

**With you
all your
life**



Year 2008 in Brief

FINANCIALS (EUR THOUSANDS)

	2008	2007
Total Revenues	142,771	121,971
EBITDA	39,491	38,376
Profit from Operations	22,681	26,043
Net Profit for the Period Attributable to Shareholders	14,889	22,138
No. of Shares – End of Period (“EOP”)	9,229,400	9,229,400
Total Assets	248,243	263,879
Total Equity	99,179	93,885
Total Borrowings	120,851	123,058
Net Debt/(Net Cash)	120,542	122,547
CAPEX	18,619	18,878

RATIOS

EBITDA Margin	27.7%	31.5%
Operating Profit Margin	15.9%	21.4%
Margin of Net Profit Attributable to Shareholders	10.4%	18.2%
CAPEX as % of Revenues	13.0%	15.5%

OPERATIONS

Total Production Output (in tonnes net of scrap)	66,349	57,464
Number of Employees – EOP	383	384

EXCHANGE RATES

CZK/EUR average	24.942	27.762
CZK/EUR EOP	26.930	26.620

PEGAS NONWOVENS S.A. is one of the leading European producers of nonwoven textiles for use primarily in the personal hygiene product market.

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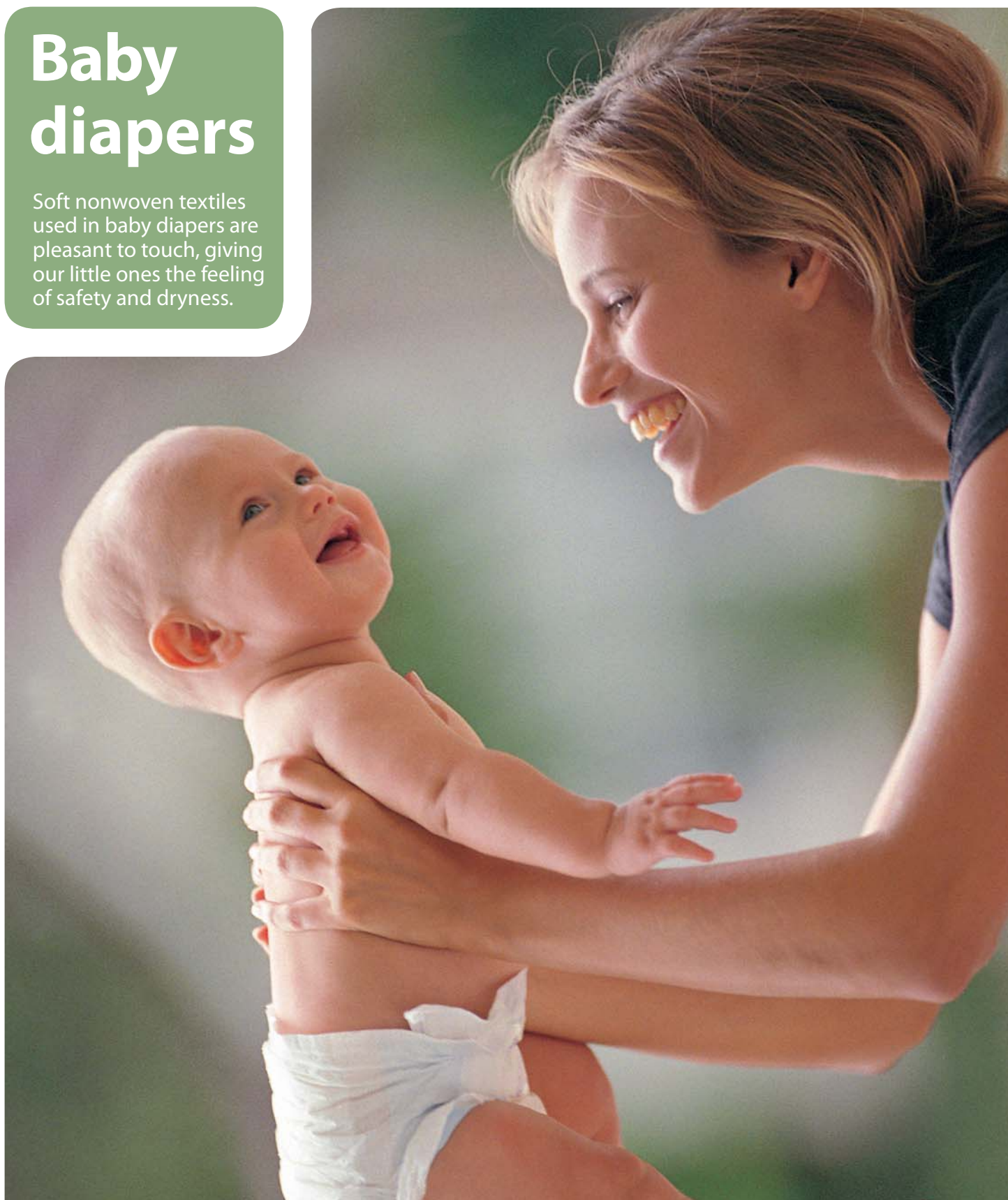


Nonwoven textiles are used in a variety of areas. In fact, they accompany each of us throughout our lives. Medical materials, personal hygiene items, household furnishings, car interiors, plant protection in agricultural production... These are just few examples of the industries in which nonwoven textiles have multiple uses and often are irreplaceable.

Introduction

Baby diapers

Soft nonwoven textiles used in baby diapers are pleasant to touch, giving our little ones the feeling of safety and dryness.



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

Founded in 1990, the Company has grown over the last 18 years and based on 2007 annual production capacity has become the second largest European producer of spunmelt nonwovens. Currently PEGAS runs two plants with a total of 8 production lines. The total production capacity of the Company is approximately 70 thousand tonnes of nonwoven fabric per annum. PEGAS consists of a parent holding company in Luxembourg and five operating companies, PEGAS NONWOVENS s.r.o., PEGAS – DS a.s., PEGAS-NT a.s., PEGAS – NW a.s. and PEGAS – NS a.s., all located in the Czech Republic. At the end of 2008, PEGAS employed 383 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. The Company's management together held 1.3% of the shares as of December 31st, 2008.

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

Statement from the Chief Executive Officer

Dear Shareholders,

I am pleased to have this opportunity to share with you the perspective of PEGAS on developments during 2008, and outline our main expectations going forward.

I was appointed Chief Executive in October last year and I am proud to serve the Company and in particular the Shareholders.

The most important event for PEGAS last year was the launch of the new production line.

Looking back on 2008, it was a very significant year for the global economy and this had major impacts on our Company, in particular the strongly appreciating Czech koruna; the volatility of polymer prices and the sharp decline for demand for materials from the construction industry.

These global factors were felt by companies across many industrial sectors and inevitably have had an affect on PEGAS.

The most important event for PEGAS last year was the launch of the new production line. This is the most advanced of its type in the world and we are very pleased with the installation, launch process and outstanding operational output which has been achieved since the line was installed.

As well as strong output, the new line has also allowed the introduction of several new technologically advanced materials.

This new capacity was reflected in the financial results for our Company, revenues increased by 17% and EBITDA by 3%. Due largely to the global factors I outlined above, we were disappointed that these results were slightly below our initial expectations, however, we take some comfort that these results are among the strongest in our industrial sector and we have coped well with changing circumstances.

Net debt has remained at a similar level at the end of 2008 as in 2007 whilst the Company has also paid out a dividend to Shareholders of EUR 8 million, and made capital

investments of EUR 19 million (mainly in connection with the new production line I mentioned above). The ability to achieve such dividend payment and capital investment reflects well on the cash generation capability of our business and we plan to use this capability to reduce our debt during 2009.

Our inventories of finished goods were high at the end of 2008 and, due to market conditions, pricing has been under pressure. The pricing pressure was caused by slow-down of demand in the non-hygiene sector which led to our competitors trying to sell into the hygiene sector. We have maintained our volumes and are pleased that strong demand in early 2009 has meant inventories have returned to normal levels.

PEGAS is renowned as among the leading companies in spunmelt nonwoven textiles and we can plan to maintain this leading position with more technologically advanced products such as medical and ultra light-weight materials and, potentially, elastic and atmospheric plasma treated nonwovens.



2009 has started with very good levels of demand, although pricing and cost pressures mean EBITDA is likely to be lower than in 2008.

The installation of the 8th line (as commented on above) was supported with investment incentives from the Ministry of Industry and Trade of the Czech Republic. We greatly appreciate this investment support and are pleased that further commitment regarding future investment incentives has been received.

We will be monitoring growth opportunities in order to make a decision about further growth potential.

2009 has started with very good levels of demand, although pricing and cost pressures mean EBITDA is likely to be lower than in 2008 albeit with total volumes likely to be slightly higher to 2008. Our focus this year will be on optimising our production process to help mitigate these external factors.

In conclusion, I thank our customers, suppliers, stakeholders and in particular our employees for their great effort which is contributing to our strong position in the market and our drive to enhance Shareholders' value.

František Řezáč
CEO and Member of the Board
of PEGAS NONWOVENS S.A.

17th April 2009

Management Report

Description of the Company's Business and Market

Overview of the Nonwovens Market

The global nonwovens market has grown by 7.9% CAGR since 1997 and production reached 5.75 million tonnes at the end of 2007. The market is expected to continue on this growth path as technological advances increase the material's application range and emerging markets continue to grow.

The relevant market for PEGAS is the European market (including Western Europe, Central and Eastern Europe, Russia and Turkey) and this market reached 1.66 million tonnes of production and represented approximately 29% of the global nonwovens market in 2007. In 2008 and 2009 the European nonwovens market is expected to grow less than in previous years due to fewer new production capacities coming on line and a lower utilisation of the existing capacities on the back of the economic crisis.

The Company's core product market is the European personal hygiene sector, which represented approximately 32.9% in tonnage of the total European nonwovens market. This sector consists of three major products: disposable baby diapers, adult incontinence products and feminine hygiene. In 2007 PEGAS' market share in the European personal hygiene market was approximately 14.5%. The nonwovens market for hygiene applications in Europe is non-cyclical and stable compared to other market segments, which are more dependent on the development of the business environment. In 2008 and 2009 this market has proven to be more resilient to the current economic crisis and is expected to be growing steadily in volume terms.

The targeted core market of PEGAS is the broader European area, consisting of traditional Western European countries, Central and Eastern Europe (CEE), including Russia. Developing countries within CEE and Russia have a high infant population and rising disposable income per capita, which, together with the fast GDP growth rates of recent years, contribute to the accelerated growth in the personal hygiene market. Central and Eastern

Europe has a significantly lower consumption of disposable diapers per capita than Western Europe. Western Europe has constant birth rates and already high and stable disposable income per head. The demand for adult incontinence products is expected to increase in Europe owing to the aging of the population, increasing life expectancy and acceptance of incontinence products, but also thanks to lighter and softer nonwovens available due to improved technology.

In 2008 and 2009 this market has proven to be more resilient to the current economic crisis and is expected to be growing steadily in volume terms.

Competition

The relevant market for PEGAS is the European market of spunmelt PP- and PP/PE-based nonwoven textiles. In 2008, PEGAS was considered the second largest producer in this market, based on market estimates from EDANA and John R. Starr. The main competitors of PEGAS are both international and regional companies with production facilities located in Western Europe and new market entrants in Russia. The European market of spunmelt PP- and PP/PE-based nonwoven textiles is more

Incontinence Products

Nonwoven textiles in adult incontinence products provide security and comfort, improving our quality of life.



fragmented than in other regions, with more than 30 producers estimated in total.

Overview of the Company's Products

Hygiene

The core of the Company's product mix are the following nonwoven textiles – **Pegatex® S**, **Pegatex® SMS**, **Pegatex® BICO** a **Pegatex® MICRO**, 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 there is a wide range of light and ultra light-weight technologically advanced nonwoven textiles with excellent technical properties, which are soft, pleasant to touch and therefore bring higher comfort to the final customer.

Medical and Protective Clothing

Pegatex® S, **Pegatex® SM**, **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 a 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
- Chemical suits

Agriculture

For this segment, PEGAS offers a nonwoven fabric under the trading name of **PEGAS-AGRO®**, which is used mainly in vegetable growing 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 **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

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.

Filtration, Wipes and Absorbents

Pegatex® SMS is the nonwoven fabric used for the separation and filtration of water or air. This textile with very fine (micro-denier) fibres and excellent surface evenness is often modified through lamination with other materials. Excellent filtration and absorbing qualities make the textile ideal for applications such as industrial wipes and absorbents of oil, acid and alkaline based liquids.

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
	Wipes	Household and industrial wipes
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
	Filtration products	Air filtration products
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
Pegatex® Micro	Hygiene products	Baby diapers, feminine hygiene products, adult incontinence products
PEGAS-AGRO® Crop cover	Agriculture	Textiles for professional plant protection
PEGAS-AGRO® Mulching fabric	Agriculture	Soil cover
Pegatex® MB (Meltblown)	Wipes, absorbents	Industrial wipes, absorbents of oils and chemicals

Technology and Production

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

PEGAS's latest production line, the "SSMMMS 3200 Reicofil 4 Special" was installed in Autumn 2007. It is state-of-the-art technology and the very first of its kind in the world and can produce ultra light-weight nonwoven textiles for the hygiene sector as well as for other applications.

All eight production lines were manufactured by Reicofil, a leading German global supplier of spunmelt nonwoven production equipment which currently dominates the market for PP- and

PP/PE-based spunmelt nonwoven machines worldwide.

