ANNUAL REPORT 2019

PFNonwovens a.s.

THE ANNUAL REPORT 2019 IS EXECUTED IN CZECH LANGUAGE. THIS ENGLISH TRANSLATION IS FOR INFORMATION PURPOSES ONLY. IN THE CASE OF A DISCREPANCY, THE CZECH VERSION WILL PREVAIL.

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Introduction

Introduction

PFNonwovens a.s. (hereafter "the Company") and its subsidiaries (together jointly referred to as "the Group") is one of the leading producers of nonwoven textiles in the EMEA region (Europe, the Middle East and Africa) for use primarily in the personal hygiene products market. The Group supplies its customers with 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 Group has grown over the past almost three decades and based on 2019 annual production capacity, it has become one of the leading producers of spunmelt nonwovens in the EMEA region. The Group currently operates ten production lines in the Czech Republic, one production line in Egypt, which commenced commercial production in 2013 and one production line in the Republic of South Africa, which commenced commercial production at the end of the first half of 2019. The total production capacity of the Group is currently up to 110 thousand tonnes of nonwoven fabric per annum in the Czech Republic, up to 20 thousand tonnes in Egypt and up to 10 thousand tonnes in the Republic of South Africa.

The Group consists of a parent holding company in the Czech Republic and four operating companies, PFNonwovens Czech s.r.o., PFN – NW a.s., PFN – NS a.s. and PFN – GIC a.s., all located in the Czech Republic. For the purpose of international expansion, a new company PFNonwovens International s.r.o. was established in 2010 and subsequently PFNonwovens Egypt LLC was established in June 2011, which invests in the Egyptian production facility. In July 2016, a subsidiary PFNonwovens RSA (PTY) LTD was established for the purpose of realization of the investment project in the Republic of South Africa. At the end of 2019, the Group employed more than 680 people.

Shares in the Company are listed on the Prague Stock Exchange following an Initial Public Offering in December 2006. In 2017, R2G Rohan Czech s.r.o. (now PFNonwovens Holding s.r.o.) became the new majority shareholder. PFNonwovens a.s. and its affiliated companies are members of PFNonwovens holding (concern) subject to single management by PFNonwovens Holding s.r.o.

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

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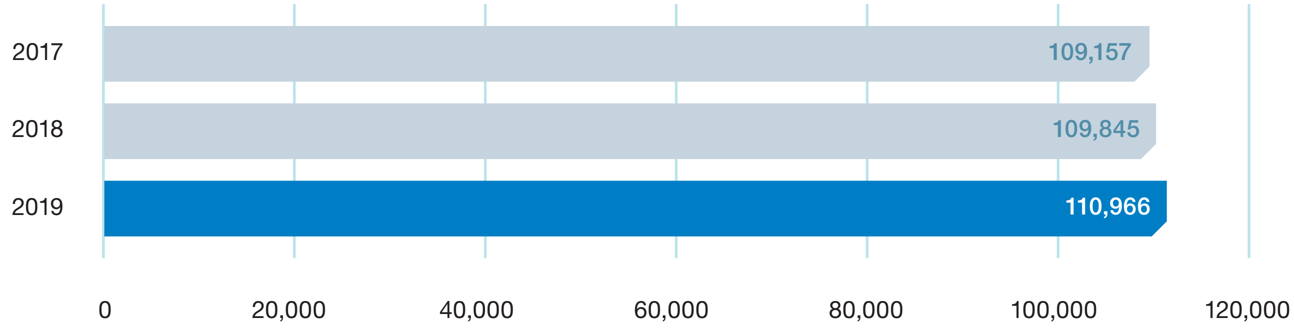
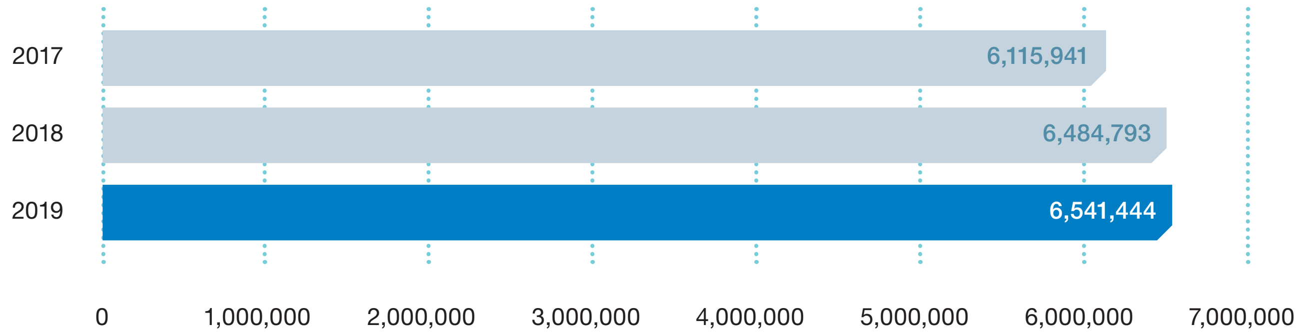
Year 2019 in Brief

