. by the appointment of directors to the Board of Directors.

All shares issued by the Company have one vote and carry equal voting dividend rights, there are no shares with special control rights or limitations on their transfer. There are no restrictions on voting rights.

The rights of a holder of shares to participate in a general meeting of shareholders and to exercise voting rights shall be determined by the registration of such holder of shares in the register of shares of the Company and by way of notification of intention to participate at

and by a given record date in accordance with the provisions of Luxembourg law. There are no agreements between shareholders known to the Company which may result in restrictions on the transfer of securities and/or voting rights.

The Company and the operating companies have not created and do not currently intend to create a share option plan for the benefit of their employees other than those described in chapter Remuneration of Directors and Management.

The Company is party to service agreements with its executive directors, which provide for compensation if the executive director is made redundant for other reasons than for breach of his obligations. Each executive director is entitled to receive from the Company his monthly remuneration (but not bonus) which he would be entitled to receive from all companies of the Group under all service agreements in the year preceding the year when all such service agreements were terminated, until the earlier of (i) the expiry of the period of three years following the date of such termination and (ii) the date of the executive director entering into any form of employment, directorship, or other form of service relationship with a third party.

The Company is not a party to any other agreements with its Board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

Bond issue

On 14 November 2014, the Company issued unsecured bonds in the total nominal value of CZK 2,500,000,000 (two billion five hundred million Czech crowns) with an issue price of 99.583%, maturing on 14 November 2018 with a fixed interest rate of 2.85% p.a. These bonds were accepted for trading on the Regulated market of the Prague Stock Exchange (ISIN CZ0000000559). The lead manager of the issue was Česká spořitelna, a.s. and the manager of the issue was Wood & Co. The proceeds from the issue were used to repay bank loans and did not constitute an increase in the net debt of the Company.

Material Subsequent Events

The management of the Group is not aware of any events that have occurred since 31 December 2014 that would have any material impact on the Company.



INVESTOR INFORMATION

PEGAS'S SHARES AND SHARE CAPITAL

Shareholders as of 31 December 2014

Institutional and Retail Investors (together free float)	100%
Of which Management of the Company	0.7%

Source: Company Data

In December 2006, PEGAS completed an IPO of its shares at a price of CZK 749.20 (EUR 27). The IPO consisted of the offer of 5,042,750 shares in total, including 1,810,000 shares newly issued in the Company's share capital and 3,233,750 shares offered by the selling shareholder Pamplona Capital Partners I, LP ("Pamplona").

Shares of PEGAS NONWOVENS SA were listed on the Prague Stock Exchange and on the Warsaw Stock Exchange in December 2006. PEGAS has one series of shares. All shares have one vote and carry equal dividend rights. The shares are in registered form and are entered into the depository system of Clearstream Bank. The nominal value of one share is EUR 1.24. The aggregate nominal value of the

issued share capital is EUR 11,444,456 and number of issued share is 9,229,400.

On 4 July 2007, the principal shareholder of PEGAS NONWOVENS SA, Pamplona, announced its intention to sell part or its entire stake held in PEGAS. Pamplona placed its entire 43.4% stake on 10 July 2007 via an accelerated book-build on the Prague and Warsaw Stock Exchanges at the price of CZK 780 or PLN 102.49³. The shares were sold primarily to European institutional/portfolio investors and the placement was not targeted to retail investors.

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

SHARE PRICE DEVELOPMENT AND TRADING ACTIVITY IN 2014⁴

During 2014, PEGAS shares were traded for a total value of CZK 1.2 billion on the Prague Stock Exchange and for a total value of PLN 4.8 million on the Warsaw Stock Exchange. The lowest trading price during the year was CZK 592 and PLN 83.00 and the highest CZK 659 and PLN 108.90 on the Prague and Warsaw Stock Exchanges respectively.

The closing price on 30 December 2014 was CZK 640 on the Prague Stock Exchange and PLN 98.00 on the Warsaw Stock Exchange and the market capitalisation of PEGAS reached CZK 5.9 billion (based on the Prague Stock Exchange quote).

³ Due to the execution of the placement on the stock exchanges in Prague and Warsaw, there is no official price in EUR. The CZK/EUR FX rate from 10 July 2007 was 28.601.

⁴ Source Bloomberg and PSE

SHARE PRICE DEVELOPMENT 1/1/2014-31/12/2014



PEGAS'S INVESTOR RELATIONS COMMITMENT

In the period since the IPO, PEGAS has focused on developing research coverage for the Company, developing relationships with analysts and setting up investor relations communications according to the best market standards. At present, the Company has seven sell-side analysts who publish research on the Company and a number of other commenting analysts from both international investment banks and local Czech financial institutions.

PEGAS is dedicated to open and pro-active communications with its shareholders and has implemented a schedule of investor communications events, which is fully compliant with market standards for listed companies.

FINANCIAL RESULTS CALENDAR FOR 2015

28 May 2015	Q1 2015 Unaudited Consolidated Financial Results of PEGAS NONWOVENS SA in accordance with IFRS
15 June 2015	Annual General Meeting of Shareholders
27 August 2015	Half Year Report for the 1st Half of 2015. 1st Half 2015 Unaudited Consolidated Financial Results of PEGAS NONWOVENS SA in accordance with IFRS
26 November 2015	Q1-Q3 2015 Unaudited Consolidated Financial Results of PEGAS NONWOVENS SA in accordance with IFRS

IR CONTACT DETAILS

Investor Relations

Address: Přímětická 3623/86, 669 04

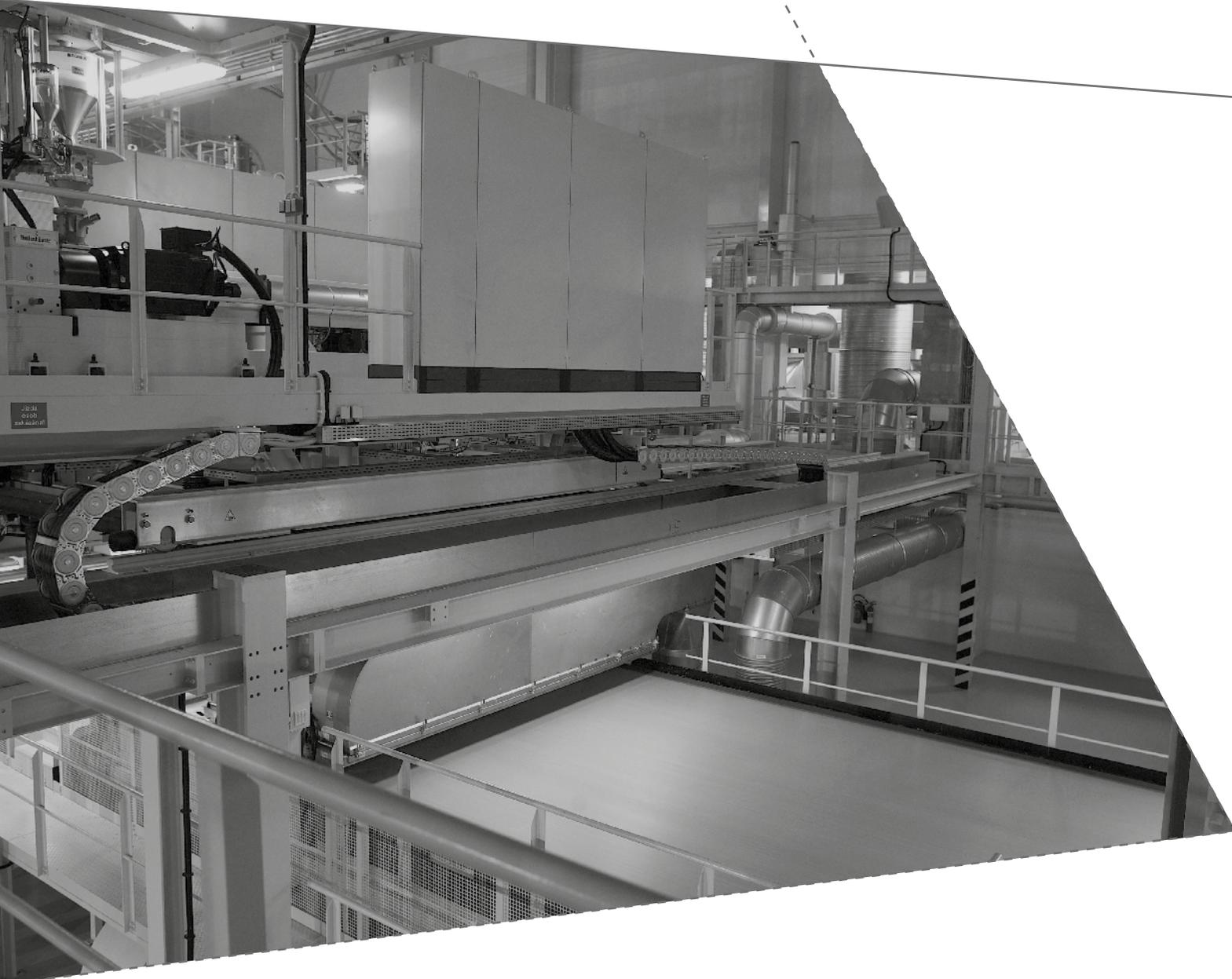
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Phone number: +420 515 262 408

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E-mail: iro@pegas.cz

Website: www.pegas.cz, www.pegas.lu



CORPORATE GOVERNANCE

PEGAS NONWOVENS SA, Luxembourg, parent holding company, is a 100% owner of the operating subsidiary PEGAS NONWOVENS s.r.o. based in Znojmo, Czech Republic. PEGAS NONWOVENS s.r.o. owns 100% of the capital of its three operating subsidiaries which are incorporated in the Czech Republic.

All of the operating assets are owned by PEGAS NONWOVENS s.r.o. and its 3 subsidiaries: PEGAS-NT a.s., PEGAS - NW a.s. and PEGAS - NS a.s. The Company's relations with suppliers and customers are carried out by PEGAS NONWOVENS s.r.o.

In 2010, PEGAS NONWOVENS International s.r.o. was established as a special purpose vehicle for the realisation of potential investment opportunities. In 2011, PEGAS NONWOVENS EGYPT LLC was established in order to carry out the Group's investments in Egypt.

General Meeting of Shareholders

The operation of, and the main powers of, the general meeting of shareholders, and shareholders' rights and conditions for exercising these rights are regulated by the Company's articles of association (see in particular articles 17, 18, 7 and 6) and applicable Luxembourg law.

Board of Directors

The Company is administered and managed by a 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 Luxembourg law or the Company's Articles of Association to the general meeting of shareholders fall within the powers of the Board of Directors.

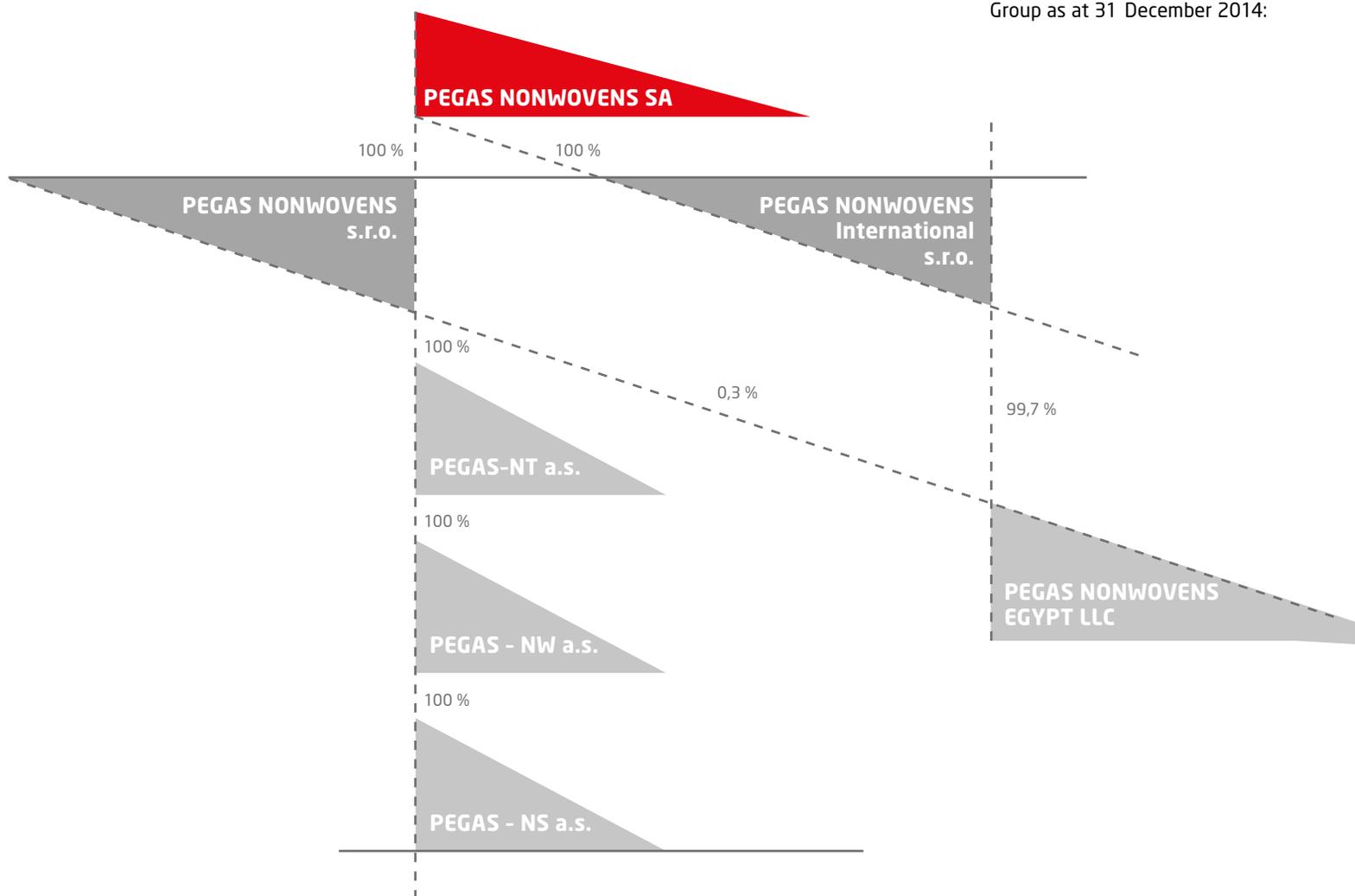
The director(s) of the Company are appointed by a General Meeting of Shareholders for a term which may not exceed six years. The director(s) may be dismissed at any time and at the sole discretion of a General Meeting of Shareholders, and may be reappointed without restrictions.

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:

Organisational Structure

The diagram below represents the current structure of the Group as at 31 December 2014:



Board of Directors

Name	Age	Position/Function	Business Address	Function period in 2014
František Řezáč	41	Executive director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2014-31. 12. 2014
František Klačka	58	Executive director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2014-31. 12. 2014
Marian Rašík	43	Executive director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2014-31. 12. 2014
Marek Modecki	56	Non-Executive Director, Chairman of the Board	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	1. 1. 2014-31. 12. 2014
Jan Sýkora	43	Non-Executive Director	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	1. 1. 2014-31. 12. 2014

Brief biographical and professional details concerning the Company's directors are set forth below:

František Řezáč

aged 41, is a graduate of the Law Faculty of Masaryk University in Brno. He joined PEGAS in 1996 while still studying at university and then worked in various managerial positions at the Company. He held the position of the Legal and Human Resource Department Director and from 2004 was Sales Director. He became CEO in October 2008. He has been Executive Director of the holding company PEGAS NONWOVENS SA since November 2006. Mr. Řezáč is a member of the Young Presidents' Organization.

František Klaška

aged 58, was appointed as an executive director of the Company in November 2006. Mr. Klaška has been with the Company 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. Klaška is a graduate of the Czech Technical University.



Marian Rašík

aged 43, was appointed as an executive director as of 1 March 2010. In December 2009, he was appointed as the CFO of PEGAS NONWOVENS s.r.o. Prior to joining PEGAS, he worked as a director at a financial advisory firm Corpin Partners. In 2003–2005 he was a CFO at Vítkovice Strojírnoství a.s. In the past he also worked with VÚB Bank in the Prague branch, ABN AMRO and he started his professional career as an auditor with Coopers & Lybrand. Mr. Marian Rašík graduated from the Economics Faculty of the Technical University in Ostrava.

Marek Modecki

aged 56, was appointed as a non-executive director in April 2008. He is currently a Managing partner at 21 Concordia, a private equity investment company based in Warsaw with offices in Paris and Milan. In 2006–2008 he worked as a Senior Banker for Concordia Espirito Santo Investment, a joint venture between Concordia and the Portuguese Espirito Santo Group. He is currently also a Non-Executive Board member of Imobel S.A. (Belgium). Mr. Modecki holds a Master in Law from the University of Warsaw. He also studied International Law at the Max Planck Institute and Law at the University of Hamburg.

Jan Sýkora

aged 43, was appointed as a non-executive director in May 2012. Mr. Sýkora is currently serving as a Chairman of Wood & Company, a leading independent Central and Eastern European investment bank which he joined in 1994. He also serves on various boards of both public and not for profit companies (Prague Stock Exchange, International School of Prague and Young Presidents' Organization). Mr. Sýkora obtained his MBA from the Rochester Institute of Technology.

CHANGES TO THE BOARD OF DIRECTORS IN 2014

The Annual General Meeting held on 16 June 2014 in Luxembourg resolved to reappoint Mr. Marek Modecki as a non-executive director of PEGAS for a term ending at the Annual General Meeting of PEGAS to be held in 2016.

The Annual General Meeting held on 16 June 2014 in Luxembourg resolved to reappoint Mr. Jan Sýkora as a non-executive director of PEGAS for a term ending at the annual general meeting of PEGAS to be held in 2016.

There were no other changes to the Board of Directors in 2014. The term of Mr. Řezáč and Mr. Klačka ends on 30 November 2015, the term of Mr. Rašík ends on 29 February 2016.

The following table sets out past and current directorships held by the directors in the past five years. Other directors than those stated below do not hold or did not hold any director positions outside the Company.