Since PEGAS began the production of spunmelt nonwovens in 1992, it has kept pace with the latest technological developments in this field.

Three lines are located at the Bučovice plant near Brno and five lines are located in Přímětice near Znojmo.

The output of the first line, installed in 1992, is primarily sold for technical and agricultural applications. The meltblown line production, installed in 1996, is used for technical applications requiring a high absorption capacity, such as industrial wipes and absorbents, and the remaining production lines are dedicated to the hygiene segment.

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 bicomponent 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.

The Reicofil 4 line has a width of 4.2 meters, all the other Reicofil lines have widths of 3.2 meters except for the meltblown line which has a width of 1.6 meters.

PEGAS's latest production line, the "SSMMMS¹ 3200 Reicofil 4 Special" was installed in autumn 2007. It is state-of-the-art technology and the very first of its kind in the world and can produce ultra light-weight nonwoven textiles for the hygiene sector as well as for other applications.

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

The Company puts an emphasis on recycling scrap materials, which are unavoidable by-products of the spunmelt process and they are reused. To optimize recycling further, PEGAS has developed a proprietary technological process that enables waste to be reduced to a minimum. This recycling line was installed in 2006.

Plants and Premises

PEGAS operates two production facilities located approximately 100 kilometers 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 Příměčice was developed on the outskirts of Znojmo and has five production lines. In addition to the production sites, the Company owns an administrative building in Znojmo, close to the Příměčice production plant. All premises have been constructed as greenfield projects. The production sites cover a total of approximately 134,000 square meters, of which 59,000 square meters are occupied by buildings and other structures

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.

(including the administrative building in Znojmo). PEGAS owns all of its real estate and the structures constructed on it.

Customers

PEGAS's position as one of the market leaders in the European 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.

¹⁾ "S" indicates a spunbond layer, "M" indicates a meltblown layer.

Feminine Hygiene

Advanced bi-component textiles used in feminine hygiene products provide modern women with comfort, discreetness and freedom.



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. The top five customers represented a 78% share of total revenues in 2008 (78% in 2007). The risks associated with having a relatively small number of key customers are balanced by the benefits of mutual cooperation focused on the development and manufacture of customer-specific products, in part resulting from joint development programmes.

Suppliers

The main raw materials used for spunmelt nonwovens are polymers, most importantly polypropylene followed by polyethylene. In 2008, the consumption of PP and PE accounted for 77% of the Company's total operating costs (excluding depreciation and amortization). Over the past three years, the Company has sourced polymer raw materials from a total of six 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 EN ISO 9001:2000 and EN ISO 14001:2004 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 EN ISO 9001:2001 by CQS, IQNet and environmental management EN ISO 14001:2004 by CQS, IQNet. The Company upgraded its certification to EN ISO 9004:2000 in 2006. Through its performance PEGAS intends to keep improving and developing this integrated system with the ultimate goal of always reaching the highest possible standards. All certificates were renewed in December 2008.

Quality Management System

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

The high QMS and EMS standards and the quality of our 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.

All production premises are equipped with overpressure air control to eliminate the risk of insects or particles contaminating fabrics. A digital camera quality control system has been introduced on all hygiene production lines to monitor both the bonding consistency, uniformity and the presence of external particles. These measures have significantly decreased customers' deficiency complaints.

Customer satisfaction with our products and services remains one of the key priorities for PEGAS and the Company is fully committed to on-going cooperation with its 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 maintained an environmental management system to take care of all environmental aspects as required by EN ISO 14001:2004. 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 limited atmospheric emissions.

The development of new applications and products is one of the most important parts of PEGAS's current and future strategic focus.

The top 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, in the section Company/Certification/Annual Environmental Policy Statement.

Research

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 commercialisation of ultra light-weight 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 commercialising 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 resources.

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 utilisation 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.

Intellectual Property

PEGAS has registered its trademark and logos in selected European and international markets. The Company has one registered patent for a special nonwoven microfilament spunmelt material for hygiene products. The patent is registered internationally for selected European countries.

Litigation

No litigation or arbitration proceedings that are likely to have a significant effect on PEGAS's financial position or results of operations have been pending or threatened against the Group.

Strategy

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 has extensive experience in the design and production of ultra light-weight materials. The project of the treatment of nonwovens using atmospheric plasma is currently in its testing phase.

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.

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

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

skilled employees, the Company is able to maintain a low staff turnover rate of approximately 11% annually. The table below indicates the number and functional breakdown of employees.

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) in 2008 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 salary part of the basic salary ranging from approximately 80% for manual workers and up to approximately 60% for management. The salary of workers varies in relation to the volume produced on a specific line, including the quality of the product, and is capped.

Comments on Financial Results

Revenues, Costs and EBITDA

In 2008 consolidated revenues (revenues from sales of products) reached EUR 142.8 million, up by 17.1% yoy. The key driver of this growth was the increased volumes sold resulting from higher production capacity.

In 2008 the total consolidated operating costs without depreciation and amortization (net) went up by 23.5% to EUR 103.3 million. The main

Number of employees	As at December 31 st		
	2006	2007	2008
Non-executive Directors	4	2	3
Executive Directors	4	4	3
Management	13	15	13
Specialists	46	49	51
Laboratory Staff	32	37	37
Foremen	52	58	61
Qualified Workers	180	219	215
Total	331	384	383
Average no. of employees	328	358	381

reasons were a higher consumed volume of raw materials and consumables related to the higher production, increase of energy prices and a strong year-on-year appreciation of the Czech koruna against the EUR, which had a negative impact on those items primarily booked in CZK and their translation into EUR.

In 2008 consolidated revenues (revenues from sales of products) reached EUR 142.8 million, up by 17.1% yoy. The key driver of this growth was the increased volumes sold resulting from higher production capacity.

EBITDA amounted to EUR 39.5 million in 2008, up by 2.9% yoy, as a result of higher sales of finished goods due to the additional production capacity. The achieved EBITDA is in line with the revised guidance published by the Company in November last year. The main factors negatively impacting the total EBITDA in 2008 were lower sales of materials to the construction industry, the appreciation of the Czech koruna, higher energy costs and margin developments in the European nonwovens market.

In 2008 the EBITDA margin reached 27.7%, down by 3.8 percentage points in comparison with the year 2007.

Operating costs

Total raw materials and consumables used in 2008 amounted to EUR 97.1 million, a 23.8% yoy increase. The key drivers of this growth were increased volumes produced through higher production capacity and higher energy prices.

In 2008 total staff costs amounted to EUR 6.5 million, a 4.2% yoy increase. Staff costs expressed in EUR were negatively affected by the strong appreciation of the Czech koruna against the EUR, whereas the revaluation of the share option plan had a positive impact on staff costs. Total staff costs denominated in Czech korunas and without the revaluation of the share option plan went up by 9.3% yoy due to a 6.4% yoy increase in the average number of employees in 2008 and salary adjustments.

Other operating income (net) amounted to EUR 363 thousand in 2008.

Depreciation and amortization

Consolidated depreciation and amortization reached EUR 16.8 million in 2008, up by 36.3% yoy. This increase resulted from an increase in the value of the Company's depreciated non-current assets (production hall and machinery for the 8th production line).

Profit from Operations

In 2008 profit from operations (EBIT) amounted to EUR 22.7 million, down by 12.9% compared with 2007 on the back of EBITDA development and higher depreciation.

Financial Income and Costs

In 2008 foreign exchange changes and other financial income/ (expense) (net) represented a loss of EUR 2.2 million. This item includes realized and unrealized FX gains/losses, changes in the fair value of interest rate swaps and other financial income and expenses. This item was impacted by the development of the Czech koruna against the EUR through unrealized FX changes related to the revaluation of balance sheet items (mainly bank debt and the inter-company loan) denominated in EUR into CZK. During the first half of 2008, when the Czech koruna strongly appreciated, the Company recorded foreign exchange gains. However, the opposite movement of the foreign exchange rate in the second half of 2008 and the level of CZK/ EUR fixing as at December 31st, 2008 finally led to unrealized losses for the year. In addition to the unrealized FX losses, the mark-to-market revaluation of the interest rate swaps also had a negative impact due to the decline of interest rates based on the Euribor.

Construction

Quality housing is the basis for a happy life. The use of advanced materials improves the comfort of our homes.



Interest expenses (net) related to debt servicing amounted to EUR 6.3 million in 2008, a 35.5% decrease compared with 2007. The main reasons were the arrangement fee write-off associated with previous senior debt facilities refinanced in May 2007 and more favourable conditions of new loan facilities.

Income tax

In 2008 income tax amounted to EUR 0.7 million of income, down by 65.3% yoy compared with 2007, as a result of changes in deferred tax.

Net Profit

Net profit in 2008 amounted to EUR 14.9 million, down by 32.7% yoy, mainly due to FX changes and revaluation of the interest rate swaps (including their impact on income tax) and higher depreciation.

CAPEX and Investments

In 2008 total consolidated capital expenditure amounted to EUR 18.6 million, a 1.4% yoy decrease. The capital expenditure was primarily related to the remaining payment for the 8th production line project. The total achieved CAPEX in 2008 exceeded the indicated guidance level of EUR 18 million solely due to a lower than expected Czech koruna FX rate.

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at December 31, 2008 was EUR 120.9 million, a 1.8% reduction compared with December 31, 2007. Net debt as at December 31, 2008 was EUR 120.5 million, down by 1.6% yoy. This was equivalent to a Net Debt / EBITDA ratio of 3.1. As at September 30, 2008 the Company paid out a dividend of EUR 7.8 million. The financial position of the Company is stable and credit lines are secure.

Business Overview of 2008

In 2008 the total production output (net of scrap) reached 66,349 tonnes, up by 15.5% when compared with 2007. The development of the production output expressed in tonnes was affected by the difference between the production mix in 2007 and 2008 and also by the launch of new production capacity in the last quarter of 2007.

Revenues from sales of nonwoven textiles for the hygiene industry represented 86.8% of 2008 revenues, compared with 86.0% in 2007 confirming the Company's focus on the core hygiene market.

Revenues from sales of non-hygiene products (for construction, agriculture and medical) amounted to EUR 18.83 million in 2008, an increase of 9.9% over 2007.

In terms of geographical distribution²⁾, the Company confirms its strong and growing position in its core European market. Sales to Western Europe amounted to EUR 80.20 million in 2008, up by 3.0% from the previous year. Revenues from sales to CEE and Russia reached in the given period EUR 58.30 million, up by 43.9% yoy, this was the result of increased sales in the Czech Republic and Poland. Revenues from sales to other territories amounted to EUR 4.27 million, up by 18.1% yoy.

2009 Outlook

PEGAS expects that the year 2009 will demonstrate the underlying strength of its core hygiene nonwovens market. The total sales volume expressed in tonnes should exceed the 2008 levels primarily as a result of a different product mix and clearance of the accumulated inventories of finished goods from the end of 2008. Current sales numbers indicate that accumulated stock of finished goods from the end of 2008 should be sold out during the early part of 2009.

²⁾ Geographical breakdown is based on the location of delivery.

The slowdown in the non-hygiene segment (technical nonwovens) has resulted in the shift of a part of the production capacity into the hygienic segment, which consequently became more competitive. In order to protect the Company's overall profitability and volumes, PEGAS has responded to the more competitive market conditions by reducing margins.

Based on the information known to date, the Company expects that the 2009 EBITDA will be lower than that which was achieved in 2008 (EUR 39.5 million), however, it should not decrease by more than 10% compared to 2008.

The development of polymer prices in 2008 and 2009 will have a significant impact on the quarterly reported EBITDA in 2009. The first quarter of 2009 started strongly with high sales volumes and a considerable positive effect from the polymer price pass-through mechanism. A sharp decline of polymer prices in the previous months resulted in lower input costs in the first quarter of 2009 while the revenues still reflected higher sales prices from the fourth quarter of 2008. As a result, the first quarter 2009 EBITDA is likely to be significantly higher than those in the upcoming quarters.

PEGAS has no major capital expenditures planned in 2009. The total capital expenditure (CAPEX) in 2009 is planned at EUR 2 million at the constant exchange rate of CZK/EUR 26. This entire capital investment represents maintenance CAPEX.

The Company will rely on its healthy balance sheet and cash flow as well as borrowing facilities, which remain strong and secure.

In these challenging economic times, PEGAS is reaping the benefits of the strategy of technical innovation, meeting customer satisfaction, focussing on resilient areas of the market and having the productivity and cost base allowing the Company to respond to a competitive market.

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 – DS a.s., PEGAS-NT a.s., PEGAS – NW a.s. and PEGAS – NS a.s. as special purpose companies to accommodate each investment.

PEGAS – DS a.s.

When PEGAS a.s. applied for investment incentives for PEGAS – DS a.s., the scheme for the manufacturing sector was operated under a different legal regime that existed before the current Investment Incentives Act came into force. Incentives were granted on the basis of individual arrangements entered into between the state and the recipient and were referred to as a „memorandum of understanding“. PEGAS – DS a.s. was granted a package of incentives based on the Memorandum of Understanding signed on June 29th, 1999. The investment incentives for PEGAS – DS a.s. consist of:

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

- Exemption of imported fixed assets from import duties.

The total amount of the incentives granted to PEGAS – DS a.s. cannot exceed 50% of the expended amount which is currently CZK 1,626 million. PEGAS – DS a.s. started making use of the incentives in fiscal year 2001 and, as a result, its corporate tax relief incentive will expire in 2010.