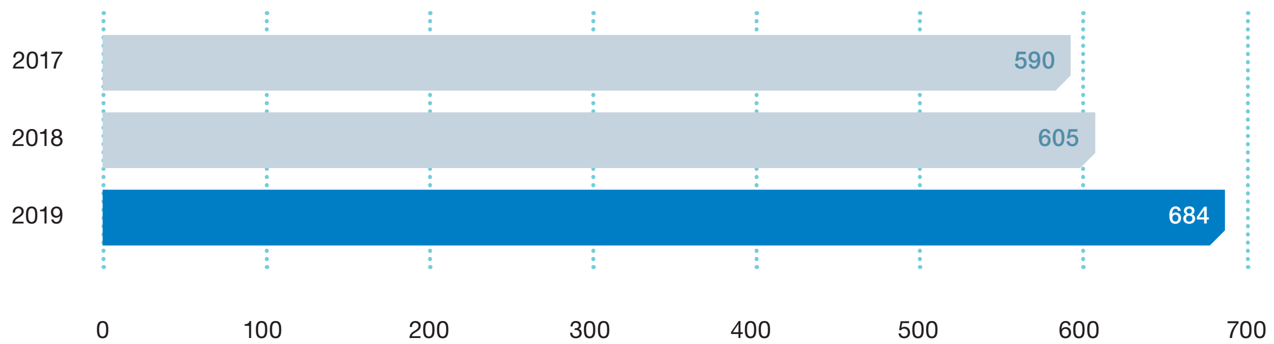
Total production output (in tonnes net of scrap)



Revenues (CZK thousands)



Number of employees – EOP



Financials (CZK thousands)	2019	2018
Revenues	6,541,444	6,484,793
EBITDA	1,217,498	1,347,054
Profit from Operations	687,995	879,531
Net Profit for the Period Attributable to Shareholders	473 198	815,157
No. of Shares - End of Period (“EOP”)	8,763,859	8,763,859
Total Assets	11,585,281	10,861,924
Total Equity	5,486,101	4,970,752
Total Borrowings	4,987,874	5,076,635
Net Debt	4,785,340	4,676,501
CAPEX	1,166,589	748,345

Ratios	2019	2018
EBITDA Margin	18.6%	20.8%
Operating Profit Margin	10.5%	13.6%
Margin of Net Profit Attributable to Shareholders	7.2%	12.6%
CAPEX as % of Revenues	17.8%	11.5%

Operations	2019	2018
Total Production Output (in tonnes net of scrap)	110,966	109,845
Number of Employees – EOP	684	605

Exchange Rates	2019	2018
USD/CZK average	22.934	21.735
USD/CZK EOP	22.621	22.466
ZAR/CZK average	1.588	1.647
ZAR/CZK EOP	1.611	1.562

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Statement of the CEO

Dear shareholders, business partners, colleagues,

I would like to take this opportunity to share my perspective on the most important events of last year and to shed some light on our expectations and plans for 2020.

As usual, I will start by evaluating last year from the financial-operational perspective. Our production volumes last year hit record levels and we produced nearly 111 thousand metric tons of nonwoven textiles, which we supplied to our customers throughout the world. Despite this record production figure, we did not manage to meet our ambitious EBITDA target that was in the range CZK 1.30 – 1.45 billion.

The entire year 2019 was characterized by very low finished products inventory levels, a situation that persisted from the end of 2018. Our inventory levels bottomed out in mid 2019 when we had merely fourteen days of inventory in our warehouses, less than half of our standard level. We were unable to restore our finished product inventory to normal throughout 2019. This resulted in frequent production changeovers and significantly worse production efficiency compared to 2018. In 2019, we also started to feel the competitive pricing pressures and overall overcapacity in the nonwovens market, which were reflected in our results. And finally, the fact that our new investments went into commercial operation later than expected in 2019 meant that they did not contribute as much to the full-year results as had been planned.

Despite certain unavoidable delays, we are very happy that we have managed to successfully complete the project in South Africa, which is now running at full speed with production efficiency now achieving standard benchmark levels. Our other major project last year was the installation of a new semi-commercial line in Znojmo, which has been producing standard commercial product since September. The special part of this production line is now successfully in the finalization and testing phase. I see substantial potential in this new special line and believe that it will greatly contribute towards our efforts in research, testing and subsequent commercialization of new high-value innovative products with application potential in both current as well as future end products.

In addition to the progress that we've made in our expansion projects in 2019, we also concluded new supply agreements with our key customers, thus ensuring demand for both our current as well as new capacities for a couple of years into the future.