Name	Positions held
Marek Modecki	Former directorships: Supervisory Board member of Concordia Espirito Santo Investment Ltd. Supervisory Board member of Prokom Software SA Supervisory Board member of Metalexport SA Supervisory Board member Petrolinvest SA Supervisory Board member Polnord SA Non-executive director Ablon Group Plc (from 5 December 2012-31 January 2013) Supervisory Board member Empik Media & Fashion SA
	Current Directorships: Non-executive member of the Management Board of Imobel SA Managing Partner of 21 Concordia Ltd. Member of the Supervisory Board of SMT SA
Jan Sýkora	Former directorships: AmRest - Member of the Supervisory Board Window Holding Limited - Director
	Current Directorships: WOOD & Company ⁵ - Chairman of the Board International School of Prague - Member of the Board of Trustees The Duke of Edinburghs International Award Czech Republic Foundation, o.p.s. - Chairman of the Supervisory Board Prague Stock Exchange - Member of the Supervisory Board SUNCORE ENERGY, a.s. - Chairman of the Supervisory Board All-Star Holding Limited - Director Gruman Holding Limited - Director Casiana, s.r.o. - Executive Head CD ESTATES, s.r.o. - Executive Head Renaissance finance S.A. - Director

⁵ Mr. Sýkora holds several positions in the companies within the WOOD & Company Group, including directorships in subsidiaries.

At the date of the Annual Report, no member of the 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 report, 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.

CHANGES IN THE SENIOR MANAGEMENT IN 2014

There were no changes in the senior management in 2014.

Internal control and risk management organisation

The Management of the Company is responsible for the establishment and maintenance of an internal control system at the Company and its efficiency in the process of preparing financial statements. The internal control system covers the entire scope of activities of the Company. The Company has established a continuous process for identifying and managing various potential risks faced by the Company, and confirms that all appropriate actions have been taken, or are being taken, to address any issue.

Financial statements, both for internal and external reporting purposes, are prepared by highly skilled professionals and reviewed by other independent personnel. The annual financial statements are subject to the independent examination by the external auditor.

Remuneration of Directors and Management

The objective of the Company's remuneration policy is to provide a compensation programme that allows the company to attract, retain and motivate the members of the Board of Directors and other Group managers who have the character traits, skills and background to successfully lead and manage the Company. The remuneration committee was established by a resolution of the Board of Directors in July 2008. Currently members of the Remuneration and Audit committees are Marek Modecki and Jan Sýkora.

		Remuneration			TOTAL
		PEGAS		Received in kind	
		NONWOVENS SA	Other Group Companies		
(in EUR)		Pecuniary Income	Pecuniary Income		
Members of the Board of Directors	Board Remuneration		324,125	545	324,670
	Salaries and other similar income			240,981	265,710
	Management Bonus			168,307	168,307
	TOTAL		324,125	409,833	758,687
Management of the Group Companies*	Salaries and other similar income		-	607,852	672,034
	Management Bonus		-	170,828	170,828
	Board Remuneration (incl. Supervisory Board)		-	58,230	58,230
	TOTAL		-	836,910	901,092
TOTAL		324,125	1,246,743	88,911	1,659,779

* In compliance with the definition of "persons discharging managerial responsibilities within an issuer" according to the Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse) and to the Commission Directive 2004/72/EC of 29 April 2004 implementing Directive 2003/6/EC. Total number of persons included 16.

INFORMATION ON SHARES HELD BY THE MANAGEMENT

As of 31 December 2014, Board members of PEGAS directly held together 56,291 shares of PEGAS, representing 56,291 of aggregate voting rights.

In addition to direct personal holdings of the board members, Mr. Jan Sýkora is one of the controlling persons of WOOD & Company Financial Services, a.s., which is appointed as an investment manager of certain sub-funds of WOOD & Company Funds SICAV P.l.c. (Malta) that held together 1,767,351 shares of PEGAS, representing 1,767,351 of aggregate voting rights as at 31 December 2014.

Persons discharging managerial responsibilities within an issuer held as of 31 December 2014, 10,132 shares of PEGAS, representing 10,132 of aggregate voting rights.

CASH-SETTLED SHARE-BASED PAYMENT FOR EXECUTIVE MANAGERS AND NON-EXECUTIVE DIRECTORS

On 15 June 2010, the AGM approved new principles of the share price bonus plan for members of the senior management and the members of the Board of Directors. The goal of the new programme was to enhance its motivation function and to extend it to the new members of the senior management and the Board of Directors. Therefore, the AGM Meeting resolved to issue an aggregate amount of 230,735 phantom options (representing 2.5% of share capital of PEGAS NONWOVENS SA) to the directors and senior management of PEGAS and/or its affiliates, against no consideration. Each phantom option, when exercised, will grant the director the right to receive

a phantom share, i.e. the right to receive in cash an amount equal to the difference between CZK 473.00 representing the PEGAS's share price on the Prague Stock Exchange (the "PSE") as of 15 December 2009 increased by 10%, and the closing price of one PEGAS's share on the day preceding the day of exercise of the phantom option on the PSE (or other market if the PSE trading is discontinued). 25% of phantom options (i.e. 57,684 options) will vest yearly, with the first options vesting on 18 December 2010 and the last options vesting on 18 December 2013, whereas the first options vesting on 18 December 2010 fully replaced the last options of current share price bonus plan, approved at the AGM in 2007, vesting at the same date. Therefore the right for remaining 34,008 options (with vesting date on 18 December 2010) granted in 2007 and approved by the Annual General Meeting held on 15 June 2007 was abandoned. Entitled rights for part of phantom options granted in 2007 expired due to leave of former directors of the Company.

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

The Extraordinary General Meeting held on 21 July 2014 resolved to convert 230,735 phantom options granted in 2010-2013 into 230,735 warrants. Each warrant, when exercised, will grant the holder the right to receive (i) one share in PEGAS for a strike price corresponding to CZK 473.00 representing the

PEGAS's share price on the PSE as of 15 December 2009 increased by 10%, or (ii) a payment in cash amounting to the final price of one share of PEGAS on the PSE on the business day preceding the exercise date, less CZK 473.00. All the warrants will vest immediately from their granting date and will have the same exercise period that was initially planned for the phantom options.

The Extraordinary General Meeting held on 21 July 2014 authorised and empowered the Board of Directors to evidence and execute the conversion of the 230,735 phantom options into 230,735 warrants by the signature of agreements or any other documents which might be required or necessary for that purpose.

The Extraordinary General Meeting held on 21 July 2014 resolved to issue 230,735 new warrants (representing 2.5% of the PEGAS's share capital) to the directors and senior management of PEGAS and/or its affiliates collectively, for a subscription price of CZK 5.89 per new warrant to be paid in cash by the directors, it being understood that the Board of Directors of PEGAS will decide how the new warrants will be divided among the directors and senior management of PEGAS and/or its affiliates. Each new warrant, when exercised, will entitle the holder to either receive (i) one share in PEGAS for a strike price corresponding to CZK 588.16 (representing the average of PEGAS's share price on the PSE from 1 October 2013 to 31 December 2013) less all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial

year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), or (ii) a payment in cash amounting to the final price of one share of PEGAS on the PSE on the business day preceding the exercise date, plus all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), less the strike price of CZK 588.16 (representing the average of PEGAS's share price on the PSE from October 1, 2013 to December 31, 2013).

The Extraordinary General Meeting held on 21 July 2014 authorized and empowered the Board of Directors to evidence and execute the issuance of new warrants by the signature of agreements or any other documents which might be required or necessary for that purpose, and to allocate the 230,735 new warrants between the directors and senior management of PEGAS and/or its affiliates in accordance with criteria determined by, and at the discretion of, the Board of the Directors.

Total number of issued phantom options and warrants was 587,574 as of 31 December 2014 (356,839 as of 31 December 2013). The number of phantom options and warrants as of 31 December 2014

consists of 126,104 phantom options, 230,735 options converted into warrants and 230,735 warrants.

The Company and the operating companies are currently not intending to create and have not created a share option plan for the benefit of their employees.

MANAGEMENT BONUS SCHEME

The principles of the bonus scheme for 2008 and for the following financial years targeted to the senior management of PEGAS Group were approved by the AGM in 2008.

The key elements of the bonus scheme are as follows:

- The scheme was designed to ensure that senior management is focused on delivering the Company's budgeted economic results represented by the Budgeted EBITDA and is valid for the accounting years of 2008 and onwards.
- Basis for the bonus calculation is EBITDA calculated in accordance with Czech and Luxembourg GAAP, as the consolidated profit for the Group adjusted for certain extraordinary items, gains or losses specified further in the document which was available at the AGM.
- If achieved EBITDA is equal to Budgeted EBITDA, the paid bonus will be the Target bonus. If the achieved EBITDA is below or above the Budgeted EBITDA, the amount of the target bonus will be decreased or increased up to the amount of a maximum bonus in accordance with criteria set for each year by the Board of Directors.

REMUNERATIONS OF PERSONS DISCHARGING MANAGERIAL RESPONSIBILITIES

Persons discharging managerial responsibilities are entitled to the management bonus which is partly based on the Budgeted EBITDA and is determined by the same principles as the above mentioned management bonus scheme. In addition, the second part of the persons discharging managerial responsibilities bonus is based on the appraisal of the superior.

Corporate Governance

Pursuant to the Warsaw Stock Exchange By-laws, and in connection with the listing of the Company's shares on the Warsaw Stock Exchange, the Company is required to declare which of the Polish principles of corporate governance contained in the WSE Corporate Governance Rules it intends to comply with, as well as to enumerate the principles which it does not intend to comply with and to state the reasons for the non-compliance. The original WSE Corporate Governance Rules adopted by the Company during the IPO were amended based on Resolution No. 13/1171/2007 of the Warsaw Stock Exchange Supervisory Board dated 4 July 2007 concerning amendment of the WSE Rules.

The Company has decided to observe the majority of the WSE Corporate Governance Rules as stated in detail below.

STATEMENT ON WARSAW STOCK EXCHANGE CORPORATE GOVERNANCE RULES (effective 1 January 2013 - available at <http://www.corp-gov.gpw.pl/publications.asp>)

Recommendations for Best Practice for Listed Companies

1. A company should pursue a transparent and effective information policy using both traditional methods and modern technologies and latest communication tools ensuring fast, secure and effective access to information. Using such methods to the broadest extent possible, a company should in particular:
 - maintain a company website whose scope and method of presentation should be based on the model investor relations service available at <http://naszmodel.gpw.pl/>;
 - ensure adequate communication with investors and analysts, and use to this purpose also modern methods of Internet communication.
2. [deleted]
3. A company should make every effort to ensure that any cancellation of a General Meeting or change of its date should not prevent or restrict the exercise of the shareholders' right to participate in a General Meeting.
4. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.
5. A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.
6. A member of the Supervisory Board should have appropriate expertise and experience and be able to devote the time necessary to perform his or her duties. A member of the Supervisory Board should take relevant action to ensure that the Supervisory Board is informed about issues significant to the company.
7. Each member of the Supervisory Board should act in the interests of the company and form independent decisions and judgments, and in particular:
 - refuse to accept unreasonable benefits which could have a negative impact on the independence of his or her opinions and judgments;
 - raise explicit objections and separate opinions in any case when he or she deems that the decision of the Supervisory Board is contrary to the interest the company.
8. No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related entities.
9. The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business.
10. If a company supports different forms or artistic and cultural expression, sport activities, educational or scientific activities, and considers its activity in this area to be a part of its business mission and development strategy, impacting the innovativeness and competitiveness of the enterprise, it is good practice to publish, in a mode adopted by the company, the rules of its activity in this area.
11. As part of a listed company's due care for the adequate quality of reporting practice, the company should take a position, expressed in a communication published on its website, unless the company considers other measures to be more adequate, wherever with regard to the company:
 - published information is untrue or partly untrue from the beginning or at a later time;
 - publicly expressed opinions are not based on material objective grounds from the beginning or as a result of later circumstances.This rule concerns opinions and information expressed publicly by company representatives in the broad sense or by other persons whose statements may have an opinion-making effect, whether such information or opinions contain suggestions that are advantageous or disadvantageous to the company.
12. A company should enable its shareholders to exercise the voting right during a General Meeting either in person or through a plenipotentiary, outside the venue of the General Meeting, using electronic communication means.

No.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS SA
Best Practice for Management Boards of Listed Companies			
1	A company should operate a corporate website and publish on it, in addition to information required by legal regulations:		
	1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies;	YES	
	2) professional CVs of the members of its governing bodies;	YES	
	2a) on an annual basis, in the fourth quarter - information about the participation of women and men respectively in the Management Board and in the Supervisory Board of the company in the last two years;	NO	Partially complying with the rule. The Company publishes such information on annual basis, typically as a part of the annual report.
	3) current and periodic reports;	YES	
	4) [deleted]		
	5) where members of the company's governing body are elected by the General Meeting - the basis for proposed candidates for the company's Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution;	YES	
	6) annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the work of the Supervisory Board and of the internal control system and the significant risk management system submitted by the Supervisory Board;	NO	We are unable to comply with this rule as there is a single board structure in the Company - there is no Supervisory Board.
	7) shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions;	YES	No such issues on the agenda have been submitted during preceding General Meetings.
	8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds;	YES	Such situations have not occurred with respect to preceding General Meetings.
	9) information about breaks in a General Meetings and the grounds of those breaks;	YES	No such breaks have been taken during preceding General Meetings.
	9a) a record of the General Meeting in audio or video format;	NO	The written minutes from the General Meeting are published on the website. The possibility of the sound record from the General Meeting is under review by the management of the Company.
	10) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions;	YES	
	11) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company's General Meeting;	NO	We are unable to comply with this rule as there is a single board structure in the Company - there is no Supervisory Board.
	12) where the company has introduced an employee incentive scheme based on shares or similar instruments - information about the projected cost to be incurred by the company from to its introduction;	YES	

No.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS SA
	13) a statement on compliance with the corporate governance rules contained in the last published annual report, as well as the report referred to in § 29.5 of the Exchange Rules, if published;	YES	
	14) information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule.	YES	
2	A company should ensure that its website is also available in English, at least to the extent described in section II.1.	YES	
3	Before a company executes a significant agreement with a related entity, its Management Board shall request the approval of the transaction/ agreement by the Supervisory Board. This condition does not apply to typical transactions made on market terms within the operating business by the company with a subsidiary where the company holds a majority stake. For the purpose of this document, related entity shall be understood within the meaning of the Regulation of the Minister of Finance issued pursuant to Article 60.2 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (Dz.U. No. 184, item 1539, as amended).	NO	We are partially unable to comply with this rule as there is a single board structure in the Company - there is no Supervisory Board.
4	A member of the Management Board should provide notification of any conflicts of interest which have arisen or may arise, to the Management Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.	YES	
5	[deleted]		
6	A General Meeting should be attended by members of the Management Board who can answer questions submitted at the General Meeting.	YES	
7	A company shall set the place and date of a General Meeting so as to enable the participation of the highest possible number of shareholders.	YES	
8	If a company's Management Board is informed that a General Meeting has been summoned pursuant to Article 399 § 2-4 of the Code of Commercial Partnerships and Companies, the company's Management Board shall immediately perform the actions it is required to take in connection with organising and conducting a General Meeting. This rule shall also apply if a General Meeting is summoned on the basis of authorisation given by the registration court pursuant to Article 400 § 3 of the Code of Commercial Partnerships and Companies.	NO	Article 399 § 2-4 of the Code of Commercial Partnerships and Companies does not apply to our company as it is registered in Luxembourg. However, there are similar provisions under Luxembourg law and our Articles.
BEST PRACTICES OF SUPERVISORY BOARDS			
1	In addition to its responsibilities laid down in legal provisions the Supervisory Board should: 1) once a year prepare and present to the Ordinary General Meeting a brief assessment of the company's standing including an evaluation of the internal control system and the significant risk management system; 2) /deleted/ 3) review and present opinions on issues subject to resolutions of the General Meeting.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.

No.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS SA
2	A member of the Supervisory Board should submit to the company's Management Board information on any relationship with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board.	YES	Under Article 9.16 of the Articles of Association, a director having a personal interest contrary to that of the Company in a matter submitted to the approval of the Board of Directors shall be obliged to inform the Board of Directors thereof and to have his declaration recorded in the minutes of the meeting. He may not take part in the relevant proceeding of the Board of Directors. At the next General Meeting, before votes are taken on any other matter, the shareholder shall be informed of those cases in which a director had a personal interest contrary to that of the Company.
3	A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
4	A member of the Supervisory Board should notify any conflicts of interest which have arisen or may arise to the Supervisory Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.	YES	Under Article 9.16 of the Articles of Association, a director having a personal interest contrary to that of the Company in a matter submitted to the approval of the Board of Directors shall be obliged to inform the Board of Directors thereof and to have his declaration recorded in the minutes of the meeting. He may not take part in the relevant proceeding of the Board of Directors. At the next General Meeting, before votes are taken on any other matter, the shareholder shall be informed of those cases in which a director had a personal interest contrary to that of the Company.
5	A member of the Supervisory Board should not resign from this function if this action could have a negative impact on the Supervisory Board's capacity to act, including the adoption of resolutions by the Supervisory Board.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
6	At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
7	[deleted]		
8	Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors... should apply to the tasks and the operation of the committees of the Supervisory Board.	NO	
9	Execution by the company of an agreement/transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.

No.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS SA
Best Practices of Shareholders			
1	Presence of representatives of the media should be allowed at General Meetings.	NO	The written minutes from the General Meeting are published on the website.
2	The rules of General Meetings should not restrict the participation of shareholders in General Meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next General Meeting.	YES	
3	[deleted]		
4	A resolution of the General Meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting it or obligate the competent body to set it before the date of subscription rights within a timeframe enabling an investment decision.	YES	
5	Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of setting the rights of shareholders pursuant to such events.	YES	
6	The date of setting the right to dividend and the date of dividend payment should be set so to ensure the shortest possible period between them, in each case not longer than 15 business days. A longer period between these dates requires detailed grounds.	YES	
7	A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfilment must take place before the date of setting the right to dividend.	YES	
8	[deleted]		
9	A resolution of the General Meeting to split the nominal value of shares should not set the new nominal value of the shares at a level which could result in a very low unit market value of the shares, which could consequently pose a threat to the correct and reliable valuation of the company listed on the Exchange.	YES	
10	A company should enable its shareholders to participate in a General Meeting using electronic communication means through: 1) real-life broadcast of General Meetings; 2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting.	NO	Under review by the management of the Company.