PEGAS-NT a.s.

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

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

The total amount of the incentives cannot exceed 45% of the investment, which is currently equal to CZK 888 million; and in any case cannot exceed CZK 509.9 million. PEGAS-NT a.s. started making use of the incentives in fiscal year 2005.

PEGAS – NW a.s.

PEGAS – NW a.s. obtained its investment incentives based on the decision of the Czech government on June 10, 2005. The incentive consists of corporate income tax relief for up to 10 years. The tax relief may not exceed 48% of the invested amount (equal to CZK 1,044 million), and in any case cannot exceed CZK 573.6 million. PEGAS – NW a.s. started making use of the incentives in fiscal year 2008.

PEGAS – NS a.s.

PEGAS – NS a.s. received a commitment of investment incentives for the new production line project from the Ministry of Industry and Trade of the Czech Republic based on the decision dated January 12th, 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 total invested amount. At the same time the total amount of the public grant may not be higher than CZK 403.5 million and commercial production must be launched within 3 years of the delivery date of the decision about the commitment of the investment incentives, i.e. by January 15th, 2012.

Material subsequent events

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

Agriculture

The world's arable land is limited and increasing agricultural yields is key to long-term sustainable development.



Investor Information

PEGAS's Shares and Share Capital

Shareholders as of December 31st, 2008

Free Float	100%
Of which Management	1.3%

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 3,323,750 shares offered by the selling shareholder Pamplona Capital Partners I, LP.

Shares of PEGAS NONWOVENS S.A. were listed on the Prague Stock Exchange and on the Warsaw Stock Exchange on December 21st, 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 depository systems of Clearstream Bank, Univyc in the Czech Republic and National Depository of Securities in Poland. The nominal value of one share is EUR 1.24 each. The aggregate nominal value of the issued share capital is EUR 11,444,456.

On July 4th, 2007 the principal shareholder of PEGAS NONWOVENS S.A., Pamplona, announced its intention to sell part or its entire stake held in PEGAS. Pamplona placed its entire 43.4% stake on July 10th, 2007 via an accelerate bookbuilt 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. ING Bank NV acted as the sole bookrunner on the transaction and Wood&Co. and Patria acted as selling agents. The placement was comfortably oversubscribed.

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 S.A. are as of March 19th, 2007 part of the PX index, which covers the shares of all major issuers on the Prague Stock Exchange. In the third quarter of 2007 shares were also accepted for trading into RM-System, an organized market in the Czech Republic used primarily by retail investors.

Share Price Development and Trading Activity in 2008⁴

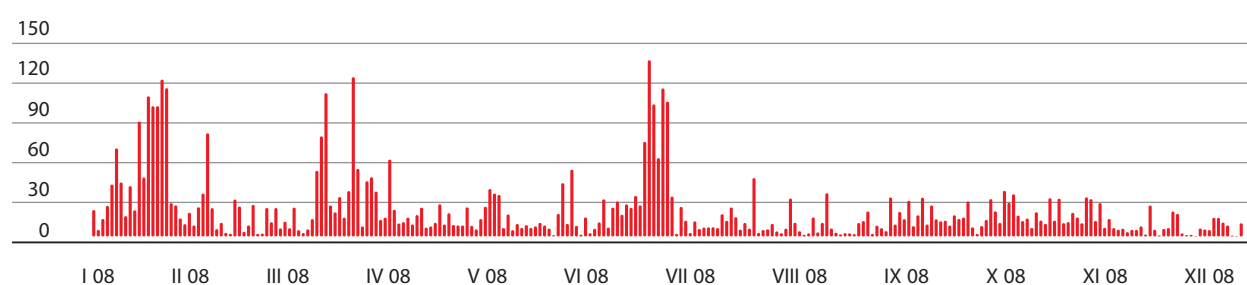
During 2008 PEGAS shares were traded for a total value of CZK 5.0 billion on the Prague Stock Exchange and for a total value of PLN 63.6 million on the Warsaw Stock Exchange. The lowest trading price during the year was CZK 168 and PLN 25.15 and the highest CZK 748 and PLN 102.8 in the Prague and Warsaw Stock Exchanges respectively.

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

The closing price on December 30th, 2008 was CZK 232.90 on the Prague Stock Exchange and PLN 35 on the Warsaw Stock Exchange and the market capitalization reached CZK 2.15 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 on July 10th, 2007 was 28.601.

⁴⁾ Source: Bloomberg and PSE

Price (in CZK)**Volume (in mil. CZK)**

Source: PSE

Changes in the Shareholders' Structure in 2008

During 2008 the total stake held by the top management of the Company declined from 2% to 1.3%.

As of March 18th, 2008 Templeton Asset Management Ltd., an indirect subsidiary of Franklin Resources Inc. jointly held 971,000 shares in the Company, constituting 10.52% of the share capital and of the total voting rights.

As of October 29th, 2008 investment funds managed by OPERA Towarzystwo Funduszy S.A., were jointly holding 457,208 shares in the Company, constituting 4.95% of the share capital and of the total voting rights. Prior

Furniture

Nonwoven textiles are an integral part of furniture manufacturing, the hidden underlayers meeting today's demanding needs.



to October 29th, 2008, funds managed by OPERA Towarzystwo Funduszy S.A. had jointly held 486,132 shares in the Company, constituting 5.27% of the share capital and voting rights.

As of December 30th, 2008 investment funds managed by AEGON Hungary Fund Management Co., were jointly holding 471,936 shares in the Company, constituting 5.11% of the share capital and of the total voting rights attached to the shares issued by the Company. Prior to December 30th, 2008, funds managed by AEGON Hungary Fund Management Co. had jointly held 454,936 shares in the Company, constituting 4.93% of the share capital and voting rights.

Dividend Policy

On September 30th, 2008 PEGAS paid out a dividend of Euro 7.8 million, i.e. Euro 0.85 per share (based on the total number of shares being 9,229,400). This interim dividend was paid from the share premium account of the Company. Subject to maintaining satisfactory financial performance and absence of other attractive opportunities, PEGAS will endeavour to continue with a progressive dividend policy.

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 ten 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 communication 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 2009

May 28th, 2009

Q1 2009 unaudited consolidated financial results of PEGAS NONWOVENS S.A. in accordance with IFRS

June 15th, 2009

Annual General Meeting of Shareholders

August 27th, 2009

1st Half 2009 unaudited consolidated financial results of PEGAS NONWOVENS S.A. in accordance with IFRS

November 26th, 2009

Q1–Q3 2009 unaudited consolidated financial results of PEGAS NONWOVENS S.A. in accordance with IFRS

IR Contact Details

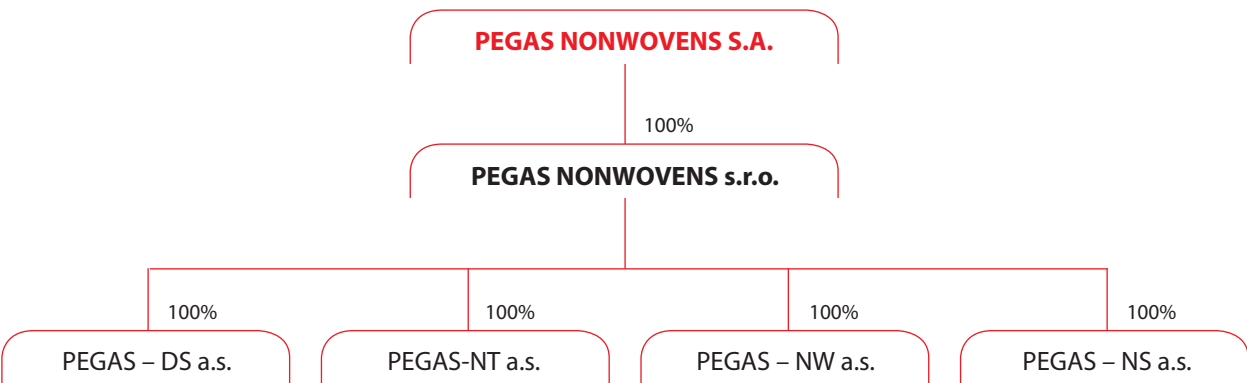
Investor Relations

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669 04 Znojmo, Czech Republic
Phone number: +420 515 262 450
Fax number: +420 515 262 505
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www.pegas.lu

Corporate Governance

Organisational Structure

The diagram below represents the current structure of the Group as of December 31st, 2008:



Source: Company Data

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

All of the operating assets are owned by PEGAS NONWOVENS s.r.o. and its four subsidiaries: PEGAS – DS a.s., 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.

Board of Directors

The Company is administered and managed by a board of directors (the "Board of Directors").

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

Members of the Board of Directors

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

Board of Directors

Name	Age	Position/Function	Business Address	Function period in 2008
František Řezáč	35	Executive director	Přímětická 86, 669 04, Znojmo, Czech Republic	1.1.2008 – 31.12.2008
Aleš Gerža	35	Executive director	Přímětická 86, 669 04, Znojmo, Czech Republic	1.1.2008 – 31.12.2008
František Klačka	52	Executive director	Přímětická 86, 669 04, Znojmo, Czech Republic	1.1.2008 – 31.12.2008
Bernhard W. Lipinski	62	Non-Executive director, Chairman of the Board	Steinertsweg 44b, 64753, Brombachtal, Germany	1.1.2008 – 31.12.2008
David Ring	46	Non-Executive director	Western Avenue, Western Docks, Southampton SO15 0HH, United Kingdom	1.1.2008 – 31.12.2008
Marek Modecki	50	Non-Executive director	Centrum LIM , Aleje Jerozolimskie 65/79, 00-697 Warsaw, Poland	8.4.2008 – 31.12.2008
Miloš Bogdan	45	Executive director	Přímětická 86, 669 04, Znojmo, Czech Republic	1.1.2008 – 6.10.2008

Each of the executive directors indicated above was elected or appointed in November 2006.

Marek Modecki was appointed as non-executive director as of April 8th, 2008 for a period of two years and his appointment was approved by the General Meeting of Shareholders held on June 16th, 2008.

Effective as of December 1st, 2008, Bernhard W. Lipinski and David Ring have been reappointed as non-executive directors of the Board of Directors. They have served in this function since November 2006 and by this nomination have been reappointed for another two

years. The reappointment is subject to approval of the next General Meeting to be held on June 15th, 2009.

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

František Řezáč, aged 35, was appointed CEO of the Company in October 2008, prior to that he assumed the position of the Commercial Director. He has served as an executive director of the Company since November 2006. Mr. Řezáč joined the Company in 1996. He was promoted to the position of Commercial Director of PEGAS NONWOVENS s.r.o. in 2004, after

having worked as the HR Director and Legal Counsel. Mr. Řezáč is a graduate of the Law Faculty of Masaryk University Brno.

Aleš Gerža, aged 35, was appointed an executive director of the Company in November 2006. Mr. Gerža is the Chief Financial Officer of the Company. He joined PEGAS in 1999, after having worked for 5 years in Danzas, a freight forwarding company. He was promoted to his current position in 2000. Mr. Gerža is a graduate of the Prague School of Economics.

Board of Directors

František Řezáč (1)
Chief Executive Officer

Marek Modecki (4)
Non-Executive director

Aleš Gerža (2)
Chief Financial Officer

František Klaška (5)
Technical director

Bernhard W. Lipinski (3)
Chairman,
Non-Executive director

David Ring (6)
Non-Executive director



František Klačka, aged 52, was appointed an executive director of the Company in November 2006. Mr. Klačka 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. Klačka is a graduate of the Czech Technical University.

Bernhard W. Lipinski, aged 62, was appointed as a non-executive director of the Company in November 2006 and as Chairman of the Board in November 2008. He spent 33 years with BP Chemicals in Düsseldorf, Geneva, Antwerp and London. He managed BP Amoco's Film & Nonwovens business focusing on hygiene and relevant industrial markets until its divestiture to RKW in 2002. Mr. Lipinski served as non-executive director to RKW, Germany, and Verdugt, the Netherlands.

David Ring, aged 46, was appointed as a non-executive director of the Company in November 2006. Mr. Ring is currently Chief Executive of the A&P Group, the UK's leading ship repair and conversion company. Prior to joining A&P in 1999, Mr. Ring held senior positions in the aerospace and automotive industry. Mr. Ring holds a BA in Economics from the University of Lancaster.

Marek Modecki, aged 50, was appointed as non-executive director in April 2008. Mr. Modecki is a senior banker and member of the Supervisory Board of Concordia Espirito Santo Investment Ltd. in Poland, responsible for mergers & acquisitions and private banking. He graduated from Warsaw University with a Master's degree in law and also studied International Law at the Max Planck Institute in Hamburg and law at the University in Hamburg.

Miloš Bogdan, aged 45, was appointed an executive director of the Company in November 2006 and resigned in October 2008. Mr. Bogdan worked with PEGAS for 11 years in various positions. He is a graduate of the Czech Technical University in Brno.

Changes to the Board of Directors in 2008

In April 2008, Mr. Marek Modecki was appointed as non-executive director and member of the Board of Directors of PEGAS NONWOVENS S.A.

On October 6th, 2008 Mr. Miloš Bogdan, member of the Board of PEGAS NONWOVENS S.A. and Chief Executive Officer of PEGAS NONWOVENS s.r.o. resigned from the office of Board member and executive director of PEGAS NONWOVENS S.A. and from all positions within the Group.