So far, 2020 has proven to be quite demanding and we see this situation continuing for some time. The breakout of the corona virus pandemic has presented us with many new challenges, quite unlike any that we've ever faced in the past. Nevertheless, we have quickly adapted to these new conditions, taking proactive steps to maintain close real-time communications with all our production sites and key business partners as the situation continues to evolve. As a result, our production has not been impacted by the pandemic and we are presently operating at full capacity. Our company has managed to overcome the unpleasant obstacles brought by these unprecentented market conditions and we stand firm with respect to the commitments we have made to our stakeholders.

On the basis of our outlook for 2020 and in line with the present market conditions coupled with an increasing staff and energy cost base, we have set our 2020 EBITDA guidance in the range from CZK 1.25 to 1.4 billion. Also, in accordance with the announced strategy of the company, the Board of Directors shall propose to the General Meeting not to pay out dividends for the year 2019.

Finally and most importantly, I would like sincerely thank all our customers, business partners and shareholders for their support and, of course, our employees that keep everything running despite the present challenges.

Carl Allen Bodford

Chairman of the Board of Directors of PFNonwovens a.s.
CEO of PFNonwovens Group

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Investor Information

4.1 Shares and Share Capital

The total Share Capital of the Company as at 31 December 2019 was EUR 10,867,185.16. The Share Capital of the Company consisted of 8,763,859 shares with a nominal value of EUR 1.24 each.

Identifiers

ISIN	LU0275164910

Rights and obligations associated with the shares

Rights and obligations of shareholders are governed by Articles 23–26 of the Company's Articles of Association and include:

- right to a share of profits, dividends if and when distributed
- right to a share of the surplus upon liquidation
- right to a participate in the General Meeting, vote, request, and obtain explanations
- the shareholders with shares with a nominal value of at least 3% of the Company's registred capital may:
    - to ask the Board of Directors to convene a General Meeting to discuss the matters proposed by them,
    - to ask the Board of Directors to include on the agenda of the General Meeting the matter determined by them in accordance with the procedures set forth in the Articles of Association and the Act on Commercial Corporations,
    - to ask the Supervisory Board to review the performance of the Board of Directors' responsibilities in the matters specified in the request,
    - to claim damages against a member of the Board of Directors or the Supervisory Board

Structure of shareholders as at 31 December 2019

of which PFNonwovens Holding s.r.o.	89.99%
of which institutional and retail investors (free float)	10.01%
of which owns shares	0.00%
of which shares held by the Board of Directors	0.00%

Changes in ownership structure in 2019

During 2019 there were no changes in the ownership structure of the Company. The Company did not receive any notifications regarding ownership interests in the Company.

Public tradeability of shares

The shares of the Company are publicly traded on the Prague Stock Exchange as of 18 December 2006. As of 19 March 2007, they are part of the PX Index, which consists of all major issues on the PSE.

The Company´s shares were delisted from trading on the Warsaw Stock Exchange with effect from 19 September 2017.

The list of shareholders is replaced by the evidence of registered securities kept at the central securities depository (Centrální depozitář cenných papírů, a.s.) pursuant to special legal regulations.

Share Price Development and Trading Activity in 2019

During 2019, the Company´s shares were traded for a total value of CZK 302.6 million on the Prague Stock Exchange. The lowest trading price during the year was CZK 666 and the highest trading price was CZK 846.

The closing price on 30 December 2019 was CZK 700 on the Prague Stock Exchange and the market capitalisation of the Company reached CZK 6.1 billion.

SHARE PRICE DEVELOPMENT 1 JANUARY 2019–31 DECEMBER 2019

Source: PSE

Annual General Meeting held on 14 June 2019

The Annual General Meeting of the Company held on 14 June 2019 in Znojmo, Czech Republic, approved all proposals.

The agenda of the Meeting was the following:

1. Election of the chair of the General Meeting, the minute taker, minute verifiers, and scrutinisers.
2. Approval of the Rules of Procedure of the General Meeting.
3. Report of the Board of Directors on the Company's business activities and assets in 2018; a summary explanatory report pursuant to Section 118 (9) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended; conclusions of the Company's 2018 report on relations.
4. Report of the Supervisory Board on the results of its activities in 2018; a statement of the Supervisory Board concerning the regular consolidated financial statements for 2018, the regular unconsolidated financial statements for 2018, the proposal for the settlement of 2018 loss, and the Company's 2018 report on relations.
5. Approval of consolidated financial statements of the Company prepared as at 31 December 2018.
6. Approval of separate financial statements of the Company prepared as at 31 December 2018.
7. Decision on the settlement of the Company's 2018 loss.
8. Appointment of an auditor to carry out a mandatory audit of the Company in 2019.

