

**PEGAS NONWOVENS S.A.**  
**(formerly Pamplona PE Holdco 2 S.A.)**  
**Société anonyme**  
**68-70, boulevard de la Pétrusse**  
**L-2320 Luxembourg**  
**R.C.S. Luxembourg B 112.044**  
**(the "Company")**

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<b>DIRECTORS' REPORT</b> <b>FOR THE ACCOUNTING YEAR ENDED ON DECEMBER 31, 2006</b>
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To the Shareholders of PEGAS NONWOVENS S.A. (formerly Pamplona PE Holdco 2 S.A.):

In accordance with our duties as Directors of PEGAS NONWOVENS S.A. (further "PEGAS"), (formerly Pamplona PE Holdco 2 S.A.), we hereby submit the annual accounts as of December 31, 2006.

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

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

- b) the company's likely future development,

In 2007, the main priorities for PEGAS's operating subsidiaries will be:

- *Successfully to bring on its new production line on time and on budget and therefore increase its capacity by more than 27% (based on current production basis weights);*
- *To develop new specialty products which will prove attractive to its customers;*
- *To improve further its production efficiency;*
- *To maintain its position as a leader in the market for spunmelt nonwoven textiles for the disposable hygiene products market;*
- *To maintain its low production costs.*

The new production line is currently under construction and due to enter service in the fourth quarter of 2007. It will be PEGAS's eighth line and will enable a rapid increase in production capacity from the current 54.2 thousand tonnes per annum to 69 thousand tonnes per annum in 2008 (based on current production basis weights). This line is therefore a key component of PEGAS's strategy of increasing its production of high margin specialty products. This strategy is designed to keep PEGAS at the leading edge of nonwoven technology and to maintain its margins at a higher level. The line will allow PEGAS to increase the proportion of its sales which are specialty products.

- c) activities in the field of research and development,

All research and development activities are conducted by the operating subsidiaries of PEGAS as described below. PEGAS was not involved in any activities in the field of research and development on stand-alone basis.

*Development and Technical Support*

Starting in the mid 1990s, PEGAS has built a team dedicated to product development and technical support. The team provides customers with solutions throughout the production stream by incorporating the input of the technology provider and material suppliers, as well as the final product manufacturer and

final customer requirements. New technologies in nonwovens production are tailored to the parameters of the raw material, production lines, customers' specifications and demand for the finished product, with a view to improving the quality and efficiency of the production, especially into the direction of lightweight materials. Resulting benefits are shared with customers. Some of PEGAS's development projects have also attracted government grants or subsidies, including one that supports a development project for improving waste recycling. These development projects have resulted in the implementation of the regranulation project in 2006 and, additionally, in the reduction of waste. In addition, PEGAS continues to work closely with a number of raw materials suppliers to develop new polymer grades which offer greater efficiency when running on the Reicofil systems. In the field of totally new materials, PEGAS successfully commercialised a range of special bicomponent nonwovens in 2006 which have offered clients significantly improved softness and technical properties. In addition, PEGAS is actively working on developing special elastic nonwovens which, if successful, will offer clients significant enhancements in comfort and other benefits.

PEGAS cooperates with several universities and independent research centers in the Czech and Slovak Republics and in Germany.

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

No acquisition of own shares was conducted in 2006.

e) the existence of branches of the company.

#### Group Entities

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

#### Subsidiaries included in the consolidated entity

Company	Acquisition date	Share in the subsidiary	Registered capital (in CZK thousands)	Registered capital (in Euro thousands)	Number and nominal value of shares
CEE Enterprise a.s.	December 5, 2005	100 %	3 600	131	100 shares at CZK 20 thousand share and 1 600 thousand shares at CZK 1 per share
PEGAS NONWOVENS s.r.o.*	December 5, 2005	100 %	3 633	132	100% interest of CZK 3 633 thousand
PEGAS - DS a.s.	December 14, 2005	100 %	800 000	29 096	64 shares at CZK 10 000 thousand per share and 64 shares at CZK 2 500 thousand share
PEGAS-NT a.s.	December 14, 2005	100 %	550 000	20 004	54 shares at CZK 10 000 thousand per share and 10 shares at CZK 1 000 thousand per share
PEGAS - NW a.s.	December 14, 2005	100 %	5 000	182	5 shares at CZK 1 000 thousand per share

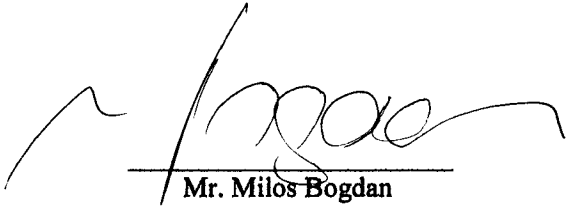
\* PEGAS NONWOVENS s.r.o. was registered on November 14, 2003 as ELK INVESTMENTS s.r.o and changed its name to PEGAS NONWOVENS s.r.o. in 2006. PEGAS a.s., the subsidiary of PEGAS NONWOVENS s.r.o., was established in 1990. It merged with PEGAS NONWOVENS s.r.o. with effect from January 1, 2006 and was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

PEGAS ended the year with a loss amounting to four million seven hundred seventy-four thousand four hundred eighty-four Euros and forty-three Cents (EUR 4,774,484.43) and a total balance sheet of fifty-six million two hundred seventy-four thousand seven hundred fifty-eight Euros and forty-one Cents (EUR 56,274,758.41).

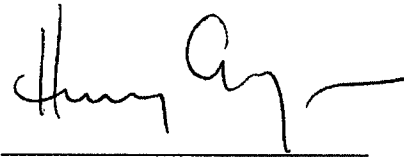
We propose to bring forward the loss of the year.

We recommend that you grant full discharge to the directors, the statutory auditor and that you approve the annual accounts as presented to you.

Luxembourg, April 19, 2007



Mr. Milos Bogdan  
Executive Director



Mr. Henry Gregson  
Non-Executive Director