As of December 1st, 2008, Bernhard W. Lipinski was appointed the Chairman of the Board of Directors.

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 have not held any director positions outside the Company.

Name	Positions held
Bernhard Lipinski	Former directorships:
	Managing director of BP Chemicals PlasTec GmbH
	Non-executive director of RKW Gronau GmbH
	Non-executive director of Verdugt b.v.
	Board member of Unterstuetzungsverein RC Erbach- Michelstadt e. V.
	Current Directorships:
	Managing director of ProTeam Ltd.
	Board member of the Rotary Club Erbach- Michelstadt, Germany
David Ring	Current Directorships:
	A&P Group Limited
	A&P Drydocks Limited
	A&P Ports & Properties Limited
	Mandaco 482 Limited
	A&P Property Limited
	Mandaco 483 Limited
	A&P Tyne Properties Limited
Marek Modecki	Former directorships:
	Supervisory Board member of Concordia Espirito Santo Investment Ltd.
	Supervisory Board member of Prokom Software S.A.
	Supervisory Board member of Metalexport S.A.
	Current Directorships:
	CEO TIGA S.A. Poland
	Supervisory Board Member Concordia Ltd. Poland
	Senior Banker Concordia Espirito Santo Investment Ltd.

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.

Remuneration of Directors and Management

The objective of the Company's remuneration policy is to provide

a compensation programme that allows attracting, retaining and motivating 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 the resolution of the Board of Directors in July 2008. Members of the remuneration committee are Marek Modecki (Chairman), Bernhard W. Lipinski and David Ring.

		Remuneration (2008)*			
		PEGAS NONWOVENS SA	Other Group Companies		
		Pecuniary Income	Pecuniary Income	Received in kind***	TOTAL
Members of the Board of Directors	Board Remuneration (incl. Supervisory board)	433,812	3,019	--	436,831
	Salaries and other similar income	--	51,812	18,927	70,739
	Management Bonus	132,185	--	--	132,185
	Other (compensation)	21,074	--	--	21,074
	TOTAL	587,071	54,831	18,927	660,829
Management of the Group Companies**	Salaries and other similar income	--	406,792	40,257	447,049
	Management Bonus	--	142,138	--	142,138
	Board Remuneration (incl. Supervisory board)	--	62,339	--	62,339
	TOTAL	--	611,269	40,257	651,526
TOTAL		587,071	666,100	59,184	1,312,355

* Excluding the Cash-settled Share-based Payment, which is described below.

** In compliance with a 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 13.

*** Includes use of the company car.

Information on Shares Held by the Management

As of December 31st, 2008, Board members of PEGAS held together 86,130 shares of PEGAS, representing 86,130 of aggregate voting rights.

Persons discharging managerial responsibilities within an issuer

held as of December 31st, 2008 31,144 shares of PEGAS, representing 31,144 of aggregate voting rights.

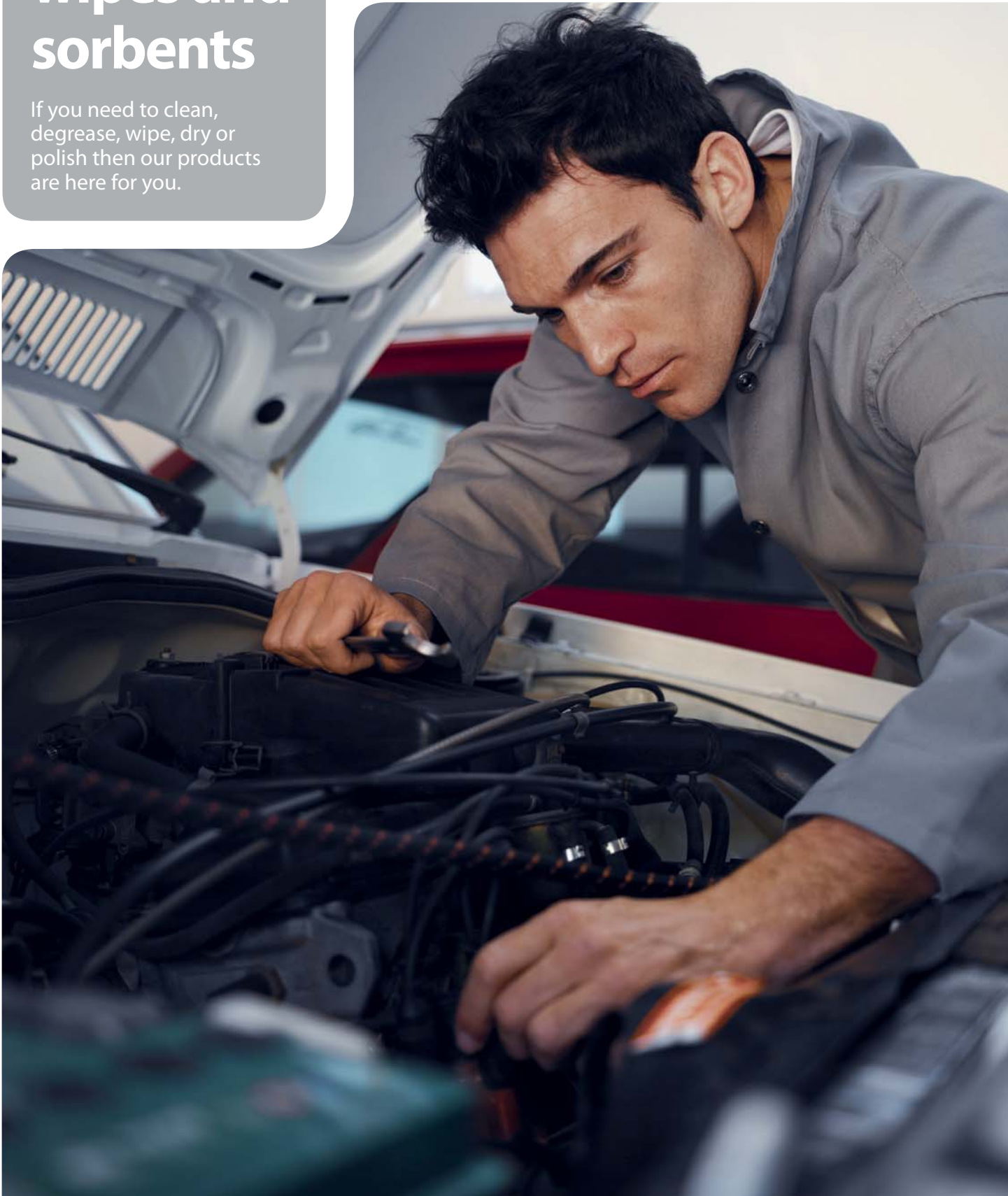
Cash-settled Share-based Payment for Executive Managers and Non-executive Directors

The AGM in 2007 approved a new phantom option scheme

targeted to directors of PEGAS NONWOVENS S.A. and to two members of the senior management of the Company. The scheme is designed to provide incentives to the senior management of PEGAS to deliver the Company's targets and align their interests with the interests of the Company's shareholders and

Filtration, wipes and sorbents

If you need to clean,
degrease, wipe, dry or
polish then our products
are here for you.



is effective in the four year period ending on December 18th, 2010. The Grant date of the phantom options was May 24th, 2007.

The key elements of the phantom share option scheme are as follows:

An aggregate amount of 173,755 phantom options was granted to the directors of PEGAS, for no consideration. An aggregate amount of 56,980 phantom options was granted to two members of the senior management of PEGAS NONWOVENS s.r.o., for no consideration. The overall scheme is therefore comprised of 230,735 phantom options.

Each phantom option, when exercised, will grant the manager the right to receive cash calculated as the closing price of one company share on the Prague stock exchange (the PSE) (or other market if the PSE trading is discontinued) on the day preceding the day of exercise of the phantom option less CZK 749.20 representing the offer price at the time of the initial public offering of the shares of PEGAS NONWOVENS S.A. (the IPO price). 25% of the phantom options vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on December 18th, 2007 and the last options vesting on the 4th anniversary of the IPO.

In 2008, none of the entitled persons exercised granted vested phantom options.

The fair value of the phantom options as at 31 December 2008 is TEUR nil.

As a result of personnel changes in 2008 the aggregate number of phantom options granted was reduced to 174,960 as at 31 December 2008.

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 AGM approved the principles of the bonus scheme for 2008 targeted to the senior management of PEGAS, namely executive directors of PEGAS NONWOVENS S.A.

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 year of 2008 and onwards.
- Basis for the bonus calculation is EBITDA calculated in accordance with Czech GAAP as the consolidated profit for the Group adjusted for certain

extraordinary items, gains or losses specified further in the document which was 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.

The achieved EBITDA in 2008 was 3% lower than the budgeted EBITDA to which the full target bonus was linked.

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 as amended as of January 1st, 2008

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 ensuring fast, secure and broad access to information. Using such communication methods to the broadest extent possible, a company should ensure adequate communication with investors and analysts, enable on-line broadcasts of General Meetings over the Internet, record General Meetings, and publish the recordings on the company website.
2. A company should ensure effective access to information necessary to assess the company's situation and outlook as well as its operations.
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. Remuneration of members of the company's governing bodies should correspond to the scope of tasks and responsibilities of the exercised function and be proportionate to the size of the company's business and reasonable in relation to its financial results.
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.

No.	RULE	YES/NO	COMMENT OF PEGAS NONWOVENS S.A.
Best Practice for Management Boards of Listed Companies			
1	A company should operate a corporate website and publish:		
	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	
	3) current and periodic reports;	YES	
	4) the date and place of a General Meeting, its agenda and draft resolutions together with their legal basis as well as other available materials related to the company's General Meetings, at least 14 days before the set date of the General Meeting;	YES	
	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	
	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.
	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 its introduction;	YES	
	13) a report on compliance with the corporate governance rules contained in this document.	NO	

No.	RULE	YES/NO	COMMENT OF PEGAS NONWOVENS S.A .
2	A company should publish its website 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.	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	Draft resolutions of a General Meeting should have grounds attached, with the exception of resolutions on points of order and typical resolutions adopted in the course of an Ordinary General Meeting. In view of the foregoing, the Management Board should present grounds or request the person motioning for the inclusion of an issue on the agenda of a General Meeting to provide grounds.	YES	
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	
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) once a year prepare and present to the Ordinary General Meeting an evaluation of its work; 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.
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.

No.	RULE	YES/NO	COMMENT OF PEGAS NONWOVENS S.A.
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	The Supervisory Board should establish at least an audit committee. The committee should include at least one member independent of the company and entities with significant connections with the company, who has qualifications in accounting and finance. In companies where the Supervisory Board consists of the minimum number of members required by law, the tasks of the committee may be performed by 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 S.A .
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	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
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.
Best Practices of Shareholders			
1	Presence of representatives of the media should be allowed at General Meetings.	NO	
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	Any shareholder who motions for the inclusion of an issue on the agenda of the General Meeting, including a motion to take an issue off the agenda, should provide grounds enabling an informed decision on the resolution.	YES	
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	
6	A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfillment must take place before the date of setting the right to dividend.	YES	
7	The General Meeting or the Supervisory Board should ensure that the company authorized to audit financial statements changes at least once every seven financial years.	YES	

Risk Factors

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

Marketing and Sales

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

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

A change in the demand of end-user 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.

Due to the slowing demand for nonwovens materials mainly from the construction industry and other technical fields, there is a risk that PEGAS will not be fully able to utilise its production capacities, which could adversely affect the Company's revenues and profitability.

Production

Any disruption to our 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 opportunities 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 is 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 increased on the back of the financial sector crisis and therefore increased interest costs could affect the Company's profitability.

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

There is a risk that the fluctuations in the value of the Czech koruna against the EUR 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 our 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.



Medical

Every day doctors improve our health and even save our lives by using products from nonwoven textiles.



Consolidated Financial Statements

of PEGAS NONWOVENS S.A. for the Year Ended
December 31st, 2008 and Independent Auditor's Report

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 on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders of Pegas Nonwovens S.A., we have audited the accompanying consolidated financial statements of Pegas Nonwovens S.A., which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of directors' responsibility 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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 by the *Institut des réviseurs d'entreprises*. 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 auditor'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 auditor 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 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.

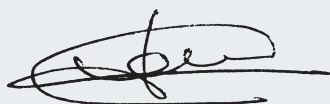
Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Pegas Nonwovens S.A. as of December 31, 2008, and of its financial performance and its 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.

Deloitte S.A.
Réviseur d'entreprises



Olivier Lefèvre
Partner

April 17, 2009

Consolidated Income Statement for the Year Ended December 31st, 2008

PEGAS NONWOVENS S.A.

Consolidated Income Statement

prepared under International Financial Reporting Standards (IFRS)

For the year ended 31 December (in thousands of EUR)	Note	2008	2007
Revenue	5 a), b)	142,771	121,971
Raw materials and consumables used	5 c)	(94,821)	(76,584)
Staff cost	5 f), g)	(6,545)	(6,279)
Depreciation and amortization expense	5 h)	(16,810)	(12,333)
Research expense	5 e)	(2,277)	(1,837)
Other operating income / (expense) net	5 d)	363	1,105
Profit from operations		22,681	26,043
Foreign exchange gains and other financial income	5 i)	10,920	9,321
Foreign exchange losses and other financial expense	5 j)	(13,150)	(5,561)
Interest income	5 k)	74	199
Interest expense	5 l)	(6,362)	(9,955)
Profit before income tax		14,163	20,047
Income tax (expense) / income	5 m)	726	2,091
Profit for the year		14,889	22,138
Attributable to:			
Equity holders of the Company		14,889	22,138
Minority interest		--	--
Net profit for the year		14,889	22,138
Earnings per share	5 n)		
Basic earnings per share (EUR)		1.61	2.40
Diluted earnings per share (EUR)		1.61	2.40

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

Consolidated Balance Sheet for the Year Ended December 31st, 2008

PEGAS NONWOVENS S.A.