Risk Factors

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

MARKETING AND SALES

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

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

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

PRODUCTION

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

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

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

PEGAS depends on external suppliers for key raw materials, therefore increases in the cost of raw materials, electricity and other consumables could have a material adverse impact on the Company's financial condition and results of operations, although a polymer price increase is by large transferred to customer prices.

RESEARCH AND DEVELOPMENT

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

POTENTIAL EXPANSION

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

LEGAL AND INTELLECTUAL PROPERTY

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

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

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

FINANCE

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

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

There is a risk that the fluctuations in the value of the Czech koruna and US dollar against the Euro could adversely affect the Company's profitability. PEGAS's operating subsidiaries avail themselves of tax benefits offered by the Czech government. Hence, the Company's profitability could decrease owing to any adverse change in general tax policies or if the tax benefits were reduced or withdrawn.

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

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

SECURITY, ENVIRONMENT AND SAFETY

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

KEY PERSONNEL AND TECHNICAL EXPERTISE

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

PEGAS may not be able to hire and retain sufficient numbers of qualified professional personnel because these personnel are limited in number and are in high demand.

OWNERSHIP CHANGES

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

RISK FACTORS RELATING TO THE INVESTMENT IN EGYPT

Investing in emerging markets such as Egypt, generally involves a higher degree of risk than investments in more developed countries. These higher risks include, but are not limited to changes in the political environment, transfer of returns, expropriation or politically motivated violent damage. The Egyptian economy is susceptible to future adverse effects similar to those suffered by other emerging market countries.

Egypt is located in a region which has been subject to ongoing political and security concerns, especially in recent years. In common with other countries in the region, Egypt has experienced occasional terrorist attacks in the past. There can be no assurance that extremists or terrorist groups will not escalate or continue occasional violent activities in Egypt or that the government will continue to be generally successful in maintaining the prevailing levels of domestic order and stability.

Although PEGAS entered into an insurance contract with EGAP for the coverage of risks connected with its investment in Egypt, which include insurance of the investment against the risk of prevention of the transfer of returns, expropriation or politically motivated violent damage, there is a risk that the insurance coverage may not adequately protect PEGAS against all possible losses related to its investment in Egypt.

Information Disclosed in the Management Report

PEGAS shareholding information, Declaration on Management and Corporate Governance and Internal control and risk management organisation are disclosed in the Management Report Section 16 - Other Information required by legislation.

FINANCIAL PART



CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements of PEGAS NONWOVENS SA

for the year ended 31 December 2014 and Independent Auditor's Report

Deloitte.

To the Shareholders of
PEGAS NONWOVENS S.A.
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L-2320 Luxembourg

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REPORT OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of PEGAS NONWOVENS S.A, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory information.

Responsibility of the Board of Directors for the consolidated financial statements

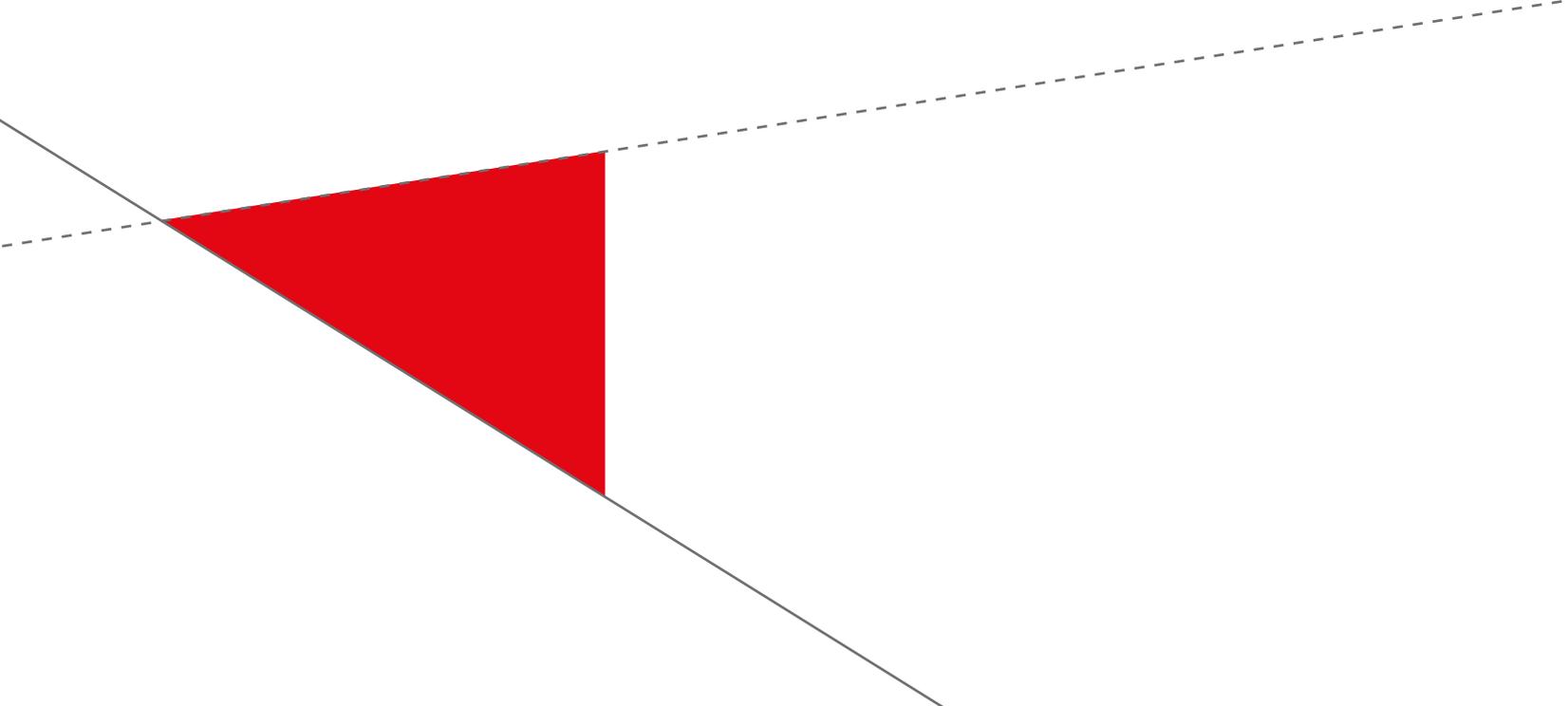
The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the réviseur d'entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the *réviseur d'entreprises agréé's* judgement including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the *réviseur d'entreprises agréé* considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for

Société à responsabilité limitée au capital de 35.000 €
RCS Luxembourg B 67.895
Autorisation d'établissement: 10022179



the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of PEGAS NONWOVENS S.A as of December 31, 2014, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

The accompanying Corporate Governance Statement, which is the responsibility of the Board of Directors, includes the information required by the law of December 19, 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended and the description included with respect to Article 68bis paragraphs c and d of the aforementioned law is consistent with the consolidated financial statements.

For Deloitte Audit, *Cabinet de révision agréé*



Nick Tabone,
Réviseur d'entreprises agréé
Partner

April 24, 2015

Consolidated Statement of Comprehensive Income

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

For the year ended 31 December 2014 (in thousands of EUR)

		2014	2013
Revenue	5 a), b)	230,547	199,210
Raw materials and consumables used	5 c)	(169,858)	(148,335)
Staff costs	5 f), g)	(10,739)	(10,179)
Depreciation and amortization expense	5 h)	(15,030)	(13,079)
Research and development expense	5 e)	(1,985)	(2,224)
Other operating income/(expense) net	5 d)	(763)	78
Profit from operations		32,172	25,471
Foreign exchange gains and other financial income	5 i)	15,697	13,338
Foreign exchange losses and other financial expenses	5 j)	(8,931)	(28,205)
Interest income	5 k)	20	3
Interest expense	5 l)	(7,785)	(6,470)
Profit before tax		31,173	4,137
Income tax expense	5 m)	(4,077)	(2,726)
Net profit after tax		27,096	1,411
Other comprehensive income			
Net value gain on cash flow hedges		925	1,149
Changes in translation reserves		14,161	(8,730)
Total comprehensive income for the year		42,182	(6,170)
Net profit attributable to:			
Equity holders of the company		27,096	1,411
Total comprehensive income attributable to:			
Equity holders of the company		42,182	(6,170)
Net earnings per share 5 n)			
Basic net earnings per share (Euro)		2.94	0.15
Diluted net earnings per share (Euro)		2.91	0.15

The Notes are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

As at 31 December 2014
(in thousands of EUR)

		31 December 2014	31 December 2013
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5 o)	178,939	181,584
Intangible assets	5 p)	495	586
Goodwill	5 p)	83,684	84,599
Total non-current assets		263,118	266,769
Current assets			
Inventories	5 q)	41,666	32,618
Trade and other receivables	5 r)	42,451	43,250
Income tax receivables	5 s)	0	1,042
Cash and cash equivalents	5 t)	8,962	13,063
Total current assets		93,079	89,973
Total assets		356,197	356,742
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	5 u)	11,444	11,444
Legal reserves	5 w)	9,187	8,733
Translation reserves		11,855	(2,306)
Cash flow hedge reserves		(1,986)	(2,911)
Retained earnings	5 v)	127,141	110,673
Total share capital and reserves		157,641	125,633
Non-current liabilities			
Bank loans	5 x)	35,402	146,200
Deferred tax liabilities	5 y)	15,583	13,126
Other non-current liabilities	5 z)	89,036	--
Total non-current liabilities		140,021	159,326
Current liabilities			
Trade and other payables	5 aa)	31,792	56,489
Tax liabilities	5 bb)	233	1,094
Bank current liabilities	5 x)	26,500	14,200
Provisions		10	--
Total current liabilities		58,535	71,783
Total liabilities		198,556	231,109
Total equity and liabilities		356,197	356,742

The Notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

For the year ended 31 December 2014
(in thousands of EUR)

	2014	2013
Profit before tax	31,173	4,137
Adjustment for:		
Depreciation and Amortization	5 h) 15,030	13,079
Foreign exchange gains/losses	(901)	(12,035)
Interest expense	5 l) 7,785	6,470
Other changes in equity	925	1,149
Other financial income/(expense)	1,643	4,824
Cash flows from operating activities		
Decrease/(increase) in inventories	(7,265)	(10,730)
Decrease/(increase) in receivables	205	(8,650)
Increase/(decrease) in payables	(13,245)	28,291
Income tax (paid)/received	(1,973)	(2,474)
Net cash from operating activities	33,377	24,061
Cash flows from investment activities		
Purchases of property, plant and equipment	(9,964)	(38,301)
Net cash flows from investment activities	(9,964)	(38,301)
Cash flows from financing activities		
Increase/(decrease) in bank loans	(97,831)	22,540
Increase/(decrease) in other non-current liabilities	89,036	--
Other changes in capital	49	
Distribution of dividends	5 v) (10,152)	(9,691)
Interest paid	(7,640)	(6,325)
Other financial income/(expense)	(1,643)	(4,824)
Net cash flows from financing activities	(28,181)	1,700
Net increase/(decrease) in cash and cash equivalents	(4,768)	(12,540)
Cash and cash equivalents as at 1 January	13,063	25,758
Effect of exchange rate fluctuations on cash held	667	(155)
Cash and cash equivalents as at 31 December	5 t) 8,962	13,063

The Notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

For the year ended 31 December 2014
(in thousands of EUR)

	Share capital	Translation reserves	Cash flow hedging	Legal reserves	Retained earnings	Total equity attributable to equity holders of the Company
Balance at 31 December 2012	11,444	6,424	(4,060)	7,896	119,790	141,494
Distribution	--	--	--	--	(9 691)	(9 691)
Other comprehensive income for the year	--	(8,730)	1,149	--	--	(7,581)
Net profit for the year	--	--	--	--	1,411	1,411
Reserves created from retained earnings	--	--	--	837	(837)	--
Balance at 31 Dec 2013	11,444	(2,306)	(2,911)	8,733	110,673	125,633
Distribution	--	--	--	--	(10,152)	(10,152)
Other comprehensive income for the year	--	14,161	925	--	(22)	15,064
Net profit for the year	--	--	--	--	27,096	27,096
Reserves created from retained earnings	--	--	--	454	(454)	--
Balance at 31 Dec 2014	11,444	11,855	(1,986)	9,187	127,141	157,641

PEGAS NONWOVENS S.A.

Notes to the consolidated financial statements

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

For the year ended 31 December 2014
(in thousands of EUR)

1. GENERAL INFORMATION AND DEFINITION OF THE CONSOLIDATED ENTITY

Description and principal activities

PEGAS NONWOVENS S.A., 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, PEGAS NONWOVENS S.A. 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 (PEGAS-NT a.s., PEGAS - NW a.s., PEGAS - NS a.s.) are engaged in the production of nonwoven textiles.

Within the scope of the international expansion, PEGAS NONWOVENS S.A. established PEGAS NONWOVENS International s.r.o. in 2010. Subsequently PEGAS NONWOVENS EGYPT LLC, which invested in the Egyptian production capacity, was incorporated in June 2011.

The consolidated financial statements of PEGAS NONWOVENS S.A. as at and for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as "PEGAS", the "Company" or the "Group").

2. BASIS OF PREPARATION

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations as adopted by the European Union ("IFRS").

These consolidated financial statements were approved by the Board of Directors and authorized for issue on 24 April 2015.

b) Presentation and functional currency

The financial statements are presented in thousands of Euro ("TEUR"). The underlying functional currency of PEGAS NONWOVENS s.r.o. and its Czech subsidiaries is Czech Koruna ("CZK"). Czech Koruna is underlying functional currency of PEGAS NONWOVENS International s.r.o. as well. The functional currency of PEGAS NONWOVENS EGYPT LLC is United States Dollar ("USD"). The functional currency of PEGAS NONWOVENS S.A. is EUR. The financial statements were translated from the functional currencies to the presentation currency.

c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and share based payments which are measured at fair value.

d) Use of estimates and judgments

The preparation of financial statements in compliance with IFRS 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 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 judgments 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 on-going 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.

The management uses the estimates of future cash flows for the purposes of short and long term bank loans classification and for the goodwill impairment testing. The estimates are applied for the determination of useful life of property, plant and equipment in respect of their depreciation. Finished products allocation of overheads based on cost calculation is subject to estimates as well.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years 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 is exposed, or has rights, to variable returns of an entity and has the ability to affect those returns through its power over the entity.

Assets, liabilities and contingent liabilities, which fulfil the criteria for accounting recognition pursuant to IFRS 3, are measured at 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.

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 group entities included in the note 5 cc) are fully consolidated.

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

b) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange based on the national bank official rates for the last working day of the calendar month to be applied to transactions recorded during the following month.

During the year, exchange gains and losses are only recognized when realized at the time of settlement. 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 EUR (which is the functional currency of the parent company and presentation currency of the Group) 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 (source: official rates of the European Central Bank):

Period average (for Statement of Comprehensive Income and Cash Flow Statement)	Exchange rate
1 January 2013-31 December 2013	25.974 EUR/CZK
1 January 2013-31 December 2013	1.3281 EUR/USD
1 January 2014-31 December 2014	27.533 EUR/CZK
1 January 2014-31 December 2014	1.3286 EUR/USD

Balance sheet date	
Balance sheet as at 31 December 2013	27.425 EUR/CZK
	1.3791 EUR/USD
Balance sheet as at 31 December 2014	27.725 EUR/CZK
	1.2141 EUR/USD

Exchange differences arising from translation to the presentation currency are classified as equity and transferred to the Group's translation reserve.

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

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Based on analysis of IFRS 8, the Group identified one operating segment, the production of nonwoven textiles.

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 directly attributable 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) Borrowing costs

Borrowing costs other than stated below are recognized in the income statement in the period to which they relate.

Borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale are capitalised as part of the cost of such assets.

g) 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 from 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 using the tax rates that are expected to be applied in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to the profit or loss account except for deferred tax derived from the hedge effective part of mark-to-market revaluation of interest rate swaps (IRS) and cross currency rate swap (CCRS). The Company designates the currently concluded IRSs as cash flow hedges and the changes in fair value related to the hedge effective part of the IRSs recognizes in equity. The hedge non-effective part is recognized in profit and loss. Similarly, the changes in deferred tax derived from the changes in fair value of the IRSs are recognized in equity (for the hedge effective part) or in profit and loss (for the hedge non-effective part). The Company designates the CCRS as cash flow hedge and the changes in fair value recognizes in equity. The changes in deferred tax derived from the changes in fair value of the CCRS are recognized in equity as well.

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.

h) Government grants

The Company benefits from the following investment incentives granted by the Czech Government:

Grants and subsidies relating to employees

The grants to train employees and subsidies to establish new jobs from the government of the Czech Republic are accounted for in the comprehensive income statement in the year in which related expenses are 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.

Grants for R&D projects

The Company is successful in obtaining the grants for R&D projects. These grants are tendered under the research and development support programmes by the Czech Ministry of Industry and Trade. The grants for R&D projects are recognized in the statement of comprehensive income in the year in which related expenses were incurred.

Tax deductible items

PEGAS benefits from reduction of tax base by tax deductible items related to research and development expenses.

i) 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	15-25
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.

j) 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. The item covers capitalized intangible asset arising from development as well.

k) 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 presented as separate intangible asset. After the initial recognition, goodwill is stated at cost less impairment losses.

l) Impairment of assets and goodwill

At least 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). Where it is not possible to estimate the recoverable amount of an individual asset, 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 analyzed annually. If the recoverable amount is less than the carrying amount of the assets, the impairment loss is allocated first to reduce the carrying amount of the goodwill and then to the other assets pro-rata on the basis of the carrying amount of each asset. An impairment loss recognized for goodwill is not reversed in a subsequent period.

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

m) 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, based on normal operating capacity, excluding finance costs. 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.

n) 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.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) - derivative financial instruments and 'loans and receivables' (trade receivables). Financial liabilities are classified as either financial liabilities 'at FVTPL' (derivative financial instruments) or 'other financial liabilities' (payables).

The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

The Company designates the open interest rate swaps and the cross currency rate swap as cash flow hedges - see note 3 o).

Carrying amount of all financial instruments approximates their fair value. The fair value is established in accordance with IFRS 13 - Fair value measurement.

o) Derivative financial instruments

The Group's operating activities are primarily exposed to financial risks such as changes in foreign exchange rates and interest rates. Where necessary, the Group uses derivative financial instruments to cover 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. The derivative financial instruments are distinguished in accordance with 3-level hierarchy identifying the inputs used in calculation of their fair value.

