PEGAS NONWOVENS SA
Société anonyme
68-70, boulevard de la Pétrusse
L-2320 Luxembourg
R.C.S. Luxembourg B 112.044
(the "Company")

DIRECTORS' REPORT
FOR THE ACCOUNTING YEAR ENDED ON DECEMBER 31, 2008

To the Shareholders of **PEGAS NONWOVENS SA**:

In accordance with our duties as Directors of **PEGAS NONWOVENS SA (further "PEGAS")**, we hereby submit the annual accounts as of December 31, 2008.

a) important events that have occurred since the end of the financial year,

The management of the Group is not aware of any other events that have occurred since December 31st, 2008 that would have any material impact on the Company.

b) the Company's likely future development,

The Company's strategic focus in 2009 as well as in the upcoming years is to:

1) continue to strengthen its market position through further growth opportunities,
2) retain its technological leadership in the market for spunmelt nonwoven textiles for the disposable hygiene products in Europe, and
3) continue to create shareholders' value.

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

Growing Production Capacities through Investments in Technologically Advanced Machinery: PEGAS will continue to install new advanced capacities ahead of its main European competitors. The Company has already commenced a project for the next, 9th production line to be built in Znojmo and has received a commitment for investment incentives from the Czech Government.

Close Relationship with Customers and Suppliers: PEGAS intends to continue its cooperation with its clients, machinery manufacturers and raw material suppliers in the development of new R&D projects ahead of the market. PEGAS strives to remain at the forefront of technical developments in the industry and supply its customers with the highest quality products and develop new materials.

Focus on Technologically Advanced Products: PEGAS remains the largest European manufacturer of bi-component spunmelt nonwovens and with extensive experience in the design and production of ultra lightweight materials. The project of the treatment of nonwovens using atmospheric plasma is currently in its testing phase.

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Maintain superior financial performance in the industry: In relation to its principle objective to grow in line with its core market, PEGAS strives to deliver revenues in line with growth and high operating margins compared with its core competitors. PEGAS generates a high level of cash, which is used to support expansion, reduce outstanding debt and to pay out dividends.

Monitoring investment opportunities: With respect to the expansion outside the Czech Republic, the Company will continue to monitor investment opportunities, which may lead to an acquisition or the opening of production capacity in other territories.

c) Activities in the field of research and development,

All research and development activities are conducted by the operating subsidiaries of PEGAS as described below.

Research and Technical Support

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

The team works 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 works on two main goals to 1) to improve quality and production efficiency of the standard products and 2) to develop products with added value using current or new technologies.

Both objectives are being achieved together with the raw material suppliers, using new specialised polymers, and/or with machinery suppliers, allowing the Company to prepare added value products for its customers.

In the field of technologies, PEGAS is continuing in the commercialization of ultra lightweight materials produced by the new Reicofil special line. This new line confirmed the anticipated performance of the produced material and the overall efficiency of the machinery.

In the field of new products, PEGAS has successfully developed and started commercializing a new nonwovens material used in medical applications and thanks to a special treatment of the material managed to achieve excellent protective properties.

Additionally, PEGAS is actively working on the development of elastomeric and extensible nonwovens, which after further development and successful commercialisation should bring a number of benefits to clients.

PEGAS cooperates with many different institutes, which are positively supporting the Company's research, especially in areas of plasma textile treatment or special polymers. There are several universities and R&D centers, mainly in the Czech Republic and Slovakia, and also in Western Europe, offering the Company special support in different specialised fields and/or highly sophisticated lab sources.

In order to better utilise its production lines and accelerate development projects, PEGAS takes advantage of several pilot lines, which are made available under special agreements at the supplier's site. All projects are related either to new technologies themselves or to the utilization of newly developed raw materials in technologies or projects, which are dedicated directly to customers. There are several projects where all three parties are working together and thereby closing the chain of suppliers.