Consolidated Balance Sheet

prepared under International Financial Reporting Standards (IFRS)

As at 31 December (in thousands of EUR)	Note	2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	5 o)	121,440	137,355
Intangible assets	5 p)	249	196
Goodwill	5 p)	86,154	87,157
Total non-current assets		207,843	224,708
Current assets			
Inventories	5 q)	12,731	12,416
Trade and other receivables	5 r)	27,360	26,244
Cash and cash equivalents	5 s)	309	511
Total current assets		40,400	39,171
Total assets		248,243	263,879
EQUITY AND LIABILITIES			
Share Capital and reserves			
Share capital	5 t)	11,444	11,444
Share premium	5 v)	26,152	33,997
Legal reserves	5 w)	2,433	1,120
Translation reserves		786	2,536
Retained Earnings	5 u)	58,364	44,788
Total share capital and reserves		99,179	93,885
Non-current liabilities			
Bank loans	5 x)	96,131	116,508
Other payables	5 y)	5	101
Deferred tax liabilities	5 z)	11,378	12,190
Total non-current liabilities		107,514	128,799
Current liabilities			
Trade and other payables	5 aa)	16,751	33,218
Tax liabilities	5 bb)	79	1,427
Bank current liabilities	5 x)	24,720	6,550
Total current liabilities		41,550	41,195
Total liabilities		149,064	169,994
Total equity and liabilities		248,243	263,879

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

Consolidated Cash Flow Statement for the Year Ended December 31st, 2008

PEGAS NONWOVENS S.A.

Consolidated Cash Flow Statement

prepared under International Financial Reporting Standards (IFRS)

For the year ended 31 December (in thousands of EUR)	Note	2008	2007
Profit before income tax		14,163	20,047
Adjustment for:			
Amortization and depreciation		16,810	12,333
Foreign exchange gains		(330)	(1,529)
Interest expense		6,362	9,955
Fair value changes of interest rate swap		2,055	(36)
Other financial expense		2,048	(251)
Cash flows from operating activities			
Decrease / (increase) in inventories		(495)	(3,623)
Decrease / (increase) in receivables		(798)	(1,753)
Increase / (decrease) in payables		(2,581)	(3,462)
Income tax paid		(2,119)	(140)
Net cash from operating activities		35,115	31,541
Cash flows from investment activities			
Purchases of property, plant and equipment		(18,619)	(18,878)
Net cash used in investment activities		(18,619)	(18,878)
Cash flows from financing activities			
Increase / (decrease) in bank loans		(1,314)	(17,735)
Increase / (decrease) in long term debt		(96)	(174)
Distribution		(7,845)	(7,014)
Interest paid		(5,395)	(9,490)
Other financial income		(2,048)	251
Net cash used in financing activities		(16,698)	(34,162)
Net decrease in cash and cash equivalents		(202)	(21,499)
Cash and cash equivalents at the beginning of the period		511	22,014
Effect of exchange rate fluctuations on cash held		--	(4)
Cash and cash equivalents at 31 December	5 s)	309	511

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

Consolidated Statement of Changes in Equity for the Year Ended December 31st, 2008

PEGAS NONWOVENS S.A.

Consolidated Statement of Changes in Equity

prepared under International Financial Reporting Standards (IFRS)

For the year ended 31 December 2008 (in thousands of EUR)	Share capital	Share premium	Legal reserves	Translation reserves	Retained earnings	Total equity attributable to equity holders of the Company	Minority interest	Total equity
at 31 December 2006	11,444	41,011	--	725	23,770	76,950	--	76,950
Distribution	--	(7,014)	--	--	--	(7,014)	--	(7,014)
Exchange differences	--	--	--	1,811	--	1,811	--	1,811
Net profit for the year	--	--	--	--	22,138	22,138	--	22,138
Reserves created from retained earnings	--	--	1,120	--	(1,120)	--	--	--
at 31 December 2007	11,444	33,997	1,120	2,536	44,788	93,885	--	93,885
Distribution	--	(7,845)	--	--	--	(7,845)	--	(7,845)
Exchange differences	--	--	--	(1,750)	--	(1,750)	--	(1,750)
Net profit for the year	--	--	--	--	14,889	14,889	--	14,889
Reserves created from retained earnings	--	--	1,313	--	(1,313)	--	--	--
at 31 December 2008	11,444	26,152	2,433	786	58,364	99,179	--	99,179

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

Notes to the consolidated financial statements

prepared under International Financial Reporting Standards (IFRS)

For the year ended 31 December 2008
(in thousands of EUR)

1. General information and definition of the consolidated entity

Description and principal activities

PEGAS NONWOVENS S.A. ("the Company"), originally incorporated under the name Pamplona PE Holdco 2 S.A., is a commercial company incorporated in Luxembourg on 18 November 2005, under the legal form of a "Société anonyme". The registered office is at 68–70, boulevard de la Pétrusse, L-2320 Luxembourg and the Company is registered with the Commercial Register of Luxembourg under number B 112.044. The Company acts only as a holding company.

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

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group").

2. Basis of preparation

(a) Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors and authorized for issue on 17 April 2009.

(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 subsidiaries is Czech Koruna ("CZK"). Their financial statements were translated from the functional currency to the presentation currency. The underlying functional currency of PEGAS NONWOVENS S.A. is EUR.

(c) Basis of measurement

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

(d) Use of estimates and judgements

The preparation of financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

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 valuation 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 periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(a) Consolidation methods

The consolidated financial statements incorporate the financial statements of PEGAS NONWOVENS S.A. and entities controlled by the Company (its subsidiaries). Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

(b) Foreign currencies

All Czech based companies in the Group operate in the Czech Republic which is their primary economic area. Consequently, the Czech Koruna (CZK) is the functional currency of these entities. The Company sets a fixed rate of exchange based on the Czech National Bank official rate 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 CZK/EUR (source: official rates of Czech National Bank):

	Exchange rate
Period average (for Income Statement and Cash Flow Statement)	
1 January 2007–31 December 2007	27.762
1 January 2008–31 December 2008	24.942
Balance sheet date	
Balance sheet as at 31 December 2007	26.620
Balance sheet as at 31 December 2008	26.930

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

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group operates in one segment.

(e) Research

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.

(f) Borrowing costs

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

(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 on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases of these assets and liabilities used in the computation of taxable profit are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated 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.

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

Grants relating to income tax

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

(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	12–20
Factory and office buildings	30–60
Cars and other vehicles	5–6

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(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.

(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 included in intangible assets. After the initial recognition, goodwill is stated at cost less impairment losses.

(l) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the asset is not a separate cash-generating unit, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

For the purposes of impairment testing, goodwill is 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 acquired 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. The cost is calculated using the weighted average method. The net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

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

(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.

(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.

The Group uses interest rate swaps to cover the risk of changes in interest rates. These derivative financial instruments do not fulfill the criteria for hedging instruments and are in accordance with IAS 39 classified as held-for-trading and carried at fair value, with changes in fair value included in net profit or loss of the period in they arise.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

A derivative is a financial instrument or other contract which fulfils the following conditions:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract,
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

(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 is a cash-settled payment 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, which vest annually, 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 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 at fair value at each reporting date. The changes in the fair value of these liabilities are recognized in the income statement 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***

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

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

(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, net of transaction costs, 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***

Two new Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period.

These are:

- IFRIC 11 IFRS 2: Group and Treasury Share Transactions (effective 1 March 2007)
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008).

The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

Amendments to standards IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures are effective from 1 July 2008. The amendments permit to reclassify some non-derivative financial assets in limited circumstances. The Group has not use this option.

Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements the following Standards and Interpretations were in issue but not yet effective. Their application is mandatory for accounting periods beginning on or after 31 December 2008. The Company has not opted for their early adoption. These include:

Amendments to Standards:

- *IAS 1 Presentation of Financial Statements (revised 2007)* (effective for annual periods beginning on or after 1 January 2009). The revised Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.
- *IAS 23 Borrowing costs (revised 2007)* (effective for annual periods beginning on or after 1 January 2009). The main change from the revised version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets.
- *IAS 27 Consolidated and separate financial statements (revised 2008)* (effective for annual periods beginning on or after 1 July 2009). The revised version applied together with IFRS 3 Business Combinations. The main change from the revised version is related to partial disposals of subsidiaries.
- *IAS 32 (revised 2008) Financial Instruments: presentation and IAS 1 (revised 2008) Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for annual periods beginning on or after 1 January 2009). As a result of the amendments, some financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the residual interest in the net assets of the entity.
- *IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items* (effective for annual periods beginning on or after 1 July 2009). The amendment addresses two particular situations: (1) the designation of a one-sided risk in a hedged item and (2) the designation of inflation in particular situations.
- *IFRS 1 First-time Adoption of International Financial Reporting Standards* (effective for annual periods beginning on or after 1 January 2009). The revised version has an improved structure but does not contain any technical changes.
- *IFRS 1 (revised in 2008) First adoption and IAS 27 (revised 2008) Consolidated and Separate Financial Statements: Cost of an Investment in a subsidiary, jointly-controlled entity or associate* (effective for annual periods beginning

on or after 1 January 2009). The key changes are: (1) definition of cost method in IAS 27 removed, (2) all dividends from subsidiaries, jointly controlled entities or associates to be recognised as income in the separate financial statements of the investor, (3) receipt of dividend may be an indicator of impairment if certain criteria are met and (4) specified accounting for certain transactions where a newly formed entity becomes the new parent of another entity in a group.

- *IFRS 2 (revised in 2008) Share-based Payment: Vesting Conditions and Cancellations* (effective for annual periods beginning on or after 1 January 2009). The amendment clarifies the terms “vesting conditions” and “cancellations”.
- *IFRS 3 Business Combinations (revised 2008)* (effective for annual periods beginning on or after 1 July 2009). The revised Standard implements changes mainly in (1) putting a greater emphasis on the use of fair value, (2) focusing on changes in control as a significant economic event and (3) focusing on what is given to the vendor as consideration, rather than what is spent to achieve the acquisition. IFRS 3 will have an impact on the way the Group reports on acquisitions.
- *IFRS 8 Operating Segments* (effective for accounting periods beginning on or after 1 January 2009). IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.
- *Improvements to IFRSs 2007* (effective for annual periods beginning on or after 1 January 2009)

Interpretation:

- *IFRIC 12 Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008, however not yet adopted by E.U.).
- *IFRIC 13 Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008). The Interpretation addresses how companies, which grant their customers loyalty award credits when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points.
- *IFRIC 15 Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009). The Interpretation addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors.
- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008). The Interpretation provides guidance on net investment hedging, including: (1) which foreign currency risks qualify for hedge accounting, and what amount can be designated; (2) where within the group the hedging instrument can be held; and (3) what amount should be reclassified to profit or loss when the hedged foreign operation is disposed of.
- *IFRIC 17 Distributions of Non-cash Assets to Owners replaces* (effective for annual periods beginning on or after 1 July 2009). The Interpretation clarifies that: (1) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (2) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (3) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

- *IFRIC 18 Transfers of Assets from Customers* (effective for annual periods beginning on or after 1 July 2009). The Interpretation is particularly relevant for the utility sector. It clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water).

Management does not expect any significant effects on adoption of these Interpretations and Standards.

(w) E.U. adoption of IAS/IFRS

European Commission Regulations adopted the following IASB standards and interpretations as published in the Official Journal of the European Union in 2008.

- *The Amendment to IAS 39 and IFRS 7 – Reclassification of Financial Assets was adopted by Commission Regulation (EC) No 1004/2008 as at 15 October 2008.*
- *IAS 23 Borrowing Costs was adopted by Commission Regulation (EC) No 1260/2008 as at 10 December 2008.*
- *IFRIC 13 Customer Loyalty Programmes was adopted by Commission Regulation (EC) No 1262/2008 as at 16 December 2008.*
- *IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction was adopted by Commission Regulation (EC) No 1263/2008 as at 16 December 2008.*
- *IFRS 2 Share-based Payment was adopted by Commission Regulation (EC) No 1261/2008 as at 16 December 2008.*
- *IAS 1 Presentation of Financial Statements (revised 2007) was adopted by Commission Regulation (EC) No 1274/2008 as at 17 December 2008.*

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

Amendments to standards:

- *IFRS 1 First-time Adoption of IFRS – Restructured standard (2008);*
- *IFRS 3 (revised in 2008) Business Combinations;*
- *IAS 27 (revised in 2008) Consolidated and Separate Financial Statements;*
- *IAS 39 (revised in 2008) Financial Instruments: Recognition and Measurement: Eligible Hedged Items.*

Interpretations:

- *IFRIC 12 Service Concession Arrangements;*
- *IFRIC 15 Agreements for the Construction of Real Estate;*
- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation;*
- *IFRIC 17 Distributions of Non-cash Assets to Owners;*
- *IFRIC 18 Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).*

4. Financial 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 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 advanced 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, totaling TEUR 27,360 as at 31 December 2008 (TEUR 26,244 as at 31 December 2007), of which 90 % represents trade receivables (86% as at 31 December 2007). Of the balance, TEUR 2,055 as at 31 December 2007 was a receivables in respect of fair value of interest rate swaps. There was no receivable in connection with interest rate swaps as at 31 December 2008.