Dividend Policy

Taking into account the level of Net Debt and with the objective of strengthening the financial stability of the Company and the accummulation of resources for long-term growth, the Company does not pay out dividends.

4.2 Bonds

The Group is the issuer of the following bonds.

ISIN	Issuer	Type	Nominal	Offer price	Interest rate p.a.	Date of issue	Maturity date
CZ0000000658	PFNonwovens a.s.	Private	1,080,000,000 CZK	101.954%	2.646%	14/07/2015	14/07/2022
CZ0003512808	PFNonwovens Czech s.r.o.	Private	678,000,000 CZK	100%	6M PRIBOR + 2%	14/07/2015	14/07/2025
CZ0003512816	PFNonwovens Czech s.r.o.	Private	35,000,000 EUR	100%	3.39%	14/07/2015	14/07/2025
CZ0003515835	PFNonwovens Czech s.r.o.	Private	50,000,000 EUR	99.637%	1.875.%	20/01/2017	20/01/2024

4.3 Rating

As at 31 December 2019, the Group was not assigned a corporate rating.

Financial Results Calendar for 2020

30 September 2020

- Half Year Report for the 1st Half of 2020.
- 1st Half 2020 Unaudited Consolidated Financial Results of PFNonwovens a.s. in accordance with IFRS

IR Contact Details

INVESTOR RELATIONS

Address	Přímětická 3623/86 669 02 Znojmo Czech Republic
Phone number	+420 515 262 408
E-mail	iro@pfnonwovens.cz
Website	www.pfnonwovens.cz

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Corporate Governance Report

5.1 Basic Information on the Company

NAME

- PFNonwovens a.s., joint-stock company existing under the laws of the Czech Republic

ADDRESS AND CONTACT

- Hradčanské náměstí 67/8
  Hradčany, 118 00 Praha 1
  Czech Republic
- Phone number: +420 515 262 411

REGISTRY AND REGISTRATION NUMBER

- LEI: 3157009RURHKNJBPX873
- ID: 06711537
- Company is registered with the commercial register in the Czech Republic maintained by the Municipal Court in Prague under file No. B 23154

JURISDICTION

- Czech Republic

The company was incorporated in Luxembourg as a public limited liability company (*société anonyme*) for an unlimited duration on 18 November 2005 under the name Pamplona PE Holdco 2 SA and was registered with the Luxembourg trade and companies register under number B 112.044. In 2006, the Company changed its name to PEGAS NONWOVENS SA.

On 18 December 2017, the Extraordinary General Meeting of the Company resolved to transfer the head office to the Czech Republic and to change the nationality (status) of the Company from Luxembourg nationality to Czech nationality. Concurrently, the Extraordinary General Meeting resolved to accept a new wording of the Articles of Association and to change the name of the Company to PEGAS NONWOVENS a.s.

The Luxembourg company PEGAS NONWOVENS SA did not cease to exist as a result of the transfer of the head office of the Company nor did a new legal entity come into existence, but rather its legal form was changed to a joint stock company according to Czech law. PEGAS NONWOVENS a.s. was registered in the Czech commercial register with effect from 1 January 2018. The head office of the Company is Hradčanské náměstí 67/8, Hradčany, 118 00 Prague 1, Czech Republic.

On 15 June 2018, the Ordinary General Meeting of the Company resolved to accept a new wording of the Articles of Association and to change the name of the Company to PFNonwovens a.s. The change was registered in the Czech commercial register with effect from 19 June 2018.

Line of business and business activity (according to Article 3 of the Articles of Association)

The Company's business activity is:

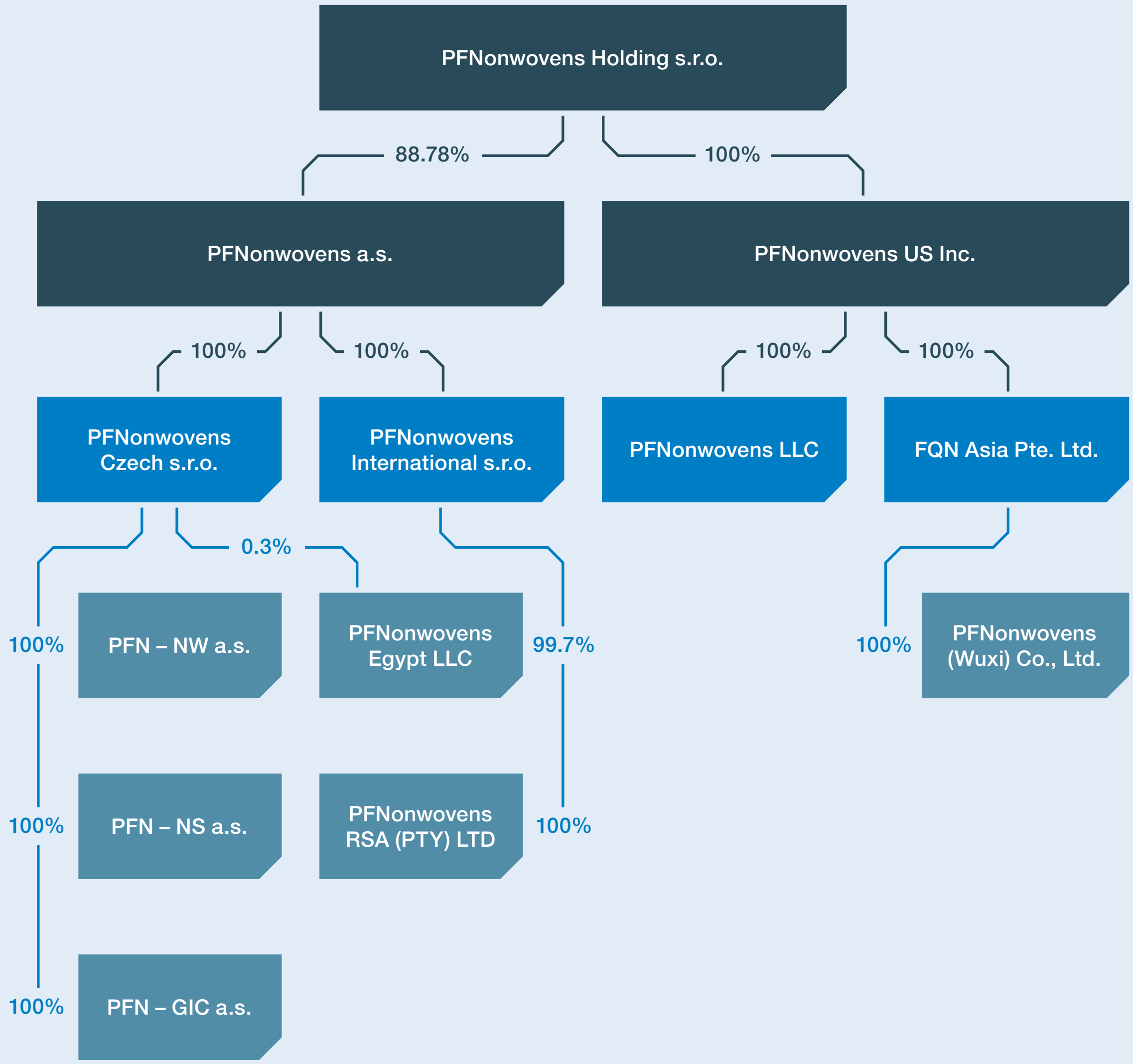
- Production, trade, and services not listed in Annexes 1 to 3 of the Trade Licensing Act

The Company's other activity is:

- Management of its own property

5.2 Organisational Structure

The diagram below represents the structure of the Group PFNonwovens a.s. and its position in the concern PFNonwovens Holding s.r.o. as at 31 December 2019:



PFNonwovens a.s. and its affiliated companies are members of PFNonwovens holding (concern) subject to single management by PFNonwovens Holding s.r.o.

All of the operating assets in the Czech Republic are owned by PFNonwovens Czech s.r.o. and its subsidiaries: PFN – GIC a.s., PFN – NW a.s. and PFN – NS a.s.

In 2010, PFNonwovens International s.r.o. was established as a special purpose vehicle for the realisation of potential investment opportunities. In 2011, PFNonwovens Egypt LLC was established in order to carry out the Group's investment in Egypt. In July 2016, PFNonwovens RSA (PTY) LTD was established to pursue the realisation of the investment project in the Republic of South Africa.

Relationships with suppliers and customers of the Group are managed by PFNonwovens Czech s.r.o. with the exception of relationships with suppliers and customers of PFNonwovens Egypt LLC and PFNonwovens RSA (PTY) LTD, which are managed by these companies independently.

Subsidiaries in which PFNonwovens a.s. 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
PFNonwovens Czech s.r.o.	Znojmo, Přímětická 3623/86, PSČ 66902, Czech Republic	25478478	Production of textiles
PFN – NW a.s.	Znojmo, Přímětická 3623/86, PSČ 66902, Czech Republic	26961377	Production of textiles
PFN – NS a.s.	Znojmo, Přímětická 3623/86, PSČ 66902, Czech Republic	27757951	Production of textiles
PFN – GIC a.s.	Znojmo, Přímětická 3623/86, PSČ 66902, Czech Republic	06423078	Production of textiles
PFNonwovens International s.r.o.	Znojmo, Přímětická 3623/86, PSČ 66902, Czech Republic	29249708	Special purpose vehicle for investments
PFNonwovens EGYPT LLC	Plot No. O6,O8 in Zone No. 3 – Northern Expansions Area, 6th of October City, Egypt	Commercial registry No. 52 190	Production of textiles
PFNonwovens RSA (PTY) LTD	6 Charles Matthews Street, Atlantis, Western Cape, Republic of South Africa, 7349	Registration No. 2016/278699/07	Production of textiles