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.

The Group uses interest rate swaps to cover the risk of changes in interest rates, cross currency rate swaps and FX forwards to cover the currency exposure.

Derivative financial instruments which are not designed as hedging instruments are in accordance with IAS 39 classified as held-for-trading and carried at fair value presented in current assets/liabilities, with changes in fair value included in net profit or loss of the period in which they arise.

Hedge accounting - cash flow hedges

The Company entered into interest rate swaps agreement in December 2009 (with maturity in December 2012), another interest rate swaps agreement in September 2011 (with maturity in June 2016) and cross currency rate swap agreement in November 2014 (with maturity in November 2018). The Company designates these swaps as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item. Furthermore, at the inception of the hedge and on an on-going basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, on the same line as the recognised hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

p) Cash-settled share-based payment

In 2007, the Company entered into a Share price bonus scheme for its Senior Management and Board Members. The scheme was extended in 2010 and 2014. The scheme is a combination of cash-settled or stock-settled transaction, in which the Company acquires services of key personnel by incurring liabilities to the supplier of those services for amounts that are based on the price of the Company's shares. The scheme is realized through phantom options and warrants, which vest annually. The service period equals the vesting period and the services are correspondingly accounted for as they are rendered by the counterparty during the vesting period.

The Company measures the liability arising from the phantom options and from the warrants at fair value at each reporting date. The changes in the fair value of these liabilities are recognized in the statement of comprehensive income for the period.

The fair value of the phantom options is determined by:

- Pricing model
- Expected life assumption/participant behaviour
- Current share price
- Expected volatility
- Expected dividends
- Risk-free interest rate

q) Trade and other receivables

Trade receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term trade receivables (which do not carry any interest) when the recognition of interest would be immaterial.

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) Borrowings

Interest-bearing bank loans, other non-current liabilities

Interest-bearing bank loans, overdrafts and other non-current liabilities such as bonds are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

The issuance costs are treated as a reduction of the nominal value of the instrument issued. 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.

t) 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, and a reliable estimate can be made of the amount of the 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.

u) Trade payables

Trade payables are initially measured at fair value, subsequently measured at amortised cost using the effective interest method, except for short-term trade payables.

v) Adoption of new and revised standards

Standards and Interpretations effective in the current period

The following new and revised Standards and Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period.

These are:

- *IFRS 10 Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2014). IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.
- *IFRS 11 Joint Arrangements* (effective for annual periods beginning on or after 1 January 2014). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.
- *IFRS 12 Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2014). This standard covers the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.
- *IAS 27 Separate Financial Statements (2011)* (effective for annual periods beginning on or after 1 January 2014). The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IAS 39 Financial Instruments. The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.
- *IAS 28 Investments in Associates and Joint Ventures (2011)* (effective for annual periods beginning on or after 1 January 2014). The revision prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

- *Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014). Clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas (i) the meaning of 'currently has a legally enforceable right of set-off', (ii) the application of simultaneous realisation and settlement, (iii) the offsetting of collateral amounts and (iv) the unit of account for applying the offsetting requirements.
- *Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets* (effective for annual periods beginning on or after 1 January 2014). The amendment to IFRS 13 Fair Value Measurement. Modified some of the disclosure requirements in IAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets.
- *Amendments to IAS 39 Financial Instruments: Novation of Derivatives and Continuation of Hedge Accounting* (effective for annual periods beginning on or after 1 January 2014). The objective is to provide an exception to the requirement for the discontinuation of hedge accounting in IAS 39 and IFRS 9 in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations.
- *Amendments to IFRS 10, IFRS 11 and IFRS 12: Transition Guidance* (effective for annual periods beginning on or after 1 January 2014).
- *Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities* (effective for annual periods beginning on or after 1 January 2014). The amendments to IFRS 10 introduce an exception from the requirement to consolidate subsidiaries for an investment entity. In terms of the exception, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.

The adoption of these amendments to Standards and Interpretations has no material impact on the financial statements of the Group.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- *Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"* resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- *Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"* resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),
- *Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions* - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- *IFRIC 21 "Levies" adopted by the EU on 13 June 2014* (effective for annual periods beginning on or after 17 June 2014).

Standards and Interpretations issued by IASB but not yet adopted by the EU

European Commission has not adopted as at date of the approval of these Financial Statements the following revised Standard:

Standards:

- *IFRS 9 Financial Instruments and subsequent amendments* (effective for annual periods beginning on or after 1 January 2018)
- *IFRS 14 Regulatory Deferral Accounts* (effective for annual periods beginning on or after 1 January 2016)
- *IFRS 15 Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2017)

Amendments:

- *Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates* (effective for annual periods beginning on or after 1 January 2016)
- *Amendments to IFRS 11 - Joint Arrangements* (effective for annual periods beginning on or after 1 January 2016)
- *Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions* (effective for annual periods beginning on or after 1 July 2014)
- *Amendments to IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture* (effective for annual periods beginning on or after 1 January 2016)
- *Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets* (effective for annual periods beginning on or after 1 January 2016)
- *Amendments to IAS 27 - Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2016)
- *Annual Improvements to IFRSs 2012-2014 Cycle* (effective for annual periods beginning on or after 1 January 2016). Makes amendments to the following standards:
 - IFRS 5: Changes in methods of disposal
 - IFRS 7: Servicing Contracts
 - IFRS 7: Applicability of the amendments to IFRS 7 to condensed interim financial statements
 - IAS 19: Regional market issue
 - IAS 34: Disclosure of information "elsewhere in the interim financial report"

With the exception of IFRS 15, where the assessment has not been completed yet, the Group anticipates that the adoption of the above mentioned standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

4. FINANCIAL RISKS, INVESTMENT RISKS AND CAPITAL MANAGEMENT

The Company is exposed to the financial risks connected with its operations as follows:

- credit risk, regarding its normal business relations with customers;
- liquidity risk, with particular reference to the availability of funds and access to the credit market;
- market risk (primarily relating to foreign exchange rates, interest rates), since the Company operates at an international level in different currencies and uses financial instruments depending on interest rates.

When managing its financial risks, the Group concentrates on the unpredictability of financial markets and endeavours to minimise potential negative effects on the results of operations.

The following paragraphs provide qualitative and quantitative disclosure on potential effects of these risks upon the Company.

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 advance payments from customers.

The maximum credit risk to which the Group is theoretically exposed is represented by the carrying amounts stated for trade and other receivables in the balance sheet, totalling TEUR 42,451 as at 31 December 2014 (TEUR 43,250 as at 31 December 2013), of which 78% represents trade receivables (82% as at 31 December 2013).

Overview of trade and other receivables according to due date

	2014		2013	
		% of total		% of total
Not yet overdue	38,358	90.4%	38,970	90.1%
Overdue less than 1 month	3,313	7.8%	3,321	7.7%
Overdue more than 1 month	780	1.8%	959	2.2%
Total	42,451	100.0%	43,250	100.0%

In 2014, the Company created a provision in the amount of 15 TEUR for overdue receivables (no provisions created in 2013).

The present customer mix concentration of the Company reflects the situation in the final consumer market, which is divided among a small number of end producers, each having a substantial market share. The top five customers represented a 82% share of total revenues in 2014 (78% in 2013). The trade receivables of top five customers as at 31 December 2014 amounted to 83% of all trade receivables (77% as at 31 December 2013).

In 2014, the largest customer accounted for 53% of the Company's total sales (45% share in 2013). The second largest customer accounted for 12% of the Company's total sales, compared with a 13% share in 2013. There were no other customers with more than 10% share on total sales.

The Company did not change any objectives, policies and processes for managing the credit risk in 2014.

Liquidity risk

Liquidity risk arises if the Company is unable to obtain the funds needed to carry out its operations under current economic conditions.

In order to reduce the liquidity risk, the Company optimises the management of funds as follows:

- maintaining an adequate level of available liquidity;
- obtaining adequate credit lines;
- monitoring future liquidity on the basis of business planning.

Liquidity risk Analysis

The following tables detail the Group's expected maturity for its non-derivative financial assets and remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets and based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The financial liabilities part of the table includes both interest and principal cash flows.

2014	Interest rate as at 31 December	Less than 6 months	6 months- 2 years	2 years- 5 years	5+ years	Total
Financial assets:						
Non-interest bearing	--	34,702	--	--	--	34,702
Financial liabilities:						
Non-interest bearing	--	22,428	--	--	--	22,428
Variable interest rate instrument	1,3,6 M EURIBOR + margin grid from 1,6 to 3,6%	13,084	30,945	20,624	--	64,653
Bonds	2.85%	--	5,140	95,311	--	100,451
Other fixed interest rate instrument	5%	3,683	--	--	--	3,683

2013	Interest rate as at 31 December	Less than 6 months	6 months- 2 years	2 years- 5 years	5+ years	Total
Financial assets:						
Non-interest bearing	--	35,677	--	--	--	35,677
Financial liabilities:						
Non-interest bearing	--	43,781	--	--	--	43,781
Variable interest rate instrument	1,3,6 M EURIBOR + margin grid from 1,3 to 3,6%	14,435	38,417	121,083	--	173,935
Other fixed interest rate instrument	5%	3,978	--	--	--	3,978

Weighted average payment days of issued invoices were 55 days in 2014 (60 days in 2013). Corresponding days of received invoices were 40 days in 2014 (35 days in 2013).

Management believes that the funds and available credit lines described in Note 5 x), in addition to the funds that are generated from operating activities, will enable the Company to satisfy its requirements resulting from its investment activities and its working capital needs.

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

2014	Less than 6 months	6 months-2 years	2 years-5 years	5+ years
Net settled:				
Interest rate swaps	(895)	(1,803)	--	--
Cross currency rate swap	--	(474)	(881)	--
FX Forwards	--	--	--	--

2013	Less than 6 months	6 months-2 years	2 years-5 years	5+ years
Net settled:				
Interest rate swaps	(674)	(1,952)	(1 031)	--
FX Forwards	(114)	(133)	--	--

The Company did not change any objectives, policies and processes for managing the liquidity risk in 2014.

Market Risk

Market risk is the risk that the Company's income or the value of the financial instruments held are affected by changes in market prices, such as foreign exchange rates, interest rates and equity prices.

The Company is exposed to market risks from fluctuations in foreign currency exchange and interest rates.

Currency risk

Even though the Group carries out its production activities only in the Czech Republic and in Egypt, 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 Czech subsidiaries is Czech Koruna (CZK). Czech Koruna is the underlying functional currency of PEGAS NONWOVENS International s.r.o. as well. The functional currency of PEGAS NONWOVENS EGYPT LLC is United States Dollar. The underlying functional currency of PEGAS NONWOVENS S.A. is EUR. The presentation currency of PEGAS NONWOVENS S.A.'s financial statements is EUR. The majority of operating activities such as revenues and operating costs are carried out in EUR. The majority of financial activities (such as repayment of loans and interest) are also carried out in EUR. Presentation currency of the consolidated financial statements is EUR as described in Note 3 b).

In general, the Company is exposed to exchange rate risks impacting income and cash flows.

Income statement

Trading

In respect of profit and loss currency exposure, the Company aims to naturally hedge the income and expenses in the given currencies. Despite the natural hedging, there is some disproportion between income and expenses of specific currencies (mainly CZK and EGP) representing the profit and loss exposure to currency risk. This effect is presented in the Currency risk sensitivity analysis under line Trading.

FX Forwards

The company did not have any open positions in FX forwards as at 31 December 2014 in order to cover Trading FX exposure described above.

Depreciation and amortization

The depreciation and amortization is carried in CZK and in USD, subsequently impacting Income statement results presented in EUR.

Financial result

The Company is currently exposed to potential changes in income statement mainly due to unrealized foreign exchange gains and losses resulting from revaluation of balance sheet items (bond nominal, bank loans, intercompany loans, cash, trade receivables and trade payables). There is no cash flow impact of the unrealized foreign exchange gains and losses.

The Company is exposed to foreign exchange rate risk resulting from the bond issue in the nominal amount of 2.5 billion denominated in Czech Koruna. The bonds bear a fixed interest rate of 2.85%.

In order to manage the foreign exchange rate risk with respect to the bond issue, the Company concluded a cross currency rate swap (CCRS). For details refer to Note 5 aa).

Corporate income tax

Unrealised foreign exchange gains and losses are taxable in both the Czech Republic and Egypt.

Cash flow

Trading

Majority of sales and purchases are paid in EUR or USD. Servicing of bank debt is realized in EUR. The bonds issued in 2014 are denominated in CZK however virtually the whole issue was swapped into EUR denominated payments using a cross currency rate swap. This results in natural hedging of the Group's activities by cash flows in these currencies. Despite the natural hedging, there is some disproportion between inflows and outflows of specific currencies (mainly CZK and EGP) representing the cash flow exposure to currency risk.

FX Forwards

The company did not have any open positions in FX forwards as at 31 December 2014 in order to cover Trading FX exposure described above.

Corporate income tax

Corporate income tax mentioned above influences also the cash flows.

Overview of income statement items by currency in 2014

	EUR	CZK	USD	Other
Revenue	84%	0%	14%	2%
Operating expenses (excl. depreciation and amortization)	69%	15%	14%	2%
Depreciation and amortization	0%	80%	20%	0%
Finance costs	98%	2%	0%	0%
Corporate income tax	0%	100%	0%	0%

Overview of income statement items by currency in 2013

	EUR	CZK	USD	Other
Revenue	94%	1%	4%	1%
Operating expenses (excl. depreciation and amortization)	79%	13%	7%	1%
Depreciation and amortization	0%	88%	12%	0%
Finance costs	97%	3%	0%	0%
Corporate income tax	0%	100%	0%	0%

The Company is exposed mainly to the risk of fluctuation in the CZK/EUR and USD/EUR exchange rate. Changes in other exchange rates would have no material impact on the Company.

Currency risk sensitivity analysis

Potential impact from instantaneous appreciation or depreciation of CZK against EUR by 10% is detailed in the following table.

Appreciation of CZK/EUR FX rate by 10%		2014	2013
Cash flow statement	Trading	(2,164)	(1,638)
	FX forwards	--	1,303
	Corporate income tax*	(1,249)	(2,523)
	Total	(3,413)	(2,858)
Income statement	Trading	(2,164)	(2,166)
	FX forwards	--	1,303
	Depreciation	(1,257)	(1,278)
	Unrealized FX gains from balance sheet revaluation	6,576	13,281
	Corporate income tax*	(1,249)	(2,523)
	Total	1,906	8,617

Depreciation of CZK/EUR FX rate by 10%		2014	2013
Cash flow statement	Trading	1,830	1,340
	FX forwards	--	(1,066)
	Corporate income tax*	--	--
	Total	1,830	274
Income statement	Trading	1,830	1,772
	FX forwards	--	(1,066)
	Depreciation	1,028	1,045
	Unrealized FX losses from balance sheet revaluation	(5,950)	(10,867)
	Corporate income tax*	--	--
	Total	(3,092)	(9,116)

* Corporate income tax calculation excludes impact of changes in Trading due to investment incentives.

Potential impact from instantaneous appreciation or depreciation of USD against EUR by 10% is detailed in the following table.

Appreciation of USD/EUR FX rate by 10%		2014	2013
Cash flow statement	Trading	(401)	--
	Corporate income tax	(1,925)	(2,065)
	Total	(2,326)	(2,065)
Income statement	Trading	(401)	--
	Depreciation	(413)	(178)
	Unrealized FX gains from balance sheet revaluation	7,700	8,261
	Corporate income tax	(1,925)	(2,065)
	Total	4,961	6,018

Depreciation of USD/EUR FX rate by 10 %		2014	2013
Cash flow statement	Trading	402	--
	Corporate income tax	--	--
	Total	402	--
Income statement	Trading	402	--
	Depreciation	338	146
	Unrealized FX losses from balance sheet revaluation	(6,967)	(6,759)
	Corporate income tax	--	--
	Total	(6,227)	(6,613)

Interest rate risk

The Company is exposed to interest rate risk resulting from bank loans bearing variable interest rates. The Company makes use of a 5-year syndicated loan of EUR 180 million, which bears a variable interest rate.

In order to manage the interest rate risks, the Company concluded two interest rate swaps (IRS). For details refer to Note 5 aa).

Interest rate sensitivity analysis

To assess the potential impact of changes in interest rates, the Company calculates the hypothetical gains or losses from bank loans unsecured by IRS at the back of changed interest expenses on annual basis. At the same time the Company would be impacted by change of fair value in IRS.

Based on the bank loan balance and cash and cash equivalents as at 31 December 2014 and instantaneous and parallel increase of the EUR yield curve by 1% p.a., the loss from increased net interest expenses would reach TEUR 625 on an annual basis (TEUR 592 as at 31 December 2013). The increase of the yield curve by 1% p.a. would increase the fair value of IRS by approximately TEUR 1,238 as at 31 December 2014 (approx. TEUR 2,168 as at 31 December 2013).

The instantaneous and parallel decrease of the EUR yield curve by 1% p.a. would lead to savings from decreased net interest expenses in the amount of TEUR 625 on an annual basis (TEUR 592 as at 31 December 2013) and the fair value of IRS would decrease by approximately TEUR 293 as at 31 December 2014 (approx. TEUR 1,554 as at 31 December 2013). Lower potential impact of yield curve decrease on fair value of IRS as at 31 December 2014 compared with increase of yield curve is driven by the fact, that the yield curve level as at 31 December 2014 is below 1% and its decrease is limited by zero.

The Company did not change any objectives, policies and processes for managing the market risk in 2014.

Investment risks

The Company operates a production line in Egypt. Investing in emerging markets such as Egypt, generally involves a higher degree of risk than investments in more developed countries. These higher risks include, but are not limited to changes in the political environment, transfer of returns, expropriation or politically motivated violent damage. The Egyptian economy is susceptible to future adverse effects similar to those suffered by other emerging market countries.

Egypt is located in a region which has been subject to ongoing political and security concerns, especially in recent years. In common with other countries in the region, Egypt has experienced occasional terrorist attacks in the past. There can be no assurance that extremists or terrorist groups will not escalate or continue occasional violent activities in Egypt or that the government will continue to be generally successful in maintaining the prevailing levels of domestic order and stability.