Overview of trade and other receivables according to due date

	2008		2007	
		% of total		% of total
Not yet overdue	24,955	91.2%	24,403	92.9%
Overdue less than 1 month	2,068	7.6%	1,827	7.0%
Overdue more than 1 month	337	1.2%	14	0.1%
Total	27,360	100.0%	26,244	100.0%

The overdue amounts as at 31 December 2008 were paid by the end of January 2009 except for TEUR 140.

In 2008 the Group wrote off the overdue receivables in the amount of TEUR 13 (TEUR 0 in 2007). TEUR 12 of these receivables was paid back in February 2009 and the impairment losses in this amount were released.

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.

2008	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	--	28	--	--	--	28
Fixed interest rate instrument	0–1.75%	281	--	--	--	281
Financial liabilities:						
Variable interest rate instrument	1,2,3,6M EURIBOR +1.2% (1.25%)	13,935	19,951	105,142	--	139,028
Fixed interest rate instrument	6%	1,550	--	--	--	1,550

2007	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	--	28	--	--	--	28
Fixed interest rate instrument	1.5–3.35%	483	--	--	--	483
Financial liabilities:						
Variable interest rate instrument	1,2,3,6M EURIBOR +1.2% (1.25%)	2,201	16,291	133,795	--	152,287
Fixed interest rate instrument	6%	1,869	--	--	--	1,869

Weighted average payment days of issued invoices were 61 days in 2008 (56 days in 2007). Adequate days of received invoices were 46 days in 2008 (41 days in 2007).

Management believes that the funds and available credit lines described in Note 5x), 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 and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. 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.

2008	Less than 6 months	6 months–2 years	2 years–5 years	5+ years
Net settled:				
Interest rate swaps	85	(384)	--	--

2007	Less than 6 months	6 months–2 years	2 years–5 years	5+ years
Net settled:				
Interest rate swaps	793	1,325	--	--

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 activities only in the Czech Republic, it makes business on an international level, which results in the exposure to currency risks in respect of both its operating and financial activities. The functional currency of PEGAS NONWOVENS s.r.o. and its subsidiaries is Czech Koruna (CZK), while the functional currency of PEGAS NONWOVENS S.A. is Euro (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 3b).

The Company is in general exposed to exchange rate risks impacting income and cash flows.

Income statement*Trading*

Due to EUR being the functional currency of the Company, appreciation of CZK against EUR impacts consolidated cash flows negatively and vice versa. This effect is presented in the table on page 65 and 66 under line Trading.

Depreciation and amortization

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

Financial result

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

Corporate income tax

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

Cash flow*Trading*

The sales of own production in EUR and CZK cover the purchases of raw material, other operating costs and debt servicing in given currency, which 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 representing the cash flow exposure to currency risk. However FX rate changes influence the above mentioned trading as well as the cash flows.

Corporate income tax

Corporate income tax mentioned above influences also the cash flows.

Overview of income statement items by currency in 2008

	EUR	CZK	Other
Revenues	89%	11%	0%
Operating expenses (excl. depreciation and amortization)	81%	19%	0%
Depreciation and amortization	0%	100%	0%
Finance costs	100%	0%	0%
Corporate income tax *	n/a	n/a	n/a

* Corporate income tax currency distribution is not relevant in 2008 as the Group did not recognize the current tax.

Overview of income statement items by currency in 2007

	EUR	CZK	Other
Revenues	91%	8%	1%
Operating expenses (excl. depreciation and amortization)	83%	17%	0%
Depreciation and amortization	0%	100%	0%
Finance costs	100%	0%	0%
Corporate income tax	1%	99%	0%

The Group did not use any foreign exchange derivatives to reduce currency risk neither as at 31 December 2008 nor as at 31 December 2007.

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

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%

		2008	2007
Cash flow statement	Trading	(2,815)	(2,397)
	Corporate income tax*	(3,364)	(4,633)
	Total	(6,179)	(7,030)
Income statement	Trading	(2,815)	(2,397)
	Depreciation	(1,868)	(1,370)
	Unrealized FX gains from BS revaluation	16,021	19,303
	Corporate income tax*	(3,364)	(4,633)
	Total	7,974	10,903

Depreciation of CZK/EUR FX rate by 10%

		2008	2007
Cash flow statement	Trading	2,303	1,961
	Corporate income tax	--	--
	Total	2,303	1,961
Income statement	Trading	2,303	1,961
	Depreciation	1,528	1,121
	Unrealized FX losses from BS revaluation	(13,108)	(15,793)
	Corporate income tax*	--	--
	Total	(9,277)	(12,711)

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

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 150 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 5r).

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 annually 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 2008 and instantaneous and parallel increase of the EUR yield curve by 1% p.a., the loss from increased net interest expenses would reach TEUR 385 on an annual basis (TEUR 267 as at 31 December 2007). Higher impact derived from 1% yield curve movement in 2008 compared with 2007 is based on lower ratio of average IRS nominal amount on average interest rate bear net debt. The increase of the yield curve by 1% p.a. would increase the fair value of IRS by approximately TEUR 341 as at 31 December 2008 (approx. TEUR 978 as at 31 December 2007).

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 385 on an annual basis (TEUR 267 as at 31 December 2007) and the fair value of IRS would decrease by approximately TEUR 350 as at 31 December 2008 (approx. TEUR 1,024 as at 31 December 2007). Lower potential impact on fair value of IRS as at 31 December 2008 is due to lower notional amount of the swaps compared with 31 December 2007. The above mentioned hypothetical income is taxable. As a result, the income tax would increase by TEUR 7 in 2008 (TEUR 171 in 2007).

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

	2008		2007	
		% of total		% of total
Hygiene Sales				
Hygiene – specialty	35,142	24.6	27,543	22.6
Hygiene – other	88,801	62.2	77,289	63.4
Total hygiene	123,943	86.8	104,832	86.0
Non-hygiene	18,828	13.2	17,139	14.0
Total sales	142,771	100.0	121,971	100.0

Markets

	2008		2007	
		% of total		% of total
Domestic sales	28,472	19.9	18,889	15.5
Export	114,299	80.1	103,082	84.5
Total	142,771	100.0	121,971	100.0

b) Segment reporting

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

Geographical segments are defined as follows:

Region	2008	2007
Western Europe	80,197	77,832
Central and Eastern Europe	54,958	37,593
Russia	3,346	2,931
Others	4,270	3,615
Total	142,771	121,971

In presenting information on the basis of geographical segments, segment revenue is based on the real delivery of the goods. The geographical distribution of the revenues shown in the previous year notes was based on invoice address of the customer. The new distribution provides more relevant information about the character of business.

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

c) Raw materials, consumables and services used

	2008	2007
Raw materials consumed	81,423	66,512
Consumed spare parts and repairs	3,485	2,832
Energy consumed	7,247	4,672
Other consumables	660	478
Other services	2,006	2,090
Total raw materials and consumables used	94,821	76,584

“Raw materials consumed” represented 85.9% of the total amount of raw materials, consumables and services used in 2008 (86.8% in 2007).

d) Other operating income / (expense) net

	2008	2007
Gain on the sale of equipment	34	34
Insurance proceeds	44	147
Insurance cost	(551)	(494)
Other taxes	(24)	(24)
Other income	860	1,442
Other operating income / (expense) net total	363	1,105

The item Other income includes a successful arbitration award in favour of PEGAS-NT a.s. in 2007 as compensation for damages in the amount of TEUR 1,040.

e) Research

In 2008, research expenses were TEUR 2,277. The most significant part represents expenditure on raw materials for products testing in the amount of TEUR 1,549.

In 2007, the Group invested TEUR 1,837 in research, of which expenses on raw materials for products testing amounted to TEUR 1,354.

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

2008	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
Employees	373	6,198	4,479	--	--	1,592	127
Executives and Non-executives	8	347	261	519	(494)	58	3
Total	381	6,545	4,740	519	(494)	1,650	130

2007	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
Employees	348	4,952	3,590	--	--	1,259	103
Executives and Non-executives	10	1,327	521	191	494	117	4
Total	358	6,279	4,111	191	494	1,376	107

Mr. John Halsted and Mr. Henry Gregson resigned as non-executive Board members of PEGAS NONWOVENS S.A. in 2007. Mr. Halsted resigned on 21 September 2007 and Mr. Gregson on 12 December 2007. Both served as non-executive Board members of the Company from December 2005.

As at 31 December 2007, two non-executive directors and six executive managers worked for the Company. Four of these executive managers were members of the Board of Directors as at 31 December 2007.

Mr. Trávníček and Mr. Bogdan left the Company in 2008. Mr. Trávníček resigned as an executive manager in February 2008 and left the Company as at 30 April 2008 and Mr. Miloš Bogdan, member of the Board of PEGAS NONWOVENS S.A. and executive manager resigned from all positions within the Group on 6 October 2008.

Four executive managers, Mr. Bogdan, Mr. Klačka, Mr. Řezáč and Mr. Gerža were members of the Company's Board as at 31 December 2007. As a result of Mr. Bogdan's resignation, the number of the executive managers working as a Board members as well, went down to three as at 31 December 2008.

Effective as of 8 April 2008, Mr. Marek Modecki was appointed as non-executive director and member of the Board of Directors of PEGAS.

Three non-executive directors and four executive managers served as at 31 December 2008. Three of these executive managers were members of the Board of Directors as at 31 December 2008.

Executive managers (including Czech Board members) may use the Company's cars for private purposes. Executive managers do not receive any other benefits in addition to this.

Apart from phantom share options the Board members did not receive any loans, advances or any other benefit in kind in both 2008 and 2007.

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.

Summary of the contractual terms of the phantom option scheme in 2007:

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	57,686	46,148	11,538	295	236	59
24 May 2007	18 Dec 2008	749.2	57,683	46,147	11,536	98	79	19
24 May 2007	18 Dec 2009	749.2	57,683	46,147	11,536	59	47	12
24 May 2007	18 Dec 2010	749.2	57,683	46,147	11,536	42	33	9
Total			230,735	184,589	46,146	494	395	99

As a result of personnel changes in 2008 described in Note 5f), the following changes into the number of option granted have occurred. Mr. Trávníček's entitled rights under the share option plan expired and may no longer be exercised. Mr. Bogdan lost the rights under the share option plan except for the first part of the plan vested in December 2007.

Summary of the contractual terms of the phantom option scheme in 2008:

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	--	--	--
24 May 2007	18 Dec 2008	749.2	41,432	29,896	11,536	--	--	--
24 May 2007	18 Dec 2009	749.2	41,432	29,896	11,536	--	--	--
24 May 2007	18 Dec 2010	749.2	41,432	29,896	11,536	--	--	--
Total			174,960	128,814	46,146	--	--	--

No phantom shares were exercised neither in 2008 nor 2007.

The fair value of the phantom options as at 31 December 2008 is nil (TEUR 494 as at 31 December 2007).

The non-executive directors benefit is nil (TEUR 99 as at 31 December 2007) of the total amount. The drop of the fair value in 2008 is attributable mainly to the sharp decrease of PEGAS NONWOVENS S.A. share price.

The Black-Scholes pricing model was used to calculate the fair value of the phantom options. The assumptions used in the model are as follows:

- Last price of PEGAS NONWOVENS S.A. shares in 2008 quoted in Prague Stock Exchange used (CZK 232.90 as at 31 December 2008, CZK 750.50 as at 31 December 2007).
- The participants are expected to exercise the given part of granted phantom options within ten years from vesting.
- Risk free interest rate is linearly interpolated from CZK interbank PRIBOR rates (<12M) and CZK interest rate swap points (>12M).
- Standard deviation for whole period from IPO used for volatility of shares calculation (41.27% in 2008, 20.82% in 2007).

h) Depreciation and amortization expense

	2008	2007
Depreciation of tangible assets	16 738	12 289
Amortization of intangible assets	72	44
Total	16 810	12 333

i) Foreign exchange gains and other financial income

	2008	2007
Realized and unrealized foreign exchange gains	10,919	9,285
Fair value changes of interest rate swap	--	36
Other financial income	1	--
Total	10,920	9,321

j) Foreign exchange losses and other financial expenses

	2008	2007
Realized and unrealized foreign exchange losses	11,020	5,509
Fair value changes of interest rate swap	2,055	--
Other financial expense	75	52
Total	13,150	5,561

Other financial expense includes mainly bank fees.

k) Interest income

	2008	2007
Interest income	74	199

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

l) Interest expense

	2008	2007
Interest and debt settlement expenses on loans and borrowings	6,152	9,747
Interest on employee deposits	106	97
Other	104	111
Total	6,362	9,955

m) Income tax (expense) / income

	2008	2007
Current income tax	1	(1,297)
Deferred income tax	725	3,388
Total	726	2,091

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

Effective tax rate

	2008	% of total	2007	% of total
Profit before income tax	14,163		20,047	
Income tax calculated using the enacted tax rate	2,974	21.0%	4,811	24.0%
Effect of income tax rate changes	--	--	(1,087)	(5.3%)
Effect of consolidation and IFRS adjustments that do not have impact on deferred tax	52	0.4%	(535)	(2.7%)
Effect of tax incentives	(3,683)	(26.0%)	(5,113)	(25.4%)
Effect of items deductible from the tax base	(64)	(0.5%)	(79)	(0.4%)
Effect of unrecognized deferred tax asset in the Czech Republic	(8)	(0.1%)	(212)	(1.1%)
Effect of the difference between the tax rate in the Czech Republic and Luxembourg and effect of unrecognized deferred tax asset relating to PEGAS NONWOVENS S.A. in Luxembourg	11	0.1%	67	0.3%
Other effects	(8)	(0.1%)	57	0.3%
Total income tax / effective tax rate	(726)	(5.1%)	(2,091)	(10.4%)

Three companies of the Group have received investment incentives in the Czech Republic. PEGAS – DS a.s. was granted investment incentives in the regime preceding the Act on Incentives, receiving a grant from the state to pay income tax. 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. and PEGAS – NW a.s. were granted an investment incentive after the effective date of the Act on Incentives. PEGAS-NT a.s. recognizes the grant for income tax as a tax discount and does not account for the total tax liability. PEGAS – NW a.s. started making use of the incentive in 2008. To translate the maximum amount of investment incentives into EUR, the CZK/EUR 26.62 rate of exchange effective on 31 December 2007 was used.