5.3 Statutory bodies of PFNonwovens a.s.

5.3.1 General Meeting of Shareholders

The General Meeting is the Company's supreme body. The decisive date for participation in a General Meeting is always the 7th (seventh) day prior to the date of the General Meeting. The Company shall obtain a statement of share issues from book-entry securities records as at the decisive date no later than by the date of the general meeting. A General Meeting has quorum if shareholders are present (either in person or through a proxy) that possess shares with a total nominal value in excess of 30% (thirty percent) of the company's registered capital. If a General Meeting does not have a quorum, the Board of Directors shall call a Substitute General Meeting with the same agenda in the manner stipulated by law and by the Articles of Association. Matters that were not included on the proposed agenda of the original General Meeting can be decided on at a Substitute General Meeting only if all shareholders agree.

The General Meeting decides with a majority vote of shareholders present, unless a different majority is required by law or the Articles of Association. Voting takes place by raising the voting list with the number of votes of the given shareholder. Shareholders first vote on a motion by the Board of Directors or Supervisory Board, and if this motion is not approved, they vote on further motions regarding the point at hand, in the order they were submitted. As soon a submitted motion is approved, further motions regarding this point are not voted on.

Each share has one vote. Voting rights connected to company shares can only be restricted in the manner specified in applicable law. A shareholder may not exercise their voting right in the cases specified under provision § 426 of the Business Corporations Act.

The General Meeting is the company's supreme body. Its scope of authority includes the following:

a) decisions on changes to the Articles of Association, except for a change due to an increase in registered capital authorized by the Board of Directors or a change that occurred based on other legal circumstances;

b) decisions on a change in the amount of registered capital and on authorizing the Board of Directors to increase registered capital;

c) decisions on the ability to set-off a monetary receivable owed to the company against an outstanding payment for an issue price;

d) decisions to issue debentures or priority bonds;

e) election and dismissal of members of the Supervisory Board and members of the Audit Committee;

f) approval of a regular, special, or consolidated financial statement, and in cases where one is stipulated by other legislation, also an interim financial statement;

g) decisions to distribute profits or other equity or to cover a loss;

h) decisions to submit a request to accept the company's securities for trading on the regulated European market or to exclude these securities from trading on the regulated European market;

i) decisions to dissolute the company in liquidation, naming and dismissing the liquidator, approval of contracts with the liquidator and performance pursuant to § 61 of the Business Corporations Act, and approval of a motion to allocate the liquidation remainder;

j) decisions to acquire the company's own shares pursuant to § 301 of the Business Corporations Act;

k) decisions to change the appearance, kind, or form of shares, decisions to split shares or to merge shares, to limit transferability of registered shares;

l) approval of contracts with members of company bodies for the performance of their office and other performance pursuant to § 61 of the Business Corporations Act (except for approval of contracts with members of the Board of Directors for the performance of their office and other performance paid out to members of the Board of Directors pursuant to § 61 of the Business Corporations Act);

m) approval of the transfer, mortgage, or lease of the company's plant or such a part thereof that would mean a substantial change to the plant's existing structure or substantial change to the company's line of business or business activity;

n) decisions regarding transformation;

o) decisions to stipulate an auditor;

p) decisions in other questions that the law or the Articles of Association include within the General Meeting's scope of authority.

5.3.2 Supervisory Board

The status and scope of authority of the Supervisory Board

The Supervisory Board was established with effect from 1 January 2018 with new Articles of Association approved by an Extraordinary General Meeting of the Company held on 18 December 2017. The Supervisory Board is a control body that oversees the performance of the Board of Directors and the execution of the Company's business activity. Among other things, the Supervisory Board appoints and dismisses members of the Board of Directors and approves contracts for the performance of office of the members of the Board of Directors. The status and scope of authority of the Supervisory Board is further defined by article 17 of the Company's Articles of Association.

Composition of the Supervisory Board

The Supervisory Board comprises three members, elected by the general meeting. The term of individual members of the Supervisory Board is three years. A member of the Supervisory Board may be re-elected.

Decision-making of the Supervisory Board

The Supervisory Board has a quorum if a majority of its members is present when it meets. To pass a decision regarding the election or dismissal of members of the Board of Directors and to approve the company's annual financial plan, all members of the Supervisory Board must agree. To pass other decisions, it is sufficient for the majority of the members of the Supervisory Board to vote for them. Each member of the Supervisory Board has one vote. In the case of a tie, the chairman's vote decides.