In order to eliminate the potential risk factors connected with the investment in Egypt, PEGAS entered into an insurance contract with the Export Guarantee and Insurance Corporation (hereafter "EGAP"). The insurance contract includes insurance of the investment against the risk of prevention of the transfer of returns, expropriation or politically motivated violent damage. EGAP is 100% owned by the Czech Republic and its primary purpose is the support of exports and the provision of insurance services to exporters of Czech products, services and investments.

Although PEGAS entered into an insurance contract with EGAP for the coverage of risks connected with its investment in Egypt, there is a risk that the insurance coverage may not adequately protect PEGAS against all possible losses related to its investment in Egypt.

Capital management

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders commensurately with the level of risk.

The Company manages the amount of capital and capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company does not define any level of capital, however management closely monitors the risks in connection with capital inadequacy and is prepared to change level of capital as stated above.

The company is not subject to externally imposed capital requirements.

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

a) Revenue

Product groups	2014		2013	
		% of total		% of total
Hygiene	202,977	88.0	177,220	88.9
Non-hygiene	27,570	12.0	21,990	11.1
Total sales	230,547	100.0	199,210	100.0

In 2014, the Company maintained the high share of products sales in Hygiene category and confirmed the important position that it has in this market.

Markets	2014		2013	
		% of total		% of total
Domestic sales	50,559	21.9	48,598	24.4
Export	179,988	78.1	150,612	75.6
Total	230,547	100.0	199,210	100.0

Split into Domestic sales and Export is made up by perspective of operating companies.

b) Segment reporting

Based on analysis of IFRS 8, the Group identified one operating segment, the production of nonwoven textiles.

Geographical distribution of revenue is defined as follows:

Region	2014	2013
Western Europe	76,038	72,646
Central and Eastern Europe	96,020	93,316
Russia	5,386	7,254
Others	53,103	25,994
Total	230,547	199,210

In presenting information on the basis of geographical distribution of revenue, revenue is based on the place of real delivery of the goods.

In 2014, the increase of sales into territory Others was driven equally by the sales from the new Egyptian production line and also by the increase in the proportion of technologically advanced materials where the Company is competitive to deliver them into locations outside Europe as well.

All non-current assets are located in the Czech Republic, except of property plant and equipment located in Egypt in the amount of TEUR 71,412 (TEUR 65,126 as of 31 December 2013). The increase is due to the strong appreciation of dollar against EUR.

c) Raw materials, consumables and services used

	2014	2013
Raw materials consumed	149,735	128,970
Consumed spare parts and repairs	5,783	4,466
Energy consumed	10,716	11,164
Other consumables	850	911
Other services	2,774	2,824
Total raw materials and consumables used	169,858	148,335

“Raw materials consumed” represent 88.2% of the total amount of raw materials, consumables and services used in 2014 (87.0% in 2013).

d) Other operating income/(expense) net

	2014	2013
(Loss)/Gain on the sale of equipment	(781)	514
Insurance proceeds	77	219
Insurance cost	(768)	(754)
Provisions for overdue receivables	(15)	--
Other income/(expense)	724	99
Other operating income/(expense) net total	(763)	78

In 2014, the Company created a provision in the amount of 15 TEUR for overdue receivables (no provisions created in 2013).

e) Research and development

In 2014, the Group invested TEUR 1,985 in research, of which expenses on raw materials for products testing amounted to TEUR 1,791.

In 2013, the Group invested TEUR 2,224 in research, of which expenses on raw materials for products testing amounted to TEUR 1,752.

f) Average number of employees, executive and non-executive directors of the Group and expenses

	Average number of employees	Total	Wages and salaries	Remuneration of Board members	Cash-settled share-based payments	Social security and health insurance expenses	Social expenses
2014							
Employees	564	9,555	7,074	--	--	2,304	177
Executives and Non-executives	5	1,184	241	324	499	118	2
Total	569	10,739	7,315	324	499	2,422	179

	Average number of employees	Total	Wages and salaries	Remuneration of Board members	Cash-settled share-based payments	Social security and health insurance expenses	Social expenses
2013							
Employees	544	8,677	6,324	--	--	2,261	92
Executives and Non-executives	5	1,502	248	335	846	70	3
Total	549	10,179	6,572	335	846	2,331	95

Three executive directors, Mr. Řezáč, Mr. Klačka and Mr. Rašík, and two non-executive directors, Mr. Modecki and Mr. Everitt, were members of the Company's board as at 31 December 2014 and as at 31 December 2013.

Executive directors may use the Company's cars for private purposes.

Apart from phantom share options/warrants, the Board members did not receive any loans, advances or any other benefit in kind in both 2014 and 2013.

g) Cash-settled share-based payment for executive managers and non-executive directors

The Annual General Meeting held on 15 June 2007 approved the grant of an aggregate amount of 230,735 phantom options to six senior executive managers and two non-executive directors, for no consideration. The Grant date of the phantom options was 24 May 2007. Each phantom option, when exercised, will grant the manager the right to receive cash calculated as closing price of one company share on the Prague stock exchange (the PSE) (or other market if the PSE trading is discontinued) on the day preceding the day of exercise of the phantom option less CZK 749.20 representing the offer price at the time of the initial public offering of the shares of PEGAS NONWOVENS S.A. (the IPO price). 25% of the phantom options vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on 18 December 2007 and the last options vesting on the 4th anniversary of the IPO. The given part of phantom options may be exercised on or after the vesting date. The participant shall provide service to the Group at the vesting date to be eligible for the given phantom options series.

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

The Annual General Meeting held on 15 June 2010 authorised and empowered the Board of Directors to allocate the above mentioned phantom options between the directors and senior management in accordance with criteria determined by, and at the discretion of, the Board of Directors.

The Extraordinary General Meeting held on 21 July 2014 resolved to convert 230,735 phantom options granted in 2010–2013 into 230,735 warrants. Each warrant, when exercised, will grant the holder the right to receive (i) one share in PEGAS for a strike price corresponding to CZK 473.00 representing the PEGAS's share price on the PSE as of 15 December 2009 increased by 10%, or (ii) a payment in cash amounting to the final price of one share of PEGAS on the PSE on the business day preceding the exercise date, less CZK 473.00. All the warrants will vest immediately from their granting date and will have the same exercise period that was initially planned for the phantom options.

The Extraordinary General Meeting held on 21 July 2014 authorised and empowered the Board of Directors to evidence and execute the conversion of the 230,735 phantom options into 230,735 warrants by the signature of agreements or any other documents which might be required or necessary for that purpose.

The Extraordinary General Meeting held on 21 July 2014 resolved to issue 230,735 new warrants (representing 2.5% of the PEGAS's share capital) to the directors and senior management of PEGAS and/or its affiliates collectively, for a subscription price of CZK 5.89 per new warrant to be paid in cash by the directors, it being understood that the Board of Directors of PEGAS will decide how the new warrants will be divided among the directors and senior management of PEGAS and/or its affiliates. Each new warrant, when exercised, will entitle the holder to either receive (i) one share in PEGAS for a strike price corresponding to CZK 588.16 (representing the average of PEGAS's share price on the PSE from 1 October 2013 to 31 December 2013) less all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), or (ii) a payment in cash amounting to the final price of one share of PEGAS on the PSE on the business day preceding the exercise date, plus all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), less the strike price of CZK 588.16 (representing the average of PEGAS's share price on the PSE from October 1, 2013 to December 31, 2013).

The Extraordinary General Meeting held on 21 July 2014 authorized and empowered the Board of Directors to evidence and execute the issuance of new warrants by the signature of agreements or any other documents which might be required or necessary for that purpose, and to allocate the 230,735 new warrants between the directors and senior management of PEGAS and/or its affiliates in accordance with criteria determined by, and at the discretion of, the Board of the Directors.

Summary of the contractual terms of the phantom option and warrant scheme as at 31 December 2014:

Grant date	Vesting date	Option/warrant	Strike price (CZK)	Total number of options/warrants granted	Number of options/warrants granted to Executives	Number of options/warrants granted to Non-executives	Fair value of options/warrants granted (TEUR)	Fair value of options/warrants granted to Executives (TEUR)	Fair value of options/warrants granted to Non-executives (TEUR)
24 May 2007	18 Dec 2007	Option	749.2	50,664	39,126	11,538	8	6	2
24 May 2007	18 Dec 2008	Option	749.2	41,432	29,896	11,536	7	5	2
24 May 2007	18 Dec 2009	Option	749.2	34,008	22,472	11,536	5	3	2
15 June 2010	18 Dec 2010	Warrant	473	57,684	42,220	15,464	347	254	93
15 June 2010	18 Dec 2011	Warrant	473	57,684	42,220	15,464	347	254	93
15 June 2010	18 Dec 2012	Warrant	473	57,684	42,220	15,464	347	254	93
15 June 2010	18 Dec 2013	Warrant	473	57,683	39,103	18,580	347	235	112
21 July 2014	18 Dec 2014	Warrant	588.16	76,912	52,137	24,775	74	50	24
21 July 2014	18 Dec 2015	Warrant	588.16	76,912	52,137	24,775	26	18	8
21 July 2014	18 Dec 2016	Warrant	588.16	76,911	52,137	24,774	17	12	5
Total				587,574	413,668	173,906	1,525	1,091	434

Summary of the contractual terms of the phantom option and warrant scheme as at 31 December 2013:

Grant date	Vesting date	Strike price (CZK)	Total number of options granted	Number of options granted to Executives	Number of options granted to Non-executives	Unallocated options	Fair value of options granted (TEUR)	Fair value of options granted to Executives (TEUR)	Fair value of options granted to Non-executives (TEUR)	Fair value of unallocated options (TEUR)
24 May 2007	18 Dec 2007	749.2	50,664	39,126	11,538	--	9	7	2	--
24 May 2007	18 Dec 2008	749.2	41,432	29,896	11,536	--	8	6	2	--
24 May 2007	18 Dec 2009	749.2	34,008	22,472	11,536	--	6	4	2	--
15 June 2010	18 Dec 2010	473	57,684	42,220	15,464	--	250	183	67	--
15 June 2010	18 Dec 2011	473	57,684	42,220	15,464	--	250	183	67	--
15 June 2010	18 Dec 2012	473	57,684	42,220	15,464	--	250	183	67	--
15 June 2010	18 Dec 2013	473	57,683	39,103	18,580	--	253	171	82	--
Total			356,839	257,257	99,582	--	1,026	737	289	--

No phantom shares were exercised either in 2014 or in 2013. No warrants were exercised in 2014.

The fair value of the phantom options and warrants as at 31 December 2014 is TEUR 1,525 (TEUR 1,026 as at 31 December 2013). The executive directors benefit is TEUR 1,091 (TEUR 737 as at 31 December 2013) of the total amount and the non-executive directors benefit is TEUR 434 (TEUR 289 as at 31 December 2013) of the total amount. The increase of the fair value in 2014 is attributable mainly to the increase of PEGAS NONWOVENS SA share price.

The Black-Scholes pricing model was used to calculate the fair value of the phantom options and the warrants which were converted from the phantom options. The Black-Scholes pricing model adjusted for dividends was used to calculate the fair value of the newly issued warrants. The assumptions used in the model are as follows:

- Price of PEGAS NONWOVENS S.A. shares quoted in Prague Stock Exchange used (CZK 640.00 as at 31 December 2014, CZK 592.00 as at 31 December 2013).
- The participants are expected to exercise the given part of granted phantom options and the warrants which were converted from the phantom options within ten years from vesting.
- The participants are expected to exercise the newly issued warrants before 15 December 2019.
- Risk free interest rate is linearly interpolated from CZK interbank PRIBOR rates (<12M) and CZK interest rate swap points (>12M).
- The exponentially weighted moving average method is used for the volatility of shares calculation (14.26% in 2014, 14.64% in 2013).
- Dividend yield of 4.9% was used in valuation of the newly issued warrants.

h) Depreciation and amortization expense

	2014	2013
Depreciation of tangible assets	14,903	12,967
Amortization of intangible assets	127	112
Total	15,030	13,079

i) Foreign exchange gains and other financial income

	2014	2013
Realized and unrealized foreign exchange gains	15,696	13,337
Other financial income	1	1
Total	15,697	13,338

j) Foreign exchange losses and other financial expenses

	2014	2013
Realized and unrealized foreign exchange losses	7,166	27,729
Other financial expense	1,765	476
Total	8,931	28,205

Other financial expense includes mainly bank fees.

k) Interest income

	2014	2013
Interest income	20	3

The item includes interest income on bank accounts and term deposits.

l) Interest expense

	2014	2013
Interest and debt settlement expenses on loans and borrowings	7,474	6,097
Interest on employee deposits	169	165
Other	142	208
Total	7,785	6,470

No borrowing cost were capitalized in 2014 (TEUR 1,218 in 2013). No capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was calculated as the funds were borrowed specifically.

Loss arising on interest rate swaps as designed hedging instruments in cash flow hedges of floating rate debt reclassified from equity to profit and loss in 2014 was TEUR 1,553 (TEUR 1,375 in 2013).

m) Income tax (expense)/income

	2014	2013
Current income tax	(2,064)	(1,346)
Deferred income tax	(2,013)	(1,380)
Total	(4,077)	(2,726)

The changes in deferred tax are described in Note 5 y).

Effective tax rate

	2014	% of total	2013	% of total
Profit before income tax	31,173		4,137	
Income tax calculated using the enacted tax rate	5,923	19.0%	786	19.0%
Effect of tax incentives	(3,470)	(11.1%)	(940)	(22.7%)
Effect of unrecognized deferred tax asset	251	0.8%	3,577	86.5%
Effect of the different tax rates in the countries of operations	622	2.0%	380	9.2%
Effect of consolidation and IFRS adjustments	599	1.9%	(1,128)	(27.3%)
Other effects	152	0.5%	51	1.2%
Total income tax/effective tax rate	4,077	13.1%	2,726	65.9%

Four companies of the Group have received investment incentives in the Czech Republic. PEGAS - DS a.s. (former subsidiary of PEGAS NONWOVENS s.r.o.) was granted investment incentives in the regime preceding the Act on Incentives, receiving a grant from the state to pay income tax. Investment incentives for PEGAS - DS a.s. expired in 2010 and this company ceased to exist following its merger with PEGAS NONWOVENS s.r.o. with effect from 1 January 2011. The Company does not account for the total tax liability but reports the tax liability less the expected amount of the subsidy. PEGAS-NT a.s., PEGAS - NW a.s. and PEGAS - NS a.s. were granted an investment incentive after the effective date of the Act on Incentives. PEGAS-NT a.s. started making use of the incentives in fiscal year 2005. Year 2014 was the last year, in which PEGAS-NT a.s. used the investment incentives. PEGAS - NW a.s. started making use of the incentive in 2008. PEGAS - NS a.s. were granted an investment incentive in January 2009 and has not started to use them yet.

Maximum percentage of expended amount used as corporate tax relief is 45% for PEGAS-NT a.s., 48% for PEGAS - NW a.s. and 30% for PEGAS - NS a.s.

To translate the maximum and unused amount of investment incentives and unused amount into EUR, the CZK/EUR 27.725 rate of exchange effective on 31 December 2014 was used.

	Max. amount in million CZK	Max. amount in million EUR	Unused amount as at 31 December 2014 in million CZK	Unused amount as at 31 December 2014 in million EUR	Corporate tax relief for	First year of usage of corporate tax relief
PEGAS-NT a.s.	509.9	18.4	33.0	1.2	10 years	2005
PEGAS - NW a.s.	573.6	20.7	433.4	15.6	10 years	2008
PEGAS - NS a.s.	403.5	14.6	346.6	12.5	10 years	n/a

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 deferred tax 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 19% (19% in 2013) in the Czech Republic was used to calculate the total income tax.

n) Earnings per share

The calculation of basic earnings per share as at 31 December 2014 was based on the net profit attributable to equity holders of TEUR 27,096 and a weighted average number of ordinary shares in 2014. No changes to the number of shares occurred during either 2014 or 2013.

Diluted earnings per share are calculated based on a weighted average number of shares in circulation (determined the same way as in the case of basic earnings per share) adjusted by the effect of the expected issue of all potential dilutive securities, i.e. warrants in the case of the Group. The adjustment for the potential effect of exercise of all warrants is calculated on the assumption that the proceeds from them were received at the average market price of ordinary shares during the period, i.e. from the grant date of the warrants in 2014.

The basic and diluted earnings per share as at 31 December 2013 are equal due to the fact, that the Group did not have any agreement at the balance sheet date which would cause a potential future issue of securities. As a result of changes in the Share price bonus scheme, phantom options granted in 2010-2013 were converted into 230,735 warrants and 230,735 new warrants were issued in 2014 - see note g). All these warrants represent potential dilutive securities. The basic and diluted earnings per share as at 31 December 2014 are therefore not equal.

