

**Report on the Application of WSE Corporate Governance Principles by
PEGAS NONWOVENS SA (the Company) for the Financial Year Ended on
31 December 2008**

- a) **Indication of which corporate governance rules were not applied by the issuer and indication of under what circumstances and for what reasons the specific rule was not applied, and how the company intends to remove effects, if any, of not having applied a given rule and what steps it intends to take to mitigate the risk of the specific rule not being applied in the future;**

The Company is incorporated and organized under the Luxembourg law. Therefore, on account of the Company's one-tier board structure organized as permitted under Luxembourg law, not all the rules set forth in the "Code of Best Practice for WSE Listed Companies" applied directly to the Company and/or some have only been applied to the corresponding extent.

In 2008, the Company did not comply with the following rules set forth in the "Code of Best Practice for WSE Listed Companies":

Best Practice for Management Boards of Listed Companies Rule 1, paragraph 6

The Company should publish 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.

The Company was unable to comply with this rule as there is a one-tier board structure in the Company – there is no Supervisory Board.

Best Practice for Management Boards of Listed Companies Rule 1, paragraph 11

The Company should publish 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.

The Company was unable to comply with this rule as there is a one-tier board structure in the Company – there is no Supervisory Board.

Best Practice for Management Boards of Listed Companies Rule 1, paragraph 13

The Company should publish a report on compliance with the corporate governance rules contained in this document.

The report on compliance with the corporate governance rules was issued after the publishing of the annual report.

Best Practice for Management Boards of Listed Companies Rule 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.

The Company was partially unable to comply with this rule as there is a one-tier structure in the Company – there is no Supervisory Board.

Best Practices of Supervisory Boards Rule 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.

As there is no Supervisory Board in the Company, the Company was unable to comply with this rule.

Best Practices of Supervisory Boards Rule 3

A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.

As there is no Supervisory Board in the Company, the Company was unable to comply with this rule.

Best Practices of Supervisory Boards Rule 5, 6, 7, 8, 9

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.

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.

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.

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.

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.

As there is no Supervisory Board in the Company, the Company was unable to comply with these rules.

Best Practices of Shareholders Rule 1

Presence of representatives of the media should be allowed at General Meetings.

In 2008, no media representative expressed an interest to attend the General Meeting of the Company.

b) Description of the procedures of the General Meeting and its main powers and the rights of the shareholders and procedures of their execution;

General Meeting of PEGAS NONWOVENS SA is treated by provisions of the Luxembourg Law on commercial companies dated 10 August 1915, as amended (the **Law**) and Articles of association of PEGAS NONWOVENS SA. The General Meeting properly constituted represents the entire body of shareholders. Annual General Meeting (the **AGM**) is held at the registered office of the Company, or at such other place in the municipality of its registered office as may be specified in the notice of meeting, on 15 June of each year at 11 a.m. local time (if such day is a legal holiday, the AGM shall be held on the next following business day). Other General Meetings may be held at such place and time as may be specified in the respective notices of meeting. General Meetings shall meet upon call of the Board of Directors. It shall be necessary to call a General Meeting within a month whenever a group of shareholders representing at least one tenth of the subscribed capital requires so by written notice. Any shareholder may act at any General Meeting by appointing in writing another person as his proxy. Except as otherwise required by the Law, any shareholder has the right to vote in writing by correspondence.

At AGM, each share entitles its shareholder to one vote. Except as otherwise required by the Law, resolutions at a General Meeting duly convened will be passed by a simple majority of the shareholders present and voting, without any quorum requirements.

The General Meeting has the powers conferred upon it by the Law and the Articles of Associations. The General Meeting powers include, among others, approval of the Management Board report on the Company's activities, financial statements for the financial year, discharge of the liability of the members of the Board of Directors and the auditors, allocation of the net results of the financial year or loss coverage, appointment of an independent auditor, appointment of directors, remuneration policy for directors, change of the Articles of Association, increasing or decreasing the basic capital.

c) Personal composition and procedures of the Company's managing and supervisory bodies and their committees;

The Company has a one-tier board structure; as permitted by Luxembourg law, Supervisory Board has not been established. The Company is administered and managed by a 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. 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 as at 31 December 2008.

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 Klaška	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

The remuneration committee was established by the resolution of the Board of Directors in June 2008. Members of the remuneration committee are non-executive directors Marek Modecki, Bernhard W. Lipinski and David Ring.

The day-to-day business is directed by senior management of the Company. Members of senior management as at 31 December 2008 were:

František Řezáč – Chief Executive Officer

Aleš Gerža - Chief Financial Officer

František Klaška – Technical Director

Rostislav Vrbáček – Production Director



The professional CV's are available on internet pages www.pegas.cz and are regularly published in Annual Reports.

d) Description of the basic features of the company's internal control and risk management systems related to the process of preparing financial statements.

The Management of the Company is responsible for the establishment and maintenance of internal control system in the Company and its efficiency in the process of preparing financial statements. Internal control system covers the entire activities of the Company. The Company has established a continuous process for identifying and managing various potential risks faced by the Company, and confirms that any appropriate actions have been taken, or are being taken, to address any issue. Financial statements, both for internal and external reporting purposes, are prepared by highly skilled professionals and reviewed by other independent personnel. The annual financial statements are subject to the independent examination by the external auditor.