If all members of the Supervisory Board agree, the Supervisory Board may make decisions via written voting or voting using means of communication outside of a meeting (for example via email). The members voting are then considered to be present. A decision made outside of a meeting must be specified in the minutes of the next meeting of the Supervisory Board.

Remuneration of members of the Supervisory Board

The remuneration of members of the Supervisory Board is determined by the General Meeting.

Members of the Supervisory Board

Name	Position/Function	Function period in 2019	Member from	Function period ends
Oldřich Šlemr	chairman of the supervisory board	1/1/-31/12/2019	1 January 2018	31 December 2020
Pavel Baudiš	member of the supervisory board	1/1/-31/12/2019	1 January 2018	31 December 2020
Eduard Kučera	member of the supervisory board	1/1/-31/12/2019	1 January 2018	31 December 2020

Oldřich Šlemr

Oldřich Šlemr has been in the position of Chairman of the Supervisory Board of PFNonwovens a.s. since 1 January 2018. Mr. Šlemr is an entrepreneur and the founder of the R2G family office which was established in September 2016. Prior to establishing R2G, Mr. Šlemr together with his business partner built the ČGS Group and consolidated Mitas, Rubena and Savatech into a global tire and technical rubber manufacturer. Mr. Šlemr sold his stake in the ČGS Group in May 2016 to Trelleborg Holding AB. Mr. Šlemr holds a master's degree from the University of Economics in Prague.

The list of companies in which Mr. Šlemr was a member of the administrative, management or supervisory bodies or shareholder during the previous five years is listed below.

Type	Name of the company	Pozition/Function	Function period
Past Position/ Function	BS Servis Centrum, s.r.o.	Proxy	18/12/2001 – 01/09/2015
	BUZULUK a.s.	Proxy	23/03/2007 – 22/02/2012
	Česká gumárenská společnost s.r.o.	Shareholder Executive	12/10/2007 – 15/10/2012 12/10/2007 – 20/06/2016
	ČGS a.s.	Vice Chairman of the Board of Directors	20/06/2011 – 31/05/2016
	ČGS HOLDING a.s.	Vice Chairman of the Board of Directors Shareholder	18/02/2011 – 31/05/2016 to 31/05/2016
	GALERIJNÍ a.s.	Member of the Board of Directors Sole Shareholder	19/09/2011 – 25/06/2014 10/10/2011 – 10/08/2016
	IGGT a.s.	Proxy	06/11/2004 – 24/06/2016
	KOVO Antikor spol. s.r.o.	Proxy	20/03/2007 – 17/06/2016
	MITAS a.s.	Member of the Supervisory Board	08/06/2007 – 21/06/2016
	R2G a.s. (IČ: 04658345)	Sole Shareholder Member of the Board of Directors	20/07/2016 – 21/08/2017 01/09/2016 – 01/01/2018
	Snowblossom s.r.o.	Shareholder	16/06/2016 – 28/06/2017
	Trelleborg Bohemia, a.s.	Member of the Supervisory Board	12/08/2012 – 31/05/2016
	PFNonwovens Czech s.r.o.	Member, resp. Chairman of the Supervisory Board	07, resp. 08/12/2017 – 03/09/2018
	PFNonwovens International s.r.o.	Member, resp. Chairman of the Supervisory Board	07, resp. 08/12/2017 – 03/09/2018
Current Position/ Function	GALERIJNÍ a.s.	Statutory Director Chairman of the Board of Directors	from 25/06/2014 from 25/06/2014
	Martinický palác, a.s.	Member of the Board of Directors	from 30/08/2016
	R2G a.s. (ID: 05499640)	Member of the Board of Directors	from 01/01/2018
	R2G Foundation	Member of the Endowment Council	from 08/08/2016
	R2G NW Anstalt	Shareholder	from 06/03/2016
	R2G Rohan Sàrl	Director	from 05/12/2016
	WIC Prague a.s.	Member of the Supervisory Board	from 14/12/2018
	PFNonwovens Holding s.r.o.	Chairman of the Supervisory Board	from 30/06/2018

Pavel Baudiš

Pavel Baudiš has been a member of the Supervisory Board of PFNonwovens a.s. since 1 January 2018. Mr. Baudiš is also a founder of Avast Software. He served as a member of the Board of Directors during the transformation of AVAST Software a.s. from December 2006 to January 2014. Mr. Baudiš still owns a significant stake in Avast Software and continues to be actively involved in creating and updating new software and malware applications. As a co-founder of the Avast Foundation, he also actively participates in charitable activities. Prior to co-founding Avast he worked as a graphics specialist at the Research Institute of Mathematical Machines. Mr. Baudiš has a master's degree in Information Technology from the Prague University of Chemistry and Technology.

The list of companies in which Mr. Baudiš was a member of the administrative, management or supervisory bodies or shareholder during the previous five years is listed below.