Weighted average number of ordinary shares

2014	Number of outstanding shares in 2014	Weighted average
January-December	9,229,400	9,229,400

2013	Number of outstanding shares in 2013	Weighted average
January-December	9,229,400	9,229,400

Basic earnings per share

		2014	2013
Net profit attributable to equity holders	TEUR	27,096	1,411
Weighted average number of ordinary shares	Number	9,229,400	9,229,400
Basic earnings per share	EUR	2.94	0.15

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

Diluted earnings per share

		2014	2013
Net profit attributable to equity holders	TEUR	27,096	1,411
Weighted average number of ordinary shares	Number	9,306,730	9,229,400
Diluted earnings per share	EUR	2.91	0.15

Diluted Earnings Per Share (EPS) is calculated as net profit for the year attributable to equity holders of the Company divided by the weighted average of the number of shares existing each day in the given year adjusted by the effect of the expected issue of all potential dilutive securities.

o) Property, plant and equipment

	Land and buildings	Production machinery	Other equipment	Under Construction	Pre-payments	Total
Acquisition cost						
Balance at 31/12/2012	46,508	168,841	16,234	47,439	11,700	290,722
Additions	2,375	1,937	10,880	3,225	661	19,078
Disposals	--	(84)	(29)	--	--	(113)
Transfers	22,980	33,503	--	(41,089)	(15,394)	--
Exchange differences	(5,078)	(12,936)	(1,279)	(7,716)	3,568	(23,441)
Balance at 31/12/2013	66,785	191,261	25,806	1,859	535	286,246
Additions	1,599	3,412	525	1,977	811	8,324
Disposals	(67)	(330)	(402)	0	(654)	(1,453)
Transfers	1,751	9,267	(6,563)	(3,377)	0	1,078
Exchange differences	1,514	1,038	1,011	(133)	(535)	2,895
Balance at 31/12/2014	71,582	204,648	20,377	326	157	297,090
Accumulated depreciation						
Balance at 31/12/2012	9,029	84,372	6,095	--	--	99,496
Depreciation expense	1,497	9,865	1,546	--	--	12,908
Disposals	--	(9)	(90)	--	--	(99)
Exchange differences	(753)	(6,359)	(531)	--	--	(7,643)
Balance at 31/12/2013	9,773	87,869	7,020	--	--	104,662
Depreciation expense	1,942	11,456	1,494	--	--	14,892
Disposals	0	(330)	(314)	--	--	(644)
Exchange differences	(87)	(444)	(228)	--	--	(759)
Balance at 31/12/2014	11,628	98,551	7,972	--	--	118,151
Net book value						
31/12/2012	37,479	84,469	10,139	47,439	11,700	191,226
31/12/2013	57,012	103,392	18,786	1,859	535	181,584
31/12/2014	59,954	106,097	12,405	326	157	178,939

p) Intangible assets and goodwill

	Software and other intangible assets	Goodwill	Assets under development	Total
Acquisition cost				
Balance at 31/12/2012	762	92,288	269	93,319
Additions	59	--	--	59
Disposals	--	--	--	--
Transfers	238	--	(238)	--
Exchange differences	(58)	(7,689)	(31)	(7,778)
Balance at 31/12/2013	1,001	84,599	--	85,600
Additions	43	--	--	43
Disposals	(6)	--	--	(6)
Transfers	--	--	--	--
Exchange differences	(16)	(915)	--	(931)
Balance at 31/12/2014	1,022	83,684	--	84,706
Accumulated amortization				
Balance at 31/12/2012	331	--	--	331
Amortization expense	112	--	--	112
Disposals	--	--	--	--
Exchange differences	(28)	--	--	(28)
Balance at 31/12/2013	415	--	--	415
Amortization expense	138	--	--	138
Disposals	(6)	--	--	(6)
Exchange differences	(20)	--	--	(20)
Balance at 31/12/2014	527	--	--	527
Net book value				
31/12/2012	431	92,288	269	92,988
31/12/2013	586	84,599	--	85,185
31/12/2014	495	83,684	--	84,179

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 goodwill arising on this 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.

The Company tested the possible goodwill impairment as at 31 December 2014 and 2013. The management has determined that for goodwill testing purposes all acquired subsidiaries are considered as one cash generating unit. The recoverable amount of this single cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the management covering a four-year period, and a discount rate of 8.1% per annum (2013: 10.6% to 10.9% per annum). Cash flow projections during the budget period are based on past experience. The cash flows beyond that four-year period have been extrapolated using a conservative 0% (2013: 0%) per annum growth rate and a discount rate of 8.1% per annum (2013: 11.2% per annum). The decrease in the discount rates used reflects the decrease in the risk free rate and improved debt structure of the Company. The growth rate used in the calculation is lower comparing with the long-term estimated growth of the nonwoven market in Europe. The management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

The key assumptions used in the value in use calculations are as follows:

Demand from the customers - In the past, PEGAS was able to sell 100% of its production capacity related to cash generating unit. The management believes that the planned almost full utilization of the production facilities for the next four years is reasonably achievable.

Budgeted gross margin - For 2015 and onwards management conservatively expects in terms of margins similar pattern as in the past.

Based on above mentioned calculation, no impairment of goodwill was recognized neither in 2014 nor in 2013.

q) Inventories

	2014	2013
Materials	17,154	16,751
Products	12,599	10,477
Semi-finished products	1,182	664
Spare parts	5,579	4,412
Other	5,152	314
Total	41,666	32,618

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

r) Current trade and other receivables

	2014	2013
Receivables from sales of products	34,702	35,677
Advance payments	410	398
Other tax receivables	7,071	6,579
Prepaid expenses	164	576
Other	104	20
Total	42,451	43,250

s) Income tax receivables

	2014	2013
Income tax receivables	--	1,042

The corporate income tax due for 2014 is reported in Tax liabilities - see note 5bb).

t) Cash and cash equivalents

	2014	2013
Cash in hand	40	39
Current accounts	8,922	13,024
Total	8,962	13,063

u) 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.

Further to the extraordinary general meeting held on July 21, 2014, the shareholders decided to grant warrants to the directors for a subscription price of CZK 5.89 per warrant, totalling CZK 1,359,029.15 (EUR 49,476.81) for the 230,735 warrants issued. This amount is booked within equity.

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

In July 2007 the Company's principal shareholder Pamplona Capital Partners I, LP placed its whole stake held in the Company to qualified investors on the Prague and Warsaw Stock Exchanges.

No changes to the number of shares occurred either in 2014 or 2013.

v) Retained earnings

On 29 October 2014, the Company distributed EUR 10,152,340 or EUR 1.10 per share to its shareholders as a dividend paid from 2013 net profit and from retained earnings. In 2013, the Company distributed EUR 9,690,870 or EUR 1.05 per share.

w) Legal reserves

Legal reserves are obligatorily created from net profit after tax by the Czech and Luxembourg entities under the Czech and Luxembourg commercial law. These reserves are designed to cover the potential future losses or for overcoming of unfavourable future periods of time. The legal reserves are not distributable to shareholders.

x) Bank overdrafts and loans

In June 2011, the Company refinanced its previous senior bank debt taken on in 2007 with a 5-year loan totalling up to EUR 180 million. The new facilities consist of a revolving credit facility of up to EUR 165 million and of an overdraft facility of up to EUR 15 million.

The bank facilities are non-amortizing. There is no mandatory repayments schedule and the Company can manage the level of bank loan drawings according to its financing needs.

2014	Drawdown limit	Bank loan liability	Arrangement fees	Carrying amount	Current	Non-current	Interest rate	Interest rate at 31/12/2014
Revolving	165,000	58,000	(523)	57,477	22,075	35,402	1, 3, 6M EURIBOR + margin grid*	2.026 %
Overdraft	15,000	4,473	(48)	4,425	4,425	--	1, 3, 6M EURIBOR + margin grid*	2.026 %
Bank loans total	180,000	62,473	(571)	61,902	26,500	35,402		

2013	Drawdown limit	Bank loan Liability	Arrangement fees	Carrying amount	Current	Non-current	Interest rate	Interest rate at 31/12/2013
Revolving	165,000	160,000	(892)	159,108	12,908	146,200	1, 3, 6M EURIBOR + margin grid*	3.845 %
Overdraft	15,000	1,373	(81)	1,292	1,292	--	1, 3, 6M EURIBOR + margin grid*	3.845 %
Bank loans total	180,000	161,373	(973)	160,400	14,200	146,200		

* Applicable margin grid depends on actual Net Debt/EBITDA ratio and the interest rate margin ranges from 1.6% to 3.6%.

These bank loans are secured by:

- 1) the ownership interest in PEGAS NONWOVENS s.r.o. and PEGAS NONWOVENS International 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) pledge of bank account receivables of PEGAS NONWOVENS s.r.o., PEGAS-NT a.s., PEGAS - NW a.s., PEGAS - NS a.s., PEGAS NONWOVENS International s.r.o. in total amount of TEUR 2,549 as at 31 December 2014 (TEUR 7,845 as at 31 December 2013), and
- 5) shares of subsidiaries PEGAS-NT a.s., PEGAS - NW a.s. and PEGAS - NS a.s. in the amount of TEUR 66,727 as at 31 December 2014 (TEUR 67,457 as at 31 December 2013)

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

The revolving credit facility is divided into current and non-current liability based on management estimate. The estimate is based on cash-flow predictions. The overdraft facility is always treated as current liability.

The Company was in compliance with the bank covenants as at 31 December 2014 and 31 December 2013.

y) Deferred tax

Deferred tax assets and liabilities	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
Property, plant and equipment	--	--	(19,970)	(17,245)	(19,970)	(17,245)
Inventories	758	239	--	--	758	239
Other	3,629	3,880	--	--	3,629	3,880
Deferred tax asset/(liability)	4,387	4,119	(19,970)	(17,245)	(15,583)	(13,126)
Offset of deferred tax assets and liabilities	(4,387)	(4,119)	4,387	4,119	--	--
Deferred tax asset/(liability)	--	--	(15,583)	(13,126)	(15,583)	(13,126)

In accordance with accounting policy described in Note 3 g), the deferred tax was calculated using the tax rates applied for the years in which the tax asset will be realized or the tax liability will be settled, i.e. 19% for year 2014 and for the following years in the Czech Republic and 25% in Egypt (2013 - 19% in the Czech Republic and 25% in Egypt).

z) Other non-current liabilities

On November 14, 2014, the Company issued bonds for a total amount of CZK 2,500,000,000 in the "Prague Stock Exchange, Regulated Market (ISIN CZ0000000559). The bonds have an annual coupon of 2.85% and will reach maturity on November 14, 2018. In accordance with the accounting policies, the Company converts the bond nominal denominated in CZK into EUR using the rate prevailing at the balance sheet date. Prepaid expenses include amounts paid in connection with the bond issue for legal, accounting and other services as well as the bond nominal discount. These expenses are amortized over the term of the bond issue on a straight line basis.

	2014	2013
Bond nominal	90,171	--
Issuance costs related to the bond issue	(1,135)	--
Total	89,036	--

aa) Current trade and other payables

	2014	2013
Trade payables	22,428	43,778
Advances received	9	96
Liabilities to employees	4,738	6,577
Deferred income	581	705
Fair value of cross currency swap, interest rate swaps and FX forwards	3,611	3,850
Other	425	1,483
Total	31,792	56,489

The decrease in Trade payables as at 31 December 2014 reflects the fact that the Company was able to use favourable business terms for early payment of raw material deliveries.

Interest rate swaps

The Group concluded two interest rate swaps in 2011. Under these contracts the Company pays a step up fixed interest rate and receives the floating interest rate represented by 3M EURIBOR. Notional amount is TEUR 22,000 till 14 December 2012 and TEUR 98,000 till 14 June 2016.

Structure of these swaps is shown below:

Period	Notional amount	Fixed Interest Rate
14/09/2011-14/12/2011	22,000	1.32%
14/12/2011-14/3/2012	22,000	1.32%
14/3/2012-14/6/2012	22,000	1.32%
14/6/2012-14/9/2012	22,000	1.42%
14/9/2012-14/12/2012	22,000	1.42%
14/12/2012-14/3/2013	98,000	1.52%
14/3/2013-14/6/2013	98,000	1.52%
14/6/2013-14/9/2013	98,000	1.62%
14/9/2013-14/12/2013	98,000	1.62%
14/12/2013-14/3/2014	98,000	1.72%
14/3/2014-14/6/2014	98,000	1.72%
14/6/2014-14/9/2014	98,000	1.82%
14/9/2014-14/12/2014	98,000	1.82%
14/12/2014-14/3/2015	98,000	1.92%
14/3/2015-14/6/2015	98,000	1.92%
14/6/2015-14/9/2015	98,000	2.02%
14/9/2015-14/12/2015	98,000	2.02%
14/12/2015-14/3/2016	98,000	2.12%
14/3/2016-14/6/2016	98,000	2.12%

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

Fair value of the swaps as at 31 December 2014 and 2013 was as follows:

Counterparty	2014	2013
Česká spořitelna	(1,457)	(1,794)
ING	(1,459)	(1,799)
Total	(2,916)	(3,593)

Fair value of the swaps represents the payable of the Company.

These swaps hedged 158.3% of the Group's bank debts as at 31 December 2014 (60.7% as at 31 December 2013). The loss relating to the ineffective portion was recognised in profit or loss.

Net value gain on cash flow hedges was TEUR 677 in 2014 (net value gain of TEUR 1,420 in 2013).

Cross currency rate swap

On November 14, 2014, the Group entered into a cross-currency rate swap agreement with Česká spořitelna under which the Company swapped cash flows related to the bond issue denominated in CZK into cash flows denominated in EUR.

The notional amount of this swap agreement amounts to EUR 90,201,992.75 (payer leg) and CZK 2,489,575,000 (receiver leg). Based on this swap agreement, the Company pays fixed rate in EUR of 3.10% p.a. and receives fixed rate in CZK of 2.85% p.a. The swap matures on November 14, 2018.

Fair value of the swap as at 31 December 2014 was as follows:

Counterparty	2014
Česká spořitelna	(695)
Total	(695)

Fair value of the swap represents the payable of the Company. Fair value of the swaps is determined by the EUR and CZK yield curve at the balance sheet date and the discounted cash flow method. The inputs used in the fair value calculation are categorized in accordance with IFRS 7 into level 2 of fair value hierarchy.

FX forwards

As at 31 December 2014 the Company did not have any open FX forwards.

As at 31 December 2013 the Company had the following open FX forwards.

Financial Instrument	Maturity date	Fixed FX rate	Notional amount as at 31 December 2013	FV as at 31 December 2013
FX Forward - EUR/CZK	15/01/2014	26.941	1,000	(18)
FX Forward - EUR/CZK	14/02/2014	26.929	1,000	(18)
FX Forward - EUR/CZK	14/03/2014	26.915	1,000	(19)
FX Forward - EUR/CZK	15/04/2014	26.899	1,000	(19)
FX Forward - EUR/CZK	15/05/2014	26.884	1,000	(20)
FX Forward - EUR/CZK	16/06/2014	26.867	1,000	(21)
FX Forward - EUR/CZK	15/07/2014	26.853	1,000	(22)
FX Forward - EUR/CZK	15/08/2014	26.836	1,000	(23)
FX Forward - EUR/CZK	15/09/2014	26.824	1,000	(23)
FX Forward - EUR/CZK	15/10/2014	26.811	1,000	(24)
FX Forward - EUR/CZK	14/11/2014	26.798	1,000	(25)
FX Forward - EUR/CZK	15/12/2014	26.784	1,000	(25)
Celkem				(257)

bb) Tax liabilities and other tax liabilities

	2014	2013
Employment tax	112	92
Sales tax payable	0	1,002
Corporate income tax payable	84	--
Other taxes payable	37	--
Total	233	1,094

As at 31 December 2014 the corporate income tax liability amounted to 84 TEUR based on difference between advances paid and estimate for the corporate income tax expense for 2014. There was no corporate income tax liability as at 31 December 2013 as the tax advances paid for the year 2013 were higher than 2013 expense.

cc) Group Entities

To translate the registered capital of subsidiaries, the EUR/CZK 27.725 and EUR/USD 1.2141 rate of exchange effective on 31 December 2014 was used.

Subsidiaries included in the consolidated entity

Company	Acquisition date	Share in the subsidiary	Registered capital TCZK/TUSD	Registered capital TEUR	Number and nominal value of shares
PEGAS NONWOVENS s.r.o. *	5/12/2005	100%	TCZK 3,633	131	100% participation of TCZK 3,633
PEGAS-NT a.s.	14/12/2005	100%	TCZK 550,000	19,838	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%	TCZK 650,000	23,445	64 shares at TCZK 10,000 per share and 10 shares at TCZK 1,000 per share
PEGAS - NS a.s.	3/12/2007	100%	TCZK 650,000	23,445	64 shares at TCZK 10,000 per share and 10 shares at TCZK 1,000 per share
PEGAS NONWOVENS International s.r.o. **	18/10/2010	100%	TCZK 200	7	100% participation of TCZK 200
PEGAS NONWOVENS EGYPT LLC ***	6/6/2011	100%	TUSD 23,000	18,944	100% participation of TUSD 23,000

* 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. CEE Enterprise a.s. merged with PEGAS NONWOVENS s.r.o. with effect from 1 January 2007 and was deleted from the Commercial Register on 20 August 2007. PEGAS - DS a.s., former subsidiary of PEGAS NONWOVENS s.r.o., ceased to exist following its merger with PEGAS NONWOVENS s.r.o. with effect from 1 January 2011.

** PEGAS NONWOVENS International s.r.o. serves as a special purpose vehicle established for the purpose of making potential future investments.
 *** PEGAS NONWOVENS EGYPT LLC was established for the purpose of executing the construction and operation of a new production plant in Egypt.

6. RELATED PARTIES TRANSACTIONS

Except for the information provided under Notes 5 f) and 5 g) there were no other transactions between the Group and the executive or the non-executive directors.

7. CONTINGENCIES AND COMMITMENTS

The Group has no material contingencies or commitments which would not be reported in the balance sheet. The Company is a beneficiary of a bank guarantee issued to protect the Company from contractor's non-fulfillment of obligations related to the construction of the production plant in Egypt. The guarantee amount was 1 million EUR as at 31 December 2014 and it was set to expire on 31 January 2015. In January 2015, the guarantee amount was lowered to 200 thousand EUR and the expiration date was extended to 30 June 2015.

8. SUBSEQUENT EVENTS

The management of the Group is not aware of any other events that have occurred since the balance sheet date that would have any material impact on the consolidated financial statements as at 31 December 2014.



Marek Modecki
 Chairman of the Board
 of PEGAS NONWOVENS SA



František Řezáč
 Member of the Board
 of PEGAS NONWOVENS SA

STAND-ALONE FINANCIAL STATEMENTS

Stand-alone Financial Statements of PEGAS NONWOVENS SA

as at and for the year ended 31 December 2014 and Independent Auditor's Report

Deloitte.