In December 2008 PEGAS launched testing equipment for plasma treatment of nonwoven textiles in Dvůr Králové nad Labem, Czech Republic. PEGAS is running the project in cooperation with the Institute of Physical Electronics associated with the Faculty of Natural Sciences at the Masaryk University in Brno and INOTEX s.r.o. The installed equipment should introduce in-line testing with the aim of verifying the impact of plasma treatment on fibre surface properties in nonwoven textiles. The usage of plasma should ensure improvements in the required durability and allow for a significant reduction of functional additives. The project is carried out with the aid of a financial grant from the Czech Ministry of Industry and Trade.

Research costs in 2008 were approximately EUR 2.3 million.

d) information in respect of the acquisitions of own shares,

No acquisition of own shares was conducted in 2008.

e) the existence of branches of the company,

Group Entities

To translate the registered capital of Czech subsidiaries, the CZK/EUR 26.93 rate of exchange effective on 31 December 2008 was used.

Subsidiaries included in the consolidated entity

Company	***Acquisition date***	***Share in the subsidiary***	***Registered capital TCZK***	***Registered capital TEUR***	***Number and nominal value of shares***
PEGAS NONWOVENS s.r.o.*	5.12.2005	100 %	3 633	135	100% participation of TCZK 3 633
PEGAS - DS a.s.	14.12.2005	100 %	800 000	29 707	64 shares at TCZK 10 000 per share and 64 shares at TCZK 2 500 per share
PEGAS-NT a.s.	14.12.2005	100 %	550 000	20 423	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 %	650 000	24 137	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 %	5 000	186	5 shares at TCZK 1 000 per share

*PEGAS NONWOVENS s.r.o. was registered on 14 November 2003 as ELK INVESTMENTS s.r.o and changed its name to PEGAS NONWOVENS s.r.o. in 2006. PEGAS a.s., the subsidiary of PEGAS NONWOVENS s.r.o., was established in 1990. It merged with PEGAS NONWOVENS s.r.o. with effect from 1 January 2006 and was deleted from the Commercial Register on 12 May 2006. 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.
** On 18 April 2008, PEGAS - NW a.s. increased its registered capital from TCZK 550,000 to TCZK 650,000.
*** PEGAS - NS a.s. was established by the Company in December 2007 for the purpose of a new production line project.

f) proposals of resolutions,

PEGAS ended the year with a loss amounting to one million sixty-one thousand two hundred eighty-four Euros and fourty-one Cents (EUR 1,061,284.41) and a total balance sheet of thirty-six million twenty-four thousand five hundred twenty-one Euros and seventy Cents (EUR 36,024,521.70).

We propose to bring forward the loss of the year.

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We recommend that you grant full discharge to the directors and to the statutory auditor for the financial year 2008 and that you approve the annual accounts as at December 31, 2008 as presented to you.

We further propose you to appoint Deloitte S.A., as the independent auditor ("*réviseur d'entreprises*") of the Company for a term ending at the annual general meeting of the shareholders to be held in 2010, to review the statutory accounts and the consolidated accounts as at December 31, 2009.

We kindly request you to approve the decision of the Board of Directors to co-opt Mr. Bernhard Lipinski, residing at Steinertsweg 44b, postal code 64753, Brombachtal, Germany, and Mr. David Ring, residing at Cedar House, Kenfield, Winchester, postal code S022 EX, United Kingdom, as non-executive directors of the Company both for a period ending on 30 November 2010.

We also kindly request you to approve non-executive directors' remuneration for the financial year 2009. Mr Bernhard Lipinski, Mr David Ring and Mr Marek Modecki (the Non-Executive Directors) should receive an aggregate amount of EUR 198,000, as directors' fee, payable in cash. Furthermore, we kindly request you to authorise and empower the Board of Directors to split this remuneration among the Non-Executive Directors.

Based on the recommendations of the Remuneration Committee, we further kindly request you to approve the executive directors' remuneration for the financial year 2009. Mr František Řezáč, Mr Aleš Gerža and Mr František Klaška (the Executive Directors) should receive an aggregate amount of CZK 5,290,152 as directors' fee, payable in cash. We kindly request you to authorise and empower the Board of Directors to delegate the splitting of this remuneration among the Executive Directors to the Remuneration Committee.