	Max. percentage of expended amount used as corporate tax relief	Max. amount in million CZK	Max. amount in million EUR	Corporate tax relief for	First year of usage of corporate tax relief
PEGAS – DS a.s.	50%	--	--	10 years	2001
PEGAS-NT a.s.	45%	509.9	19.2	10 years	2005
PEGAS – NW a.s.	48%	573.6	21.5	10 years	2008

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

Since nearly all taxable income were generated from the operating activity in the Czech Republic, the tax rate of 21% (24% in 2007) 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 2008 was based on the net profit attributable to equity holders of TEUR 14,889 and a weighted average number of ordinary shares in 2008. Diluted earnings per share are calculated based on a weighted average number of shares in circulation (determined similarly as in the case of basic earnings per share) adjusted by the effect of the expected issue of all potential diluted securities, i.e. the effect of convertible loan notes in the case of the Group. Convertible bonds are the bonds with a right to convert to ordinary shares. The basic and diluted earnings per share as at both 31 December 2008 and 31 December 2007 are equal due to the fact, that the Group does not have any agreement at the balance sheet date which will cause a potential future issue of securities. No changes to the number of shares occurred during either 2008 or 2007.

No minority interests in subsidiary companies were recognized as at December 31, 2008 and December 31, 2007.

Weighted average number of ordinary shares

2007

	Number of outstanding shares in 2007	Weighted average
January–December	9,229,400	9,229,400

2008

	Number of outstanding shares in 2008	Weighted average
January–December	9,229,400	9,229,400

Basic earnings per share

		2008	2007
Net profit attributable to equity holders	TEUR	14,889	22,138
Weighted average number of ordinary shares	Number	9,229,400	9,229,400
Basic earnings per share	EUR	1.61	2.40

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

Diluted earnings per share

		2008	2007
Net profit attributable to equity holders	TEUR	14,889	22,138
Weighted average number of ordinary shares	Number	9,229,400	9,229,400
Diluted earnings per share	EUR	1.61	2.40

o) Property, plant and equipment

	Land and buildings	Production machinery	Other equipment	Under Construction	Pre-payments	Total
Acquisition cost						
Balance at 31/12/2006	29,973	85,750	5,866	1,373	2,982	125,944
Additions	6,314	24,716	3,010	53	447	34,540
Disposals	(3)	--	(4)	(3)	--	(10)
Transfers	1,292	3,011	--	(1,350)	(2,953)	--
Exchange differences	1,313	4,008	322	(10)	(10)	5,623
Balance at 31/12/2007	38,889	117,485	9,194	63	466	166,097
Additions	88	627	486	62	--	1,263
Disposals	(1)	--	(368)	--	--	(369)
Transfers	(168)	--	733	(67)	(498)	--
Exchange differences	(442)	(1,399)	(169)	(1)	32	(1,979)
Balance at 31/12/2008	38,366	116,713	9,876	57	--	165,012
Accumulated depreciation						
Balance at 31/12/2006	1,463	13,388	571	--	--	15,422
Depreciation expense	948	10,599	742	--	--	12,289
Disposals	(1)	--	(3)	--	--	(4)
Exchange differences	89	894	52	--	--	1,035
Balance at 31/12/2007	2,499	24,881	1,362	--	--	28,742
Depreciation expense	1,257	14,441	1,040	--	--	16,738
Disposals	--	--	(368)	--	--	(368)
Exchange differences	(122)	(1,352)	(66)	--	--	(1,540)
Balance at 31/12/2008	3,634	37,970	1,968	--	--	43,572
Net book value						
31/12/2006	28,510	72,362	5,295	1,373	2,982	110,522
31/12/2007	36,390	92,604	7,832	63	466	137,355
31/12/2008	34,732	78,743	7,908	57	--	121,440

p) Intangible fixed assets

	Software	Goodwill	Total
Acquisition cost			
Balance at 31/12/2006	133	84,384	84,517
Additions	136	--	136
Disposals	(18)	--	(18)
Exchange differences	9	2,773	2,782
Balance at 31/12/2007	260	87,157	87,417
Additions	132	--	132
Disposals	(5)	--	(5)
Exchange differences	(12)	(1,003)	(1,015)
Balance at 31/12/2008	375	86,154	86,529
Accumulated amortization			
Balance at 31/12/2006	31	--	31
Amortization expense	44	--	44
Disposals	(13)	--	(13)
Exchange differences	2	--	2
Balance at 31/12/2007	64	--	64
Amortization expense	72	--	72
Disposals	(5)	--	(5)
Exchange differences	(5)	--	(5)
Balance at 31/12/2008	126	--	126
Net book value			
31/12/2006	102	84,384	84,486
31/12/2007	196	87,157	87,353
31/12/2008	249	86,154	86,403

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 2008 and 2007. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The management has determined that for goodwill testing purposes all acquired subsidiaries are considered as one cash generating unit. The value in use calculation requires the Management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Based on above mentioned calculation, no impairment of goodwill was recognized neither in 2008 nor 2007.

q) Inventories

	2008	2007
Materials	4,155	5,034
Products	6,169	5,046
Semi-finished products	635	642
Spare parts	1,772	1,634
Other	--	60
Total	12,731	12,416

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

r) Current trade and other receivables

	2008	2007
Receivables from sales of products	25,412	22,460
Advance payments	87	91
Fair value of interest rate swaps	--	2,055
Value added tax receivables	1,518	1,350
Prepaid expenses	298	133
Accrued income	14	83
Other	31	72
Total	27,360	26,244

The Group concluded two interest rate swaps in 2006 in order to hedge interest rate risk. Under these contracts the Company pays a fixed interest rate of 3.236 % p.a. and receives the floating interest rate represented by 6M EURIBOR. The swaps were amortized with the following combined notional amounts:

Period	Notional amount (in TEUR)
14/03/2006–14/06/2006	106,500
14/06/2006–14/12/2006	101,831
14/12/2006–14/06/2007	97,163
14/06/2007–14/12/2007	92,494
14/12/2007–16/06/2008	87,825
16/06/2008–15/12/2008	82,845
15/12/2008–15/06/2009	77,865
15/06/2009–14/12/2009	72,263

Fair value of these swaps is determined by the EUR yield curve at the balance sheet date and the discounted cash flow method.

Fair value of the swaps as at 31 December 2008 and 2007 is as follows:

Counterparty	2008	2007
Česká spořitelna	(167)	1,003
Erste Bank	(121)	1,052
Total	(288)	2,055

Fair value of the swaps as at 31 December 2008 represents the payable of the Company (see Note 5 aa).

These swaps hedged 63.6% of the Group's debts as at 31 December 2008 (70.3% as at 31 December 2007).

s) Cash and cash equivalents

	2008	2007
Cash in hand	28	28
Current accounts	81	148
Time / overnight deposits	200	335
Total	309	511

Relatively low level of cash and cash equivalents is due to a new cash management policy in connection with the refinancing of the Company's debt in 2007. The new bank debt facilities allow the Company to use cash balances towards debt outstanding on the daily basis. For details refer to Note 5x).

t) Share capital

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

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

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

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

The total number of shares as at 31 December 2006 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 2008 or 2007.

u) Retained earnings

There were no dividends from retained earnings paid in the year ended 31 December 2008 (neither in the year ended 31 December 2007). For detail about Distribution refer to Note 5 v).

v) Share premium

On 30 September 2008, the Company distributed EUR 7,844,990 or EUR 0.85 per share (EUR 7,014,344 or EUR 0.76 per share on 27 September 2007) to its shareholders in form of a share premium repayment.

w) Legal reserves

Legal reserves are obligatorily created from net profit after tax by the Czech entities under the Czech 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 May 2007, the Company refinanced its previous senior bank debt taken on in late 2006 with a 5-year syndicated loan totaling EUR 150 million. The new facilities consist of a revolving credit facility of up to EUR 130 million and of a non-syndicated overdraft facility of up to EUR 20 million.

The bank facilities are non-amortizing, which removes the Company from its obligations of the Company to make mandatory repayments.

2008	Drawdown limit	Bank loan liability	Arrangement fees	Carrying amount	Current	Non-current	Interest rate	Interest rate at 31/12/2008
Revolving	130,000	119,000	(1,280)	117,633	21,502	96,131	1,2,3,6M EURIBOR + 1.2 %	4.723%
Overdraft	20,000	3,328	(197)	3,218	3,218	--	1,2,3,6M EURIBOR + 1.25 %	3.942%
Bank loans total	150,000	122,328	(1,477)	120,851	24,720	96,131		

2007	Drawdown limit	Bank loan liability	Arrangement fees	Carrying amount	Current	Non-current	Interest rate	Interest rate at 31/12/2007
Revolving	130,000	119,000	(1,669)	117,331	823	116,508	1,2,3,6M EURIBOR + 1.2%	5.394%
Overdraft	20,000	5,984	(257)	5,727	5,727	--	1,2,3,6M EURIBOR + 1.25%	6.059%
Bank loans total	150,000	124,984	(1,926)	123,058	6,550	116,508		

These bank loans are secured by:

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

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

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

y) Other payables due after one year

The balance of other payables of TEUR 101 in 2007 represents the long term part of the phantom options scheme payables. As at 31 December 2008 fair value of the phantom options is nil.

z) Deferred tax

Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Property, plant and equipment	--	--	(11,826)	(12,268)	(11,826)	(12,268)
Inventories	111	154	--	--	111	154
Other	337	--	--	(76)	337	(76)
Deferred tax asset / (liability)	448	154	(11,826)	(12,344)	(11,378)	(12,190)
Offset of deferred tax assets and liabilities	(448)	(154)	448	154	--	--
Deferred tax asset / (liability)	--	--	(11,378)	(12,190)	(11,378)	(12,190)

In accordance with accounting policy described in Note 3 h., 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. 21% for year 2008, 20% for year 2009 and 19% for the following years (2007 – 24%). The tax rate decrease arised from the tax reforms ratified by Czech Parliament in 2007.

The decrease of deferred tax in the amount of TEUR 812 consists of deferred tax income of TEUR 725 and effect of foreign exchange gain of TEUR 87.

aa) Current trade and other payables

	2008	2007
Trade payables	11,931	28,110
Advances received	--	21
Liabilities to employees	2,300	3,154
Deferred income	1,398	1,598
Fair value of interest rate swaps	288	--
Other	834	335
Total	16,751	33,218

The company opened a new production line in 2007. High trade payables in 2007 were attributable to purchases of new machinery in connection with this new production line in the amount of TEUR 15 081. The repayment of the payables for this machinery caused the decrease of this item in 2008.

bb) Tax liabilities and other tax liabilities

	2008	2007
Employment tax	58	76
Corporate income tax liability reduced by income tax prepayments	21	1,351
Total	79	1,427

cc) 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.

6. Related parties transactions

- a) In 2007, the Group repaid a liability to Pamplona Equity Advisors I Ltd. in the amount of TEUR 204;
- b) Except for the information provided under Note 5f) and 5g) there were no other transactions between the Group and the executive managers or the non-executive directors.

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.

7. Contingencies and commitments

The Group has no material contingencies or commitments which would not be reported in the balance sheet.

8. Material subsequent events

The management of the Group is not aware of any events that have occurred since the balance sheet date that would have any material impact on the consolidated financial statements as at 31 December 2008.



František Řezáč
Member of the Board
of PEGAS NONWOVENS S.A.



Aleš Gerža
Member of the Board
of PEGAS NONWOVENS S.A.

Stand-alone Financial Statements

of PEGAS NONWOVENS S.A. for the Year Ended
December 31st, 2008 and Independent Auditor's Report

Independent Auditor's Report

Deloitte.

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REPORT OF THE REVISEUR D'ENTREPRISES

Following our appointment by the General Meeting of the Shareholders dated June 16, 2008, we have audited the accompanying annual accounts of PEGAS NONWOVENS S.A., which comprise the balance sheet as at December 31, 2008 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of directors' responsibility for the annual accounts

The board of directors is responsible for the preparation and fair presentation of these annual accounts in accordance with the Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the réviseur d'entreprises

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 by the Institut des réviseurs d'entreprises. 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.