To the Shareholders of
PEGAS NONWOVENS S.A.
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REPORT OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ

Report on the annual accounts

We have audited the accompanying annual accounts of PEGAS NONWOVENS S.A., which comprise the balance sheet as at December 31, 2014 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility of the Board of Directors for the annual accounts

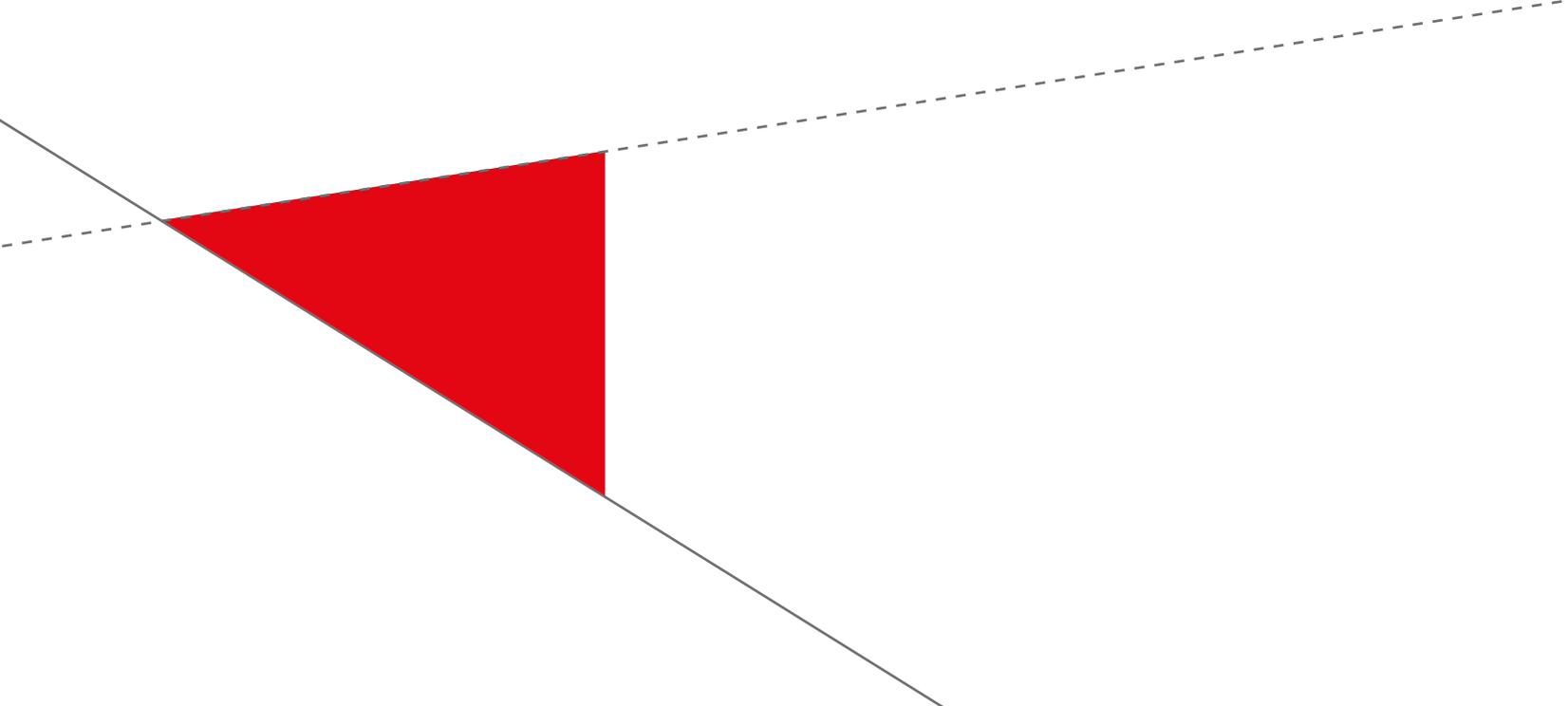
The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the réviseur d'entreprises agréé

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the *réviseur d'entreprises agréé's* judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the *réviseur d'entreprises agréé* considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used

Société à responsabilité limitée au capital de 35.000 €
RCS Luxembourg B 67.895
Autorisation d'établissement: 10022179



and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of PEGAS NONWOVENS S.A. as of December 31, 2014, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

The accompanying Corporate Governance Statement, which is the responsibility of the Board of Directors, includes the information required by the law of December 19, 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended and the description included with respect to Article 68bis paragraphs c and d of the aforementioned law is consistent with the annual accounts.

For Deloitte Audit, *Cabinet de révision agréé*



Nick Tabone,
Réviseur d'entreprises agréé
Partner

April 24, 2015

Balance sheet
as of December 31, 2014
(expressed in EUR)

ASSETS	Reference(s)	2014	2013
Fixed assets:			
Financial fixed assets:			
- Shares in affiliated undertakings	3	18,942,199.38	392,199.38
Amounts owed by affiliated undertakings	4	101,049,280.00	29,600,000.00
		119,991,479.38	29,992,199.38
Current assets:			
Debtors:			
Amounts owed by affiliated undertakings:			
- becoming due and payable within one year	4	365,436.03	1,050.00
Other receivables: becoming due and payable within one year	5	49,476.81	-
Cash at bank, cash in postal cheque accounts, cheques and cash in hand		678,050.75	326,725.57
		1,092,963.59	327,775.57
Prepayments	7	1,135,401.30	2,351.67
		122,219,844.27	30,322,326.62
LIABILITIES			
Capital and reserves:			
	5		
Subscribed capital		11,444,456.00	11,444,456.00
Share premium and similar premiums		5,512,071.01	5,462,594.20
Reserves: Legal reserve		1,144,445.60	1,144,445.60
Profit or loss brought forward		946,368.36	3,053,336.35
Profit or loss for the financial year		10,516,132.14	8,045,372.01
		29,563,473.11	29,150,204.16
Provisions:	6, 10		
Other provisions		1,525,416.45	1,025,992.55
Non subordinated debts:			
Non convertible loans:			
- becoming due and payable within one year	7	328,255.51	-
- becoming due and payable after more than one year		90,579,710.14	-
Amounts owed to credit institutions:			
- becoming due and payable within one year	8	30,413.43	-
Trade creditors:			
- becoming due and payable within one year		32,291.05	32,081.60
Tax and social security debts:			
Tax debts		46,629.34	36,585.76
Social security debts		12,307.27	2,198.09
Other creditors:			
- becoming due and payable within one year		101,347.97	75,264.46
		91,130,954.71	146,129.91
		122,219,844.27	30,322,326.62

The notes in the annex form an integral part of these annual accounts

Profit and Loss account

For the year ended December 31, 2014

(expressed in EUR)

	Reference(s)	2014	2013
Charges:			
Other external charges	9	454,423.48	359,360.76
Other operating charges	6, 10	985,157.01	1,274,476.89
Interest and other financial charges			
other interest and similar financial charges	7, 8	405,428.51	8,660.94
Income tax	11	3,210.00	3,210.00
Other taxes not included in the previous caption	11	62.00	62.00
Profit for the financial year		10,516,132.14	8,045,372.01
		12,364,413.14	9,691,142.60
Income:			
Income from financial fixed assets			
derived from affiliated undertakings	3	12,000,000.00	9,690,870.00
Other interest and other financial income			
derived from affiliated undertakings	4	364,386.03	-
other interest and similar financial income		27.11	272.60
		12,364,413.14	9,691,142.60

The notes in the annexe form an integral part of these annual accounts

Notes to the annual accounts

as of December 31, 2014
(expressed in EUR)

NOTE 1 - GENERAL

PEGAS NONWOVENS S.A. (the "Company") is a commercial company incorporated in Luxembourg on November 18, 2005, under the legal form of a "Société anonyme". The registered office of the Company is at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg and the Company is registered with the Luxembourg Trade and Companies Register under the section B number 112.044.

The object of the Company is to take participations and interests, in any form whatsoever, in any commercial, industrial, financial or other, Luxembourg or foreign enterprises; 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; to enter into, assist or participate in financial, commercial and other transactions, and to grant to any holding company, subsidiary, or fellow subsidiary, or any other company associated in any way with the Company, or the said holding company, subsidiary or fellow subsidiary, in which the Company has direct or indirect financial interest, any assistance such as e.g. pledges, loans, advances or guarantees; to borrow and raise money in any manner and to secure the repayment of any money borrowed; to borrow funds and issue bonds and other securities; and 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.

The Company also prepares consolidated financial statements, which are published according to the provisions of the law, and are available at the registered office.

The accounting year begins on January 1 and ends on December 31.

The Company entered into an initial public offer to list shares on both Prague Stock Exchange (PSE) and Warsaw Stock Exchange (WSE) on December 21, 2006.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company maintains its books in Euro ("EUR") and the annual accounts have been prepared in conformity with generally accepted accounting principles in Luxembourg and with the law of December 19, 2002 as amended on July 30, 2013 including the following significant accounting policies:

a) Financial fixed assets

Financial fixed assets are stated at historical acquisition cost. Write-downs are recorded if, in the opinion of the management, a permanent impairment in value has occurred. Value adjustments are not continued if the reasons for which they have been recognized have ceased to apply.

b) Foreign currency translation

Monetary assets and liabilities stated in currencies other than EUR are translated at the exchange rates prevailing at the balance sheet date. Income and expenses denominated in foreign currency have been translated at the exchange rate prevailing at the transaction date. Realized and unrealized exchange losses and realized exchange gains are recorded in the statement of profit and loss account.

Long term asset and liabilities are translated at the exchange rates prevailing at the date of the transaction. Write-downs are recorded if a permanent impairment in value has occurred.

c) Debtors, cash at banks and creditors

Debtors, cash at banks and creditors are recorded at their nominal value less allowance for doubtful accounts.

d) Cash-settled share-based payment

In 2007, the Company entered into a Share price bonus scheme for its Senior Management and Board Members. The scheme was extended in 2010 and 2014. The scheme is a combination of cash-settled or stock-settled transaction, in which the Company acquires services of key personnel by incurring liabilities to the supplier of those services for amounts that are based on the price of the Company's shares. The scheme is realized through phantom options and warrants, which vest annually. The service period equals the vesting period and the services are correspondingly accounted for as they are rendered by the counterparty during the vesting period.

The Company measures the liability arising from the phantom options and warrants at fair value at each reporting date. The changes in the fair value of these liabilities are recognized in the statement of comprehensive income for the period.

The fair value of the phantom options and warrants is determined by:

- Pricing model
- Expected life assumption/participant behaviour
- Current share price
- Expected volatility
- Expected dividends
- Risk-free interest rate

e) Dividends received

Dividends receivable from affiliated undertakings are recognised in the period in which they are declared by the entity.

f) Derivative financial instruments

Derivative financial instruments used as hedging instruments for long term liabilities are recorded off balance sheet and the change in their fair value is not booked in the profit and loss account.

NOTE 3 - SHARES IN AFFILIATED UNDERTAKINGS

On December 5, 2005, the Company acquired 100 shares of CEE Enterprise a.s., a joint stock company incorporated in the Czech Republic, for an amount of CZK 2,248,190 (EUR 78,737.44).

On January 18, 2006, the Company decided to increase the share capital of CEE Enterprise a.s. by an amount of CZK 1,600,000 by the issuance of 1,600,000 new shares with a nominal value of CZK 1.00 each and also decided to subscribe for 1,510,000 shares for an amount of CZK 1,510,000 (EUR 51,855.29), the remaining 90,000 new shares being subscribed by six new shareholders.

On November 28, 2006, the Company acquired 90,000 shares of CEE Enterprise a.s. for an amount of EUR 253,220.03.

During 2007, PEGAS NONWOVENS s.r.o. a company incorporated in the Czech Republic, wholly owned subsidiary of CEE Enterprise a.s. decided to merge with and absorb CEE Enterprise a.s. with effect on January 1, 2007.

During the year 2010, the Company acquired 100% of the shares of PEGAS NONWOVENS International s.r.o. a company incorporated in the Czech Republic for an amount of CZK 200,000.00 (EUR 8,386.62).

On September 22, 2014, the Company decided to convert the loans granted to PEGAS NONWOVENS International s.r.o. into capital for a total amount of EUR 18,550,000.00.

The registered offices of PEGAS NONWOVENS s.r.o. and of PEGAS NONWOVENS International s.r.o. are at Primeticka 3623/86, 66904 Znojmo, Czech Republic.

As of December 31, 2014, the Company held the following participations:

Name of the Company	Country	Percentage of ownership	Acquisition cost (EUR)	Shareholders' equity (ths. CZK)	Result for the year (ths. CZK)
PEGAS NONWOVENS s.r.o.	Czech Republic	100.00%	383,812.76	1,811,197	148,422
PEGAS NONWOVENS International s.r.o.	Czech Republic	100.00%	18,558,386.62	558,858	1,085
			18,942,199.38	2,370,055	149,507

The shareholders equity includes the result for the year. The shareholders equity and result for the year are based on the audited annual accounts for the year ended December 31, 2014.

The general meeting of PEGAS NONWOVENS s.r.o. (the Company's subsidiary) held on June 16, 2014 decided to distribute a dividend to the Company for an aggregate amount of EUR 12,000,000.00.

The participation in PEGAS NONWOVENS s.r.o. and in PEGAS NONWOVENS International s.r.o. has been pledged to secure the bank loans taken out by subsidiary companies (Note 13).

In the opinion of the management, no permanent diminution in value has occurred.

NOTE 4 - AMOUNTS OWED BY AFFILIATED UNDERTAKINGS

Loans granted to PEGAS NONWOVENS s.r.o.

On December 13, 2005, the Company granted a loan to PEGAS NONWOVENS s.r.o. for an amount of EUR 39,768,950. This loan bore interest at a rate of 10.00% per annum and was repayable on December 14, 2035 at the latest. On November 29, 2006, the loan including accrued interest was replaced by a new loan granted by the Company to PEGAS NONWOVENS s.r.o. for an amount of EUR 43,525,943.70. The new loan granted bears no interest and is repayable on December 1, 2056.

During the year ended December 31, 2014, the Company has received partial reimbursements for an aggregate amount of EUR 500,000.00 from PEGAS NONWOVENS s.r.o.

On January 30, 2007, the Company granted an additional loan to PEGAS NONWOVENS s.r.o. for an amount of EUR 1,250,000.00. This loan bears no interest and is repayable on January 30, 2057 or at the request of the subsidiary convertible into shares or funds of the subsidiary as a contribution outside the registered capital.

On October 27, 2014, the Company granted an additional loan to PEGAS NONWOVENS s.r.o. for an amount of EUR 1,500,000.00. This loan bears an interest at a rate of 3.50% per annum and is repayable on October 27, 2018, or earlier upon request by the borrower.

On November 21, 2014, the Company granted an additional loan to PEGAS NONWOVENS s.r.o. for an amount of EUR 5,280,000.00. This loan bears an interest at a rate of 3.50% per annum and is repayable on November 21, 2018, or earlier upon request by the borrower.

As of December 31, 2014, the outstanding principal amount of the loans granted to PEGAS NONWOVENS s.r.o. amounted to EUR 17,330,000.00 (2013: EUR 11,050,000.00). The total interest income for the year 2014 on these loans amounted to EUR 30,671.67 (2013: 0.00) and is booked in the line item "Other interest and other financial income derived from affiliated undertakings" of the profit and loss account.

Loans granted to PEGAS NONWOVENS International s.r.o.

On December 24, 2010, the Company granted a loan to PEGAS NONWOVENS International s.r.o. for an amount of EUR 200,000.00. This loan bears no interest and is repayable on December 15, 2015, or earlier upon request by the borrower.

On April 25, 2011, the Company granted a loan to PEGAS NONWOVENS International s.r.o. for an amount of EUR 2,800,000.00. This loan bears no interest and is repayable on April 25, 2016, or earlier upon request by the borrower.

On September 22, 2011, the Company granted a loan to PEGAS NONWOVENS International s.r.o. for an amount of EUR 1,800,000.00. This loan bears no interest and is repayable on September 22, 2016, or earlier upon request by the borrower.

On April 3, 2012, the Company granted a loan to PEGAS NONWOVENS International s.r.o. for an amount of EUR 2,300,000.00. This loan bears no interest and is repayable on April 3, 2017, or earlier upon request by the borrower.

On September 7, 2012, the Company granted a loan to PEGAS NONWOVENS International s.r.o. for an amount of EUR 2,400,000.00. This loan bears no interest and is repayable on September 7, 2017, or earlier upon request by the borrower.

On January 31, 2013, the Company granted a loan to PEGAS NONWOVENS International s.r.o. for an amount of EUR 3,000,000.00. This loan bears no interest and is repayable on January 31, 2018, or earlier upon request by the borrower.

On June 26, 2013, the Company granted a loan to PEGAS NONWOVENS International s.r.o. for an amount of EUR 3,800,000.00. This loan bears no interest and is repayable on June 26, 2018, or earlier upon request by the borrower.

On November 22, 2013, the Company granted a loan to PEGAS NONWOVENS International s.r.o. for an amount of EUR 2,250,000.00. This loan bears no interest and is repayable on November 22, 2018, or earlier upon request by the borrower.

On September 22, 2014, the Company decided to convert the loans granted to PEGAS NONWOVENS International s.r.o. into capital for a total amount of EUR 18,550,000.00 (see note 3).

On November 21, 2014, the Company granted a loan to PEGAS NONWOVENS International s.r.o. for an amount of EUR 77,000,000.00. This loan bears an interest at a rate of 3.50% per annum and is repayable on November 21, 2018, or earlier upon request by the borrower.

As of December 31, 2014, the outstanding principal amount of the loans granted to PEGAS NONWOVENS International s.r.o. amounted to EUR 77,000,000.00 (2013:EUR 18,550,000.00). The total interest income for the year 2014 on these loans amounted to EUR 306,930.56 (2013: 0.00) and is booked in the line item "Other interest and other financial income derived from affiliated undertakings" of the profit and loss account.

Loans granted to PEGAS-NS a.s.

On November 21, 2014, the Company granted a loan to PEGAS-NS a.s. for an amount of EUR 6,719,280.00. This loan bears an interest at a rate of 3.50% per annum and is repayable on November 21, 2018, or earlier upon request by the borrower.

As of December 31, 2014, the outstanding principal amount of the loan granted to PEGAS-NS a.s. amounted to EUR 6,719,280.00 (2013: 0.00). The total interest income for the year 2014 on this loan amounted to EUR 26,783.80 and is booked in the line item "Other interest and other financial income derived from affiliated undertakings" of the profit and loss account.

NOTE 5 - CAPITAL AND RESERVES

a) Subscribed capital and share premium

The Company was incorporated with a share capital amounting to EUR 125,000 represented by 12,500 shares with a par value of EUR 10.00 each, fully paid-in.

On November 28, 2006, the shareholders of the Company decided to split the existing 12,500 shares with a par value of EUR 10.00 each into 100,806 shares with a par value of EUR 1.24 each. Consequently, the share capital of the Company was reduced by an amount of EUR 0.56 which was allocated to the Company's share premium account.

Also on November 28, 2006, the shareholders of the Company decided to increase the share capital by an amount of EUR 9,075,056.56 together with a share premium amounting to EUR 118.20, by the issuance of 7,318,594 shares with a par value of EUR 1.24 each, by way of a contribution in kind.

During 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 EUR 46,625,600.

