

**PEGAS NONWOVENS S.A.**  
*Société anonyme*  
**Registered office: 68-70, boulevard de la Pétrusse,**  
**L-2320 Luxembourg,**  
**Grand Duchy of Luxembourg**  
**R.C.S. Luxembourg: section B number 112.044**  
**(the “Company”)**

**REPORT OF THE BOARD OF DIRECTORS  
TO THE SHAREHOLDERS OF THE COMPANY**

**On the purpose of the exclusion or limitation of shareholders’ pre-emptive subscription rights in accordance with article 32-3 (5) of the Luxembourg law on commercial companies of 10 August 1915, as amended.**

Dear shareholders,

In accordance with article 32-3 (5) of the Luxembourg law on commercial companies of 10 August 1915, as amended from time to time (the “**Law**”), the board of directors of the Company (the “**Board**”) hereby submits for your attention this report which shall be presented to the annual general meeting of the Company to be held on 16 June 2014 (or in the case of re-convening of the annual general meeting in the absence of a quorum, the date of holding of the second general meeting) in connection with:

- the issue by the Company of 230,735 warrants (the “**New Warrants**”) within the framework of a new incentive scheme for the period 2014-2016 (the “**New Scheme**”) to be implemented by the Company in June 2014 for the sole benefit of directors and senior management of the Company and/or its affiliates (the “**Directors**”) and exclusion of the shareholders’ pre-emptive subscription rights with respect to the New Warrants;
- the creation of a new authorised capital of the Company by total amount of EUR 1,716,668.40 up to a maximum amount of share capital EUR 13,161,124.40 (the “**Authorised Capital**”) and authorisation of the Board to exclude or limit shareholders’ pre-emption rights in relation to an increase of capital made within the Authorised Capital.

In that respect, and considering that:

- (i) the introduction of the Authorised Capital is intended for giving the Board a flexibility to improve Company’s positions by enabling the Board to be financially flexible in further development of the Company and by allowing the Board to make use of new investment opportunities; and
- (ii) the implementation of the New Scheme will be realized for the exclusive benefit of the Directors within the framework of an inventive scheme aiming at motivating the Directors and,

- notably, at basing their motivation on the Company's share price performance and the dividend distributions for the computation of the total share performance value; and
- (iii) in relation to an increase of capital made within the Authorised Capital, it is contemplated to authorise the Board to exclude or limit the shareholders pre-emptive rights by restricting the relevant shares' subscription price (and/or the subscription price of rights to subscribe for or to convert any other securities into shares, as the case may be) (or an exercise price, as the case may be) to the amount that is not lower than 85% (eighty-five percent) of the average closing price of the shares on the various stock exchanges on which shares are listed in the calendar month preceding the relevant issue (calculated in euros on the basis of the euro foreign exchange reference rates as determined by the European Central Bank on the business day preceding the date of the relevant issue); and
  - (iv) in relation to the issuance of the New Warrants, it is contemplated that the subscription price will be CZK 5.89 per New Warrant to be paid in cash, and each New Warrant, when exercised, will grant the Director to either receive i) one share in the Company for a strike price corresponding to CZK 588.16 (representing the average of the Company's share price on the Prague Stock Exchange from October 1, 2013 to December 31, 2013) less all the dividends which have been validly declared by the Company, per Company's share, for the relevant financial year(s) (i.e. the financial year 2014 for the New Warrants to be vested in 2014, the financial years 2014 and 2015 for the New Warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the New Warrants to be vested in 2016), or ii) a payment in cash amounting to the final price of one share of PEGAS on the Prague Stock Exchange on the business day preceding the exercise date, plus all the dividends which have been validly declared by the Company, per Company's share, for the relevant financial year(s) (i.e. the financial year 2014 for the New Warrants to be vested in 2014, the financial years 2014 and 2015 for the New Warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the New Warrants to be vested in 2016), less the strike price of CZK 588.16 (representing the average of the Company's share price on the Prague Stock Exchange from October 1, 2013 to December 31, 2013). A total number of 230.735 new warrants will be issued with the first 1/3 of the new warrants vesting on 15 December 2014, the second 1/3 of the new warrants vesting on 15 December 2015 and the last 1/3 of the new warrants vesting on 15 December 2016. The expiration date of the new incentive scheme is 15 December 2019. The strike price which applies to the New Warrants, i.e. CZK 588.16, is calculated on the basis of the average of PEGAS's share price on the Prague Stock Exchange from October 1, 2013 to December 31, 2013. The New Warrant purchase price of CZK 5.89.- corresponds to their fair market value as determined by an expert valuation,

it is essential to preserve the right of the Directors to benefit from the issue of the shares (and/or the subscription price of rights to subscribe for or to convert any other securities into shares, as the case may be) made within the New Scheme, as well as to ensure that the objectives pursued by the Company through the creation of the Authorised Capital and implementation of the New Scheme are achieved.

Thus, it would be beneficial for the Company to be able to authorise the Board to exclude or limit the shareholders' pre-emption rights in relation to an increase of capital made within the Authorised Capital, as well as to issue the New Warrants without reserving a pre-emptive subscription right to the existing shareholders of the Company.

Accordingly, the Board proposes, by the present, to authorise the Board to exclude or limit the shareholders' pre-emption rights in relation to an increase of capital made within the Authorised

Capital, as well as to the Company's shareholders to withdraw the pre-emptive subscription right of the existing shareholders of the Company with respect to the issue of the New Warrants.

Luxembourg, 16 May 2014