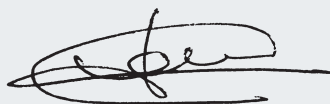
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgement of the réviseur d'entreprises, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises 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 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, 2008, and of the results of its operations for the year then ended in accordance with the Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Deloitte S.A.
Réviseur d'entreprises

A handwritten signature in black ink, appearing to be 'O. Lefèvre', with a long horizontal stroke extending to the right.

Olivier Lefèvre
Partner

Luxembourg, March 11, 2009

Stand-alone Balance Sheet for the Year Ended December 31st, 2008

PEGAS NONWOVENS S.A.

Stand-alone Balance Sheet

Balance Sheet for the Year Ended December 31, 2008 (expressed in EUR)

ASSETS	Notes	2008	2007
Fixed assets:			
Financial assets:			
- Shares in affiliated undertakings	3	383,812.76	383,812.76
Current assets:			
Debtors:			
Amounts owed by affiliated undertakings:	4		
- becoming due and payable within one year		1,050.00	1,050.00
- becoming due and payable after more than one year		35,158,674.70	44,858,674.70
Cash at bank		276,806.16	387,727.05
		35,436,530.86	45,247,451.75
Prepayments		204,178.08	24,611.37
		36,024,521.70	45,655,875.88

The accompanying notes are an integral part of these annual accounts.

PEGAS NONWOVENS S.A.

Stand-alone Balance Sheet

Balance Sheet for the Year Ended December 31, 2008 (expressed in EUR) (continued)

LIABILITIES	Notes	2008	2007
Capital and reserves:	5		
Subscribed capital		11,444,456.00	11,444,456.00
Share premium		31,766,384.20	39,611,374.20
Loss brought forward		(6,470,234.16)	(4,800,337.42)
Loss for the year		(1,061,284.41)	(1,669,896.74)
		35,679,321.63	44,585,596.04
Provisions	6	5,055.62	494,015.83
Creditors:			
Tax debts	7	21,482.50	21,420.00
Other creditors becoming due and payable within one year		318,661.95	554,844.01
		340,144.45	576,264.01
		36,024,521.70	45,655,875.88

The accompanying notes form an integral part of these annual accounts.

Stand-alone Profit and Loss Account for the Year Ended December 31st, 2008

PEGAS NONWOVENS S.A.

Stand-alone Profit and Loss Account

Stand-alone Profit and Loss Account for the Year Ended December 31, 2008 (expressed in EUR)

CHARGES	Notes	2008	2007
Staff cost	8	601,959.86	325,718.73
Operating charges		1,004,805.92	860,950.78
Phantom option plan	6	--	494,015.83
Interest payable and similar charges		9,684.83	6,732.85
Taxes	7	62.50	12,520.00
		1,616,513.11	1,699,938.19

INCOME	Notes	2008	2007
Reversal of phantom option plan	6	493,979.57	--
Interest receivable and similar income		61,249.13	30,041.45
Loss for the financial year		1,061,284.41	1,669,896.74
		1,616,513.11	1,699,938.19

The accompanying notes form an integral part of these annual accounts.

Notes to the Stand-alone Financial Statements

NOTE 1 – GENERAL

PEGAS NONWOVENS S.A. 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 the Prague Stock Exchange (PSE) and the 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 including the following significant accounting policies:

a) Financial assets

Financial assets are stated at historical acquisition cost. Dividends are recognized when they are declared by the affiliated undertaking. Write-downs are recorded if, in the opinion of management, a permanent impairment in value has occurred.

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.

c) Debtors

Debtors are recorded at nominal value less any value adjustment for doubtful accounts.

d) Cash-settled share-based payment

In 2007, the Company entered into a Share price bonus scheme for its Board Members and the key personnel of its subsidiaries. The scheme is a cash-settled payment 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, which vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on December 18, 2007 and the last options vesting on the 4th anniversary of the IPO.

The Company measures the provision arising from the phantom options at fair value at each reporting date, the changes in the fair value are recognized in the profit and loss account 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

e) Comparative figure

The comparative figures for the year 2007 have been reclassified for comparison purposes with the 2008 presentation. Net profit was not affected by this reclassification.

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.

As of December 31, 2008, 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	1,529,795	378,052

The shareholders equity includes the result for the period. The shareholders equity and result for the period are based on the consolidated accounts for the year ended December 31, 2008.

The participation in PEGAS NONWOVENS s.r.o. has been pledged to secure bank loans.

NOTE 4 – AMOUNTS OWED BY AFFILIATED UNDERTAKINGS

On December 13, 2005, the Company granted a first loan to its subsidiary 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 its subsidiary for an amount of EUR 43,525,943.70. During the year ended December 31, 2008, the Company has received partial reimbursements for an aggregate amount of EUR 9,617,269.00. As of December 31, 2008, the outstanding principal amount of this loan amounted to EUR 33,908,674.70 (2007: EUR 43,525,943.70). This loan bears no interest and is repayable on November 29, 2056.

On December 13, 2005, the Company granted a second loan to its subsidiary for an amount of EUR 15,000,000. This loan bore interest at a rate applicable to the Mezzanine Loan plus a margin of 0.125%. This loan was repayable on December 14, 2014 at the latest. Part of this loan amounting to EUR 9,800,576.92 comprising of principal and accrued interest was reimbursed by the Company's subsidiary on August 31, 2006. On November 29, 2006, the loan including accrued interest was replaced by a new loan granted by the Company to its subsidiary for an amount of EUR 6,855,833.92. It bears no interest and is repayable on November 29, 2056. This loan was partially repaid on August 31, 2007 for an amount of EUR 6,773,102.92. On February 28, 2008, the outstanding amount of this loan was fully repaid.

On January 30, 2007, the Company granted another loan to its subsidiary 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.

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.

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 EUR 46,625,600.

As a result of the share premium distributions made on September 27, 2007 and on September 25, 2008 for an aggregate amount of respectively EUR 7,014,344.00 and EUR 7,844,990.00, the share premium account amounted to EUR 31,766,384.20 as of December 31, 2008 (2007: EUR 39,611,374.20).

As of December 31, 2008, 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.

	Legal reserve	Share premium	Profit brought forward	Result for the year
	EUR	EUR	EUR	EUR
Balance at January 1, 2008	-	39,611,374.20	(4,800,337.42)	(1,669,896.74)
Appropriation of profit or loss				
- Share premium distribution in 2008	-	(7,844,990.00)	-	-
- Loss brought forward	-	-	(1,669,896.74)	1,669,896.74
- Loss for the year ended December 31, 2008	-	-	-	(1,061,284.41)
Balance at December 31, 2008	-	31,766,384.20	(6,470,234.16)	(1,061,284.41)

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. No allocation is required in the current year due to losses incurred.

NOTE 6 – PROVISIONS

The Annual General Meeting held on June 15, 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 May 24, 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. 25% of the phantom options vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on December 18, 2007 and the last options vesting on the 4th anniversary of the IPO.

As a result of departure of two senior executive managers in 2008, the aggregate number of options granted decreased to 174,960 as of December 31, 2008.

The fair value of the phantom options as at December 31, 2008 was EUR 36.26 (2007: EUR 494,015.83). The drop of the fair value in 2008 is mainly attributable to the sharp decrease of PEGAS NONWOVENS S.A. share price.

No phantom shares were exercised in 2007 and in 2008.

Also included in the line item "Provisions" is an accrual for non-competition compensation relating to the departure of a director of the company. As of December 31, 2008, the accrual for non-competition compensation amounted to EUR 5,019.36 (2007: EUR 0.00).

NOTE 7 – TAXES

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

NOTE 8 – STAFF COST

The staff costs are made up of Director's fees and Management bonus.

Glossary

Atmospheric plasma treatment – An ionized gas treatment like corona and flame, used to treat materials that require higher surface energies for promoting adhesion.

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 town 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.

CzechInvest – CzechInvest is the investment and business development agency of the Czech Republic whose services and development programmes contribute to attracting foreign investment and to developing Czech companies.

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.

IFRS – International Financial Reporting Standards.

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.

INOTEX s.r.o. – INOTEX is a successor to the Research Textile Finishing Institute (RTFI). It was founded in 1992 and in 1996 took over RTFI. INOTEX focuses on research, development, service and transfer of technologies in the field of pre-preparations, dyeing, printing and special modifications.

IPO – Initial Public Offering.

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

Lock-up Period – An interval during which an investment may not be sold. In the case of an IPO, management and employees may not sell their shares for a period time determined by the underwriter and usually lasting 180 days.

Masaryk University, Brno – Masaryk University, located in Brno, is the second-largest public university in the Czech Republic and the leading tertiary education institution in Moravia. At present it comprises of nine faculties with more than 200 departments, institutes and clinics.

Meltblown Process – Technological process of producing nonwovens. 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.

National Depository for Securities (NDS) – The National Depository for Securities is the central institution responsible for the management and supervision of the depository-settlement system in relation to trading in financial instruments in Poland.

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 needled.

Over-allotment Option – A right granted to an underwriter by an issuer or a selling security holder to acquire, for the purposes of covering the underwriter's over-allocation position, a distributed security of the issuer that has the same designation and attributes as a distributed security that is distributed under a prospectus.

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.

Přímětice – Formerly an independent village, currently a suburb of Znojmo. PEGAS operates its main production facilities here.

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.

SAP – Information system software.

Spunmelt/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.

Univyc – a company which takes care of a settlement of trades in securities on the Czech capital market. Univyc is a 100% subsidiary of the Prague Stock Exchange.

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

Other information

Basic Information on the Company

Name

PEGAS NONWOVENS S.A.

Address:

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

Registry and registration number:

Registered with the Luxembourg trade and companies register under number B 112.044

Incorporated:

November 18th, 2005 under the name Pamplona PE Holdco 2 S.A.

Jurisdiction:

Luxembourg

The holding company of PEGAS, PEGAS NONWOVENS S.A., was incorporated in Luxembourg as a public limited liability company (société anonyme) for an unlimited duration on November 18th, 2005 under the name Pamplona PE Holdco 2 S.A. and is registered with the Luxembourg trade and companies register under number B 112.044. The articles of incorporation of the Company have been published in the Mémorial, Recueil des Sociétés et Associations number C 440 of March 1, 2006. The Company's registered office is at 68–70, boulevard de la Pétrusse, L-2320 Luxembourg, Luxembourg. The registered office and principal place of business of 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 follow subsidiary, in which the Company has a direct or indirect financial interest, any assistance as, e.g., pledges, loans, advances or guarantees;
- d) to borrow and raise money in any manner and to secure the repayment of any money borrowed;
- e) to borrow funds and issue bonds and other securities; and
- f) to perform any operation which is directly or indirectly related to this purpose.

Principal subsidiaries

Subsidiaries in which PEGAS NONWOVENS S.A. 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 669 04	25478478	Production of textiles, production of plastic and rubber products
PEGAS – DS a.s.	Znojmo, Přímětická 3623/86, PSČ 669 04	25554247	Production of nonwoven textiles. R&D of technology, textiles and manufacturing
PEGAS-NT a.s.	Znojmo, Přímětická 3623/86, PSČ 669 04	26287153	Production of textiles
PEGAS – NW a.s.	Znojmo, Přímětická 3623/86, PSČ 669 04	26961377	Production of textiles
PEGAS – NS a.s.	Znojmo, Přímětická 3623/86, PSČ 669 04	27757951	Production of nonwoven textiles, intermediation of trade and services, R&D in the field of natural, technical and social science

Expenses of PEGAS group related with external auditors services in year 2008

EUR thousands	Audit	Other	Total
PEGAS NONWOVENS S.A.	21.9	9.5	31.4
Other companies within PEGAS Group	97.0	17.5	114.5
Total	118.9	27.0	145.9

Other corporate information

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.

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.

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, and the effects thereof.

All shares issued by PEGAS 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 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.

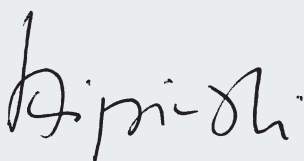
The Company is party to service agreements with its executive directors, which provide for compensation if the executive director is made redundant for other reasons than for breach of his obligations. Each executive director is entitled to receive from the Company his monthly remuneration (but not bonus) which he would be entitled to receive from all companies of the 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 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.

Statements of Responsible Persons

Bernhard W. Lipinski, Chairman of the Board of PEGAS NONWOVENS S.A.
František Řezáč, Member of the Board of PEGAS NONWOVENS S.A.,

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.



Bernhard W. Lipinski
Chairman of the Board
of PEGAS NONWOVENS S.A.



František Řezáč
Member of the Board
of PEGAS NONWOVENS S.A.

Contacts

PEGAS NONWOVENS S.A.

Address:

68-70, boulevard de la Pétrusse
L-2320 Luxembourg
Luxembourg

Registry and registration number:

Registered with the Luxembourg trade and Companies register under numer B 112.044

Incorporated:

November 18th, 2005 under the name Pamplona PE Holdco 2 S.A.

PEGAS NONWOVENS s.r.o.

Znojmo, Přímětická 3623/86, PSČ 66904
IČ: 25478478

PEGAS – DS a.s.

Znojmo, Přímětická 3623/86, PSČ 66904
IČ: 25554247

PEGAS-NT a.s.

Znojmo, Přímětická 3623/86, PSČ 66904
IČ: 26287153

PEGAS – NW a.s.

Znojmo, Přímětická 3623/86, PSČ 66904
IČ: 26961377

PEGAS – NS a.s.

Znojmo, Přímětická 3623/86, PSČ 66904
IČ: 27757951

Notes

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