Further to the extraordinary general meeting held on July 21, 2014, the shareholders decided to grant warrants to the directors for a subscription price of CZK 5.89 per warrant, totalling CZK 1,359,029.15 (EUR 49,476.81) for the 230,735 warrants issued. This amount is booked in the line item "Share premium and similar premiums".

As a result of the share premium distributions made on September 27, 2007, on September 25, 2008, on September 24, 2009, on October 25, 2010 and on October 24, 2011 for an aggregate amount of respectively EUR 7,014,344.00, EUR 7,844,990.00, EUR 8,306,460.00, EUR 8,767,930.00 and EUR 9,229,400.00, the share premium account amounted to EUR 5,512,071.01 as of December 31, 2014 (2013: EUR 5,462,594.20).

As of December 31, 2014, the share capital of the Company amounted to EUR 11,444,456.00 represented by 9,229,400 shares with a par value of EUR 1.24 each, fully paid-in.

	Share capital EUR	Share premium EUR	Legal reserve EUR	Result brought forward EUR	Result for the year EUR
Balance at January 1, 2014	11,444,456.00	5,462,594.20	1,144,445.60	3,053,336.35	8,045,372.01
Appropriation of profit or loss					
- Dividend distribution in 2014	-	-	-	(10,152,340.00)	-
- Allocation of prior year result	-	-	-	8,045,372.01	(8,045,372.01)
- Profit for the year ended December 31, 2014	-	-	-	-	10,516,132.14
- Subscription price warrants issued	-	49,476.81	-	-	-
Balance at December 31, 2014	11,444,456.00	5,512,071.01	1,144,445.60	946,368.36	10,516,132.14

b) Legal reserve

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 10% of the share capital. This reserve is not available for dividend distribution.

As of December 31, 2014, the legal reserve amounted to EUR 1,144,445.60 (2013: EUR 1,144,445.60).

NOTE 6 - PROVISIONS

The Annual General Meeting held on 15 June 2007 approved the grant of an aggregate amount of 230,735 phantom options to six senior executive managers and two non-executive directors, for no consideration. The Grant date of the phantom options was 24 May 2007. Each phantom option, when exercised, will grant the manager the right to receive cash calculated as closing price of one company share on the Prague stock exchange (the PSE) (or other market if the PSE trading is discontinued) on the day preceding the day of exercise of the phantom option less CZK 749.20 representing the offer price at the time of the initial public offering of the shares of PEGAS NONWOVENS S.A. (the IPO price). 25% of the phantom options vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on 18 December 2007 and the last options vesting on the 4th anniversary of the IPO. The given part of phantom options may be exercised on or after the vesting date. The participant shall provide service to the Group at the vesting date to be eligible for the given phantom options series.

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

The Annual General Meeting held on 15 June 2010 authorised and empowered the Board of Directors to allocate the above mentioned phantom options between the directors and senior management in accordance with criteria determined by, and at the discretion of, the Board of Directors.

The Extraordinary General Meeting held on 21 July 2014 resolved to convert 230,735 phantom options granted in 2010–2013 into 230,735 warrants. Each warrant, when exercised, will grant the holder the right to receive (i) one share in PEGAS for a strike price corresponding to CZK 473.00 representing the PEGAS's share price on the PSE as of 15 December 2009 increased by 10%, or (ii) a payment in cash amounting to the final price of one share of PEGAS on the PSE on the business day preceding the exercise date, less CZK 473.00. All the warrants will vest immediately from their granting date and will have the same exercise period that was initially planned for the phantom options.

The Extraordinary General Meeting held on 21 July 2014 authorised and empowered the Board of Directors to evidence and execute the conversion of the 230,735 phantom options into 230,735 warrants by the signature of agreements or any other documents which might be required or necessary for that purpose.

The Extraordinary General Meeting held on 21 July 2014 resolved to issue 230,735 new warrants (representing 2.5% of the PEGAS's share capital) to the directors and senior management of PEGAS and/or its affiliates collectively, for a subscription price of CZK 5.89 per new warrant to be paid in cash by the directors, it being understood that the Board of Directors of PEGAS will decide how the new warrants will be divided among the directors and senior management of PEGAS and/or its affiliates. Each new warrant, when exercised, will entitle the holder to either receive (i) one share in PEGAS for a strike price corresponding to CZK 588.16 (representing the average of PEGAS's share price on the PSE from 1 October 2013 to 31 December 2013) less all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), or (ii) a payment in cash amounting to the final price of one share of PEGAS on the PSE on the business day preceding the exercise date, plus all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), less the strike price of CZK 588.16 (representing the average of PEGAS's share price on the PSE from October 1, 2013 to December 31, 2013).

The Extraordinary General Meeting held on 21 July 2014 authorized and empowered the Board of Directors to evidence and execute the issuance of new warrants by the signature of agreements or any other documents which might be required or necessary for that purpose, and to allocate the 230,735 new warrants between the directors and senior management of PEGAS and/or its affiliates in accordance with criteria determined by, and at the discretion of, the Board of the Directors.

Summary of the contractual terms of the phantom option and warrant scheme as at 31 December 2014:

Grant date	Vesting date	Option/warrant	Strike price (CZK)	Total number of options/warrants granted	Number of options/warrants granted to Executives	Number of options/warrants granted to Non-executives	Fair value of options/warrants granted (TEUR)	Fair value of options/warrants granted to Executives (TEUR)	Fair value of options/warrants granted to Non-executives (TEUR)
24 May 2007	18 Dec 2007	Option	749.2	50,664	39,126	11,538	8	6	2
24 May 2007	18 Dec 2008	Option	749.2	41,432	29,896	11,536	7	5	2
24 May 2007	18 Dec 2009	Option	749.2	34,008	22,472	11,536	5	3	2
15 June 2010	18 Dec 2010	Warrant	473	57,684	42,220	15,464	347	254	93
15 June 2010	18 Dec 2011	Warrant	473	57,684	42,220	15,464	347	254	93
15 June 2010	18 Dec 2012	Warrant	473	57,684	42,220	15,464	347	254	93
15 June 2010	18 Dec 2013	Warrant	473	57,683	39,103	18,580	347	235	112
21 July 2014	18 Dec 2014	Warrant	588.16	76,912	52,137	24,775	74	50	24
21 July 2014	18 Dec 2015	Warrant	588.16	76,912	52,137	24,775	26	18	8
21 July 2014	18 Dec 2016	Warrant	588.16	76,911	52,137	24,774	17	12	5
Total				587,574	413,668	173,906	1,525	1,091	434

Summary of the contractual terms of the phantom option scheme as at 31 December 2014:

Grant date	Vesting date	Strike price (CZK)	Total number of options granted	Number of options granted to Executives	Number of options granted to Non-executives	Fair value of options granted (TEUR)	Fair value of options granted to Executives (TEUR)	Fair value of options granted to Non-executives (TEUR)
24 May 2007	18 Dec 2007	749.2	50,664	39,126	11,538	9	7	2
24 May 2007	18 Dec 2008	749.2	41,432	29,896	11,536	8	6	2
24 May 2007	18 Dec 2009	749.2	34,008	22,472	11,536	6	4	2
15 June 2010	18 Dec 2010	473	57,684	42,220	15,464	250	183	67
15 June 2010	18 Dec 2011	473	57,684	42,220	15,464	250	183	67
15 June 2010	18 Dec 2012	473	57,684	42,220	15,464	250	183	67
15 June 2010	18 Dec 2013	473	57,683	39,103	18,580	253	171	82
Total			356,839	257,257	99,582	1,026	737	289

No phantom shares were exercised either in 2014 or in 2013. No warrants were exercised in 2014.

The fair value of the phantom options and warrants as at 31 December 2014 is TEUR 1,525 (TEUR 1,026 as at 31 December 2013). The executive directors benefit is TEUR 1,091 (TEUR 737 as at 31 December 2013) of the total amount and the non-executive directors benefit is TEUR 434 (TEUR 289 as at 31 December 2013) of the total amount. The increase of the fair value in 2014 is attributable mainly to the increase of PEGAS NONWOVENS SA share price.

The Black-Scholes pricing model was used to calculate the fair value of the phantom options and the warrants which were converted from the phantom options. The Black-Scholes pricing model adjusted for dividends was used to calculate the fair value of the newly issued warrants. The assumptions used in the model are as follows:

- Price of PEGAS NONWOVENS S.A. shares quoted in Prague Stock Exchange used (CZK 640.00 as at 31 December 2014, CZK 592.00 as at 31 December 2013).
- The participants are expected to exercise the given part of granted phantom options and the warrants which were converted from the phantom options within ten years from vesting.
- The participants are expected to exercise the newly issued warrants before 15 December 2019.
- Risk free interest rate is linearly interpolated from CZK interbank PRIBOR rates (<12M) and CZK interest rate swap points (>12M).
- The exponentially weighted moving average method is used for the volatility of shares calculation (14.26% in 2014, 14.64% in 2013).
- Dividend yield of 4.9% was used in valuation of the newly issued warrants.

NOTE 7 - NON CONVERTIBLE LOANS

On November 14, 2014, the Company issued bonds for a total amount of CZK 2,500,000,000.00 (equivalent to EUR 90,579,710.14) in the "Prague Stock Exchange, Regulated Market (ISIN CZ0000000559). The bonds have an annual coupon of 2.85% and will reach maturity on November 14, 2018.

The fees and expenses in connection with the new bonds issue are recorded as prepayments under the line item "Prepayments" of the balance sheet and are amortized over the life of the bonds. The amortization of these fees and expenses for the year 2014 amounting to EUR 38,484.05 (2013: 0.00) is classified in the line item "Interest and other financial charges - other interest and similar financial charges" of the profit and loss account.

In accordance with the Company's accounting policies, the bonds are valued at their nominal value and translated at the exchange rate prevailing at the date of the transaction, i.e. at the exchange rate of 27.60 EUR/CZK. As of December 31, 2014, the principal of the issued bonds translated into EUR amounted to EUR 90,579,710.14 (2013: 0.00) and the accrued and unpaid interest amounted to EUR 328,255.51 (2013: 0.00).

The total interest on the bonds for the year 2014 amounting to EUR 328,255.51 (2013: 0.00) is classified in the line item "interest and other financial charges - other interest and similar financial charges" of the profit and loss account.

NOTE 8 - FINANCIAL INSTRUMENTS

On November 14, 2014, the Company entered into a cross-currency rate swap agreement with a financial institution under which the Company swapped cash flows related to the bond issue denominated in CZK into cash flows denominated in EUR.

As of December 31, 2014, the notional amount of this swap agreement amounted to EUR 90,201,992.75 (equivalent CZK 2,489,575,000.00). Based on this swap agreement, the Company pays fixed rate in EUR of 3.10% and receives fixed rate in CZK of 2.85%.

The total net swap interest payable for the year 2014 amounted to EUR 30,413.43 (2013: 0.00) and is classified in the line "interest and other financial charges - other interest and similar financial charges" of the profit and loss account.

As of December 31, 2014, the fair value of this swap agreement amounted to a loss of EUR 694,497.78 (2013: 0.00). The Company considers this swap as a hedging instrument for the bond issue and the fair value of the swap is therefore not reflected in the profit and loss account in accordance with the Company's accounting policies.

NOTE 9 - OTHER EXTERNAL CHARGES

The audit fees amounted to EUR 18,310.00 (2013: EUR 19,300.00).

NOTE 10 - OTHER OPERATING CHARGES

The other operating charges are mainly made up of Directors' fees for EUR 324,125.00 (2013: EUR 335,212.73) and of the fair value adjustment of the phantom options and warrants for EUR 499,423.90 (2013: EUR 846,344.37) (Note 6).

NOTE 11 - TAXES

The Company is subject to all the taxes applicable to commercial companies in Luxembourg.

NOTE 12 - SUBSEQUENT EVENTS

The Board of the Company is not aware of any events that have occurred since the balance sheet date that would have any material impact on the annual accounts as at December 31, 2014.

NOTE 13 - OFF BALANCE SHEET EVENTS

The participations in PEGAS NONWOVENS s.r.o. and in PEGAS NONWOVENS International s.r.o. have been pledged to secure the bank loans taken out by subsidiary companies (Note 3).

GLOSSARY

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

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

Bučovice - A city in Moravia in the Vyškov District with approximately 6,500 inhabitants. PEGAS operates three of its production lines here.

Budgeted EBITDA - A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses set in the Company's business plan and used as a benchmark number for performance evaluation in the management bonus scheme

CEE - Central and Eastern Europe

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

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

EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization - A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses. Calculated as Net profit before income tax, interest expense, interest income, foreign exchange changes, other financial income/expense and depreciation and amortization.

EBIT Margin - Percentage margin calculated as EBIT/Revenues

EBITDA Margin - Percentage margin calculated as EBITDA/Revenues

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

EGAP - is the Export Guarantee and Insurance Corporation founded in June 1992 as a state-owned export credit agency, insuring credits connected with exports of goods and services from the Czech Republic against political and commercial risks. EGAP, now part of the state export support programme, provides insurance services to all exporters of Czech goods.

EMEA - Europe, the Middle East and Africa

IFRS - International Financial Reporting Standards

IPO - Initial Public Offering

IRS - Interest Rate Swap. Financial instrument hedging interest rate risk

Meltblown Process - Technological process of producing nonwovens. A polymer is extruded into air gap nozzles and then blown in the form of very thin fibres (0.1 -10 microns) on to a belt.

Meltblown Fabric - Textile produced using the meltblown process

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

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

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

Polypropylene/Polyethylene - Thermoplastic polymers consisting of long chains of monomers (propylene, ethylene), naturally hydrophobic, resistant to many chemical solvents, bases and acids. Produced mainly from crude oil by the chemical industry and used in a wide variety of applications.

Přímětica - Formerly an independent village, currently a suburb of Znojmo. PEGAS operates its main production facilities there.

PSE - Prague Stock Exchange, a regulated market for securities trading in the Czech Republic

PX - Official index of blue chip stock of the Prague Stock Exchange

Reicofil - Leading nonwoven machinery producer

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

Spunmelt Process - Technological process of producing nonwovens. Hot molten polymer is forced through spinnerets to produce continuous filaments drawn by air to reach the required fibre diameter.

Spunbond Textile - Textile produced by spunbond/spunmelt process

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

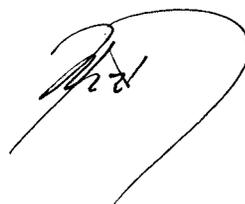
STATEMENTS OF RESPONSIBLE PERSONS

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

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

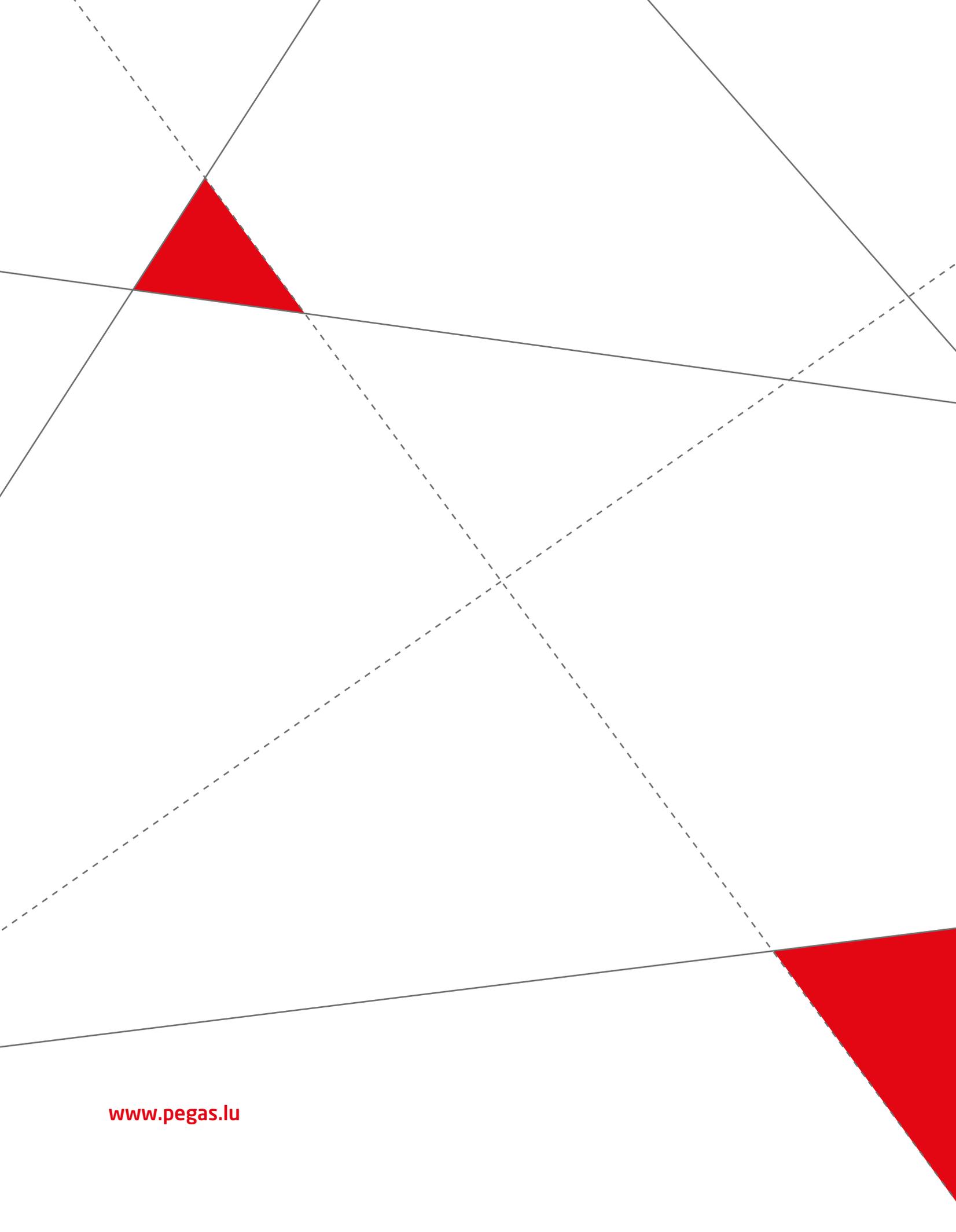


Marek Modecki
Chairman of the Board
of PEGAS NONWOVENS SA



František Řezáč
Member of the Board
of PEGAS NONWOVENS SA

NOTES



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