We recommend that you approve the payment of a bonus for the financial year ending on 31 December 2008 to Mr František Řezáč, Mr Aleš Gerža, Mr František Klaška and Mr Miloš Bogdan (the Executive Directors) of an aggregate amount of CZK 2,149,563 in accordance with the bonus scheme approved for the year 2008 by the annual general meeting of shareholders held in 2008. We further kindly request you to authorise and empower the Board of Directors to split the above mentioned aggregate amount among the Executive Directors, in accordance with criteria determined by Agreement on Management Bonus.

g) other corporate information on the Company,

As at the date of the Annual General Meeting, 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; and the authorised capital of the Company amounts to EUR 999,999.24 being divided into 806,451 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, which reads as follows:

For so long as the Company only has one shareholder, the Company may be managed by one (1) director only. In case of plurality of shareholders, the Company shall be managed by a Board of Directors of at least three (3) members. The director(s) of the Company, either shareholders or not, are appointed for a term which may not exceed six (6) years by a General Meeting. The director(s) may be dismissed at any time and at the sole discretion of a General Meeting.

When a legal entity is appointed as a director of the Company (the Legal Entity), the Legal Entity must designate a permanent representative in order to accomplish this task in its name and on its behalf (the Representative). The Representative is subject to the same conditions and obligations, and incurs the same liability as if he was performing this task on his own behalf, without prejudice to the joint liability of the Legal Entity. The Legal Entity cannot revoke the Representative unless it simultaneously appoints a new permanent representative.

Retiring members of the Board of Directors are eligible for re-election.

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In the event of a vacancy on the Board of Directors because of death, retirement or otherwise, the remaining directors may meet and may elect by majority vote a director to fill such vacancy until the next General Meeting.

Any reference to the Board of Directors in the Articles shall be a reference to the sole director (if at all the Company only has one) as long as the Company shall have one (1) Shareholder.

The power of the Board of Directors to issue shares is governed by the fourth, fifth and sixth paragraphs of Article 5 of the articles of association of the Company, which reads as follows:

As a consequence, the Board of Directors is authorised and empowered to:

- implement a capital increase by issuing from time to time new shares to be paid up in cash or by way of contribution of assets in kind, by incorporating reserves or profits carried forward or in any other manner, including the exercise of warrants and the conversion of convertible bonds;

- fix the place and the date of the issue or the successive issues of shares, the issue price, with or without a premium, the date from which the shares shall bear dividend and the terms and conditions of subscription and payment of the new shares;

- abolish or limit the preferential subscription right of the shareholders when proceeding to the issue of new shares to be paid up in cash.

The above mentioned authorisation will be valid for a period of five years from 1 March 2006 and it may be renewed by a resolution of the extraordinary general meeting of shareholders as to the shares of the authorised capital which will not have been issued by the Board of Directors before then.

Each time the Board of Directors acts to render effective the increase of capital as authorised above, the present article of the Articles shall be amended so as to reflect the increase of the subscribed capital, and the Board of Directors or any person authorised by the Board of Directors shall state such amendment in the form prescribed by law.

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 (operating companies) 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 managing board.

All shares issued by the Company have one vote and carry equal voting dividend rights, there are no shares with special control rights.

There are no agreements between shareholders known to the Company which may result in restrictions on the transfer of securities and/on 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.

The Company is party to three service agreements with its executive directors, Mr. František Řezáč, Mr. Aleš Gerža and Mr. František Klaška 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 PEGAS 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

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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. All three service agreements were concluded in May 2007 and are governed by Luxembourg law.

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.

Luxembourg, May 15th, 2009

Bernhard W. Lipinski
Chairman of the Board of PEGAS NONWOVENS SA

František Řezáč
Member of the Board of PEGAS NONWOVENS SA