**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 15 June 2017 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 2017-2019 (the "**New Scheme**") to be implemented by the Company in June 2017 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.

In that respect, and considering that:

(i) the implementation of the New Scheme will be realized for the exclusive benefit of the Directors within the framework of an incentive 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

(ii) in relation to the issuance of the New Warrants, it is contemplated that the subscription price will be CZK 12,70 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 777 (representing the average of the Company's share price on the Prague Stock Exchange from October 1, 2016 to December 31, 2016) 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 2017 for the New Warrants to be vested in 2017, the financial years 2017 and 2018 for the New Warrants to be vested in 2018 and the financial years 2017, 2018 and 2019 for the New Warrants to be vested in 2019), 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 2017 for the New Warrants to be vested in 2017, the financial years 2017 and 2018 for the New Warrants to be vested in 2018 and the financial years 2017, 2018 and 2019 for the New Warrants to be vested in 2019), less the strike price of CZK 777 (representing the average of the Company's share price on the Prague Stock Exchange from October 1, 2016 to December 31, 2016). A total number of 230,735 New Warrants will be issued with the first 1/3 of the New Warrants vesting on 15 December 2017, the second 1/3 of the New Warrants vesting on 15 December 2018 and the last 1/3 of the New Warrants vesting on 15 December 2019. The expiration date of the new incentive scheme is 15 December 2022. The strike price which applies to the New Warrants, i.e. CZK 777, is calculated on the basis of the average of PEGAS's share price on the Prague Stock Exchange from October 1, 2016 to December 31, 2016. The New Warrant purchase price of CZK 12,70 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 implementation of the New Scheme are achieved.

Thus, it would be beneficial for the Company to exclude the shareholders' pre-emption rights in relation to the issue of the New Warrants.

Accordingly, the Board proposes, by the present, to exclude the shareholders' pre-emption rights in relation to the issue of the New Warrants.

Luxembourg, 10 May 2017