Type	Name of the company	Position/Function	Function period
Past Position/ Function	Avast Software B.V.	Director Shareholder	to 2014 to 2014
	AVAST Software s.r.o. (IČ: 27636917)	Vice-chair of the Board Member of the Board	18/12/2006–09/12/2011
	PFNonwovens Czech s.r.o.	Member of the Supervisory Board	07/12/2017–03/09/2018
	PFNonwovens International s.r.o.	Member of the Supervisory Board	07/12/2017–03/09/2018
Current Position/ Function	Avast Holding BV	Director Shareholder	from 2014 from 2014
	AVAST Software s.r.o. (ID: 02176475)	Proxy	from 11/11/2014
	Codasip s.r.o.	Shareholder	from 18/04/2014
	Starship Enterprise, a.s.	Member of the Supervisory Board Shareholder	from 08/11/2016 from 10/11/2016
	WIG Prague a.s.	Member of the Supervisory Board	from 14/12/2018
	R2G Heritage Sàrl	Shareholder	from December 2018
	R2G Rohan Sàrl	Shareholder Company executive	from December 2018
	PaBa Software s.r.o.	Shareholder	from April 2018
	PFNonwovens Holding s.r.o.	Member of the Supervisory Board	from 30/06/2018

Eduard Kučera

Eduard Kučera has been a member of the Supervisory Board of PEGAS NONWOVENS a.s. since 1 January 2018. Mr. Kučera is the co-founder, Chief Executive Officer (1991-2009) and former Chairman of the Board of Directors of Avast Software. Mr. Kučera led Avast from its start-up phase through its transformation into a "freemium" software model towards global growth.

Mr. Kučera still holds a minority position in Avast Software, continues to be involved in the strategic management of the company and is a founder of the Avast Foundation. Mr. Kučera has a doctorate in natural sciences in the field of experimental physics from Charles University in Prague.

The list of companies in which Mr. Kučera was a member of the administrative, management or supervisory bodies or shareholder during the previous five years is listed below.

Type	Name of the company	Position/Function	Function period
Past Position/ Function	Avast Software B.V.	Director Shareholder	to 2014 to 2014
	PFNonwovens Czech s.r.o.	Member of the Supervisory Board	07/12/2017–03/09/2018
	PFNonwovens International s.r.o.	Member of the Supervisory Board	07/12/2017–03/09/2018
	Avast Software s.r.o.	Chairman of the Board Member of the Board	18/12/2006–9/12/2011 9/12/2011–24/2/2014
Current Position/ Function	AVAST Holding BV	Director Shareholder	from 2014 from 2014
	Codasip s.r.o.	Shareholder	from 18/04/2014
	Comprimato Systems s.r.o.	Shareholder	from 21/10/2014
	SlidesLive s.r.o.	Shareholder	from 26/08/2013
	Starship Enterprise, a.s.	Member of the Supervisory Board Shareholder	from 08/11/2016 from 10/11/2016
	Thunovská, a.s.	Member of the Board of Directors Sole Shareholder	from 27/02/2018 from 27/02/2018
	WIC Prague a.s.	Member of the Supervisory Board	from 14/12/2018
	R2G Heritage Sàrl	Shareholder	from December 2018
	R2G Rohan Sàrl	Shareholder	from December 2018
	Pratincole Investements Limited	Shareholder	from April 2018
	PFNonwovens Holding s.r.o.	Member of the Supervisory Board	from 30/06/2018

Changes in the Supervisory Board in 2019 and 2020 by the date of approval of the Annual Report

The Supervisory Board was established on 1 January 2018 and no changes were made to the Supervisory Board since that date until the date of approval of the Annual Report.

5.3.3 Audit Committee

The status and scope of authority of the Audit Committee

The Audit Committee was established with effect from 1 January 2018 by the new Articles of Association approved by an Extraordinary General Meeting of the Company held on 18 December 2017. The scope of authority of the Audit Committee is stipulated by law (especially by § 44a of Act No 93/2009, on auditors and on changes to some acts, as amended).

Composition of the Audit Committee

The company sets up an Audit Committee that comprises of three members, named and dismissed by the General Meeting from among non-executive members of the Supervisory Board or third parties. The term of individual members of the Audit Committee is three years. A member of the Audit Committee may be re-elected.

Decision-making of the Audit Committee

The Audit Committee has a quorum if a majority of its members is present at its meeting. To pass a decision, the majority of all Audit Committee members must vote. Each Audit Committee member has one vote. In the case of a tie, the chairman's vote decides.

If all members of the Audit Committee agree, the Audit Committee may make decisions via written voting outside of a meeting. The members voting are then considered to be present. A decision made outside of a meeting must be specified in the minutes of the next meeting of the Audit Committee.

Remuneration of members of the Audit Committee

The remuneration of members of the Audit Committee is determined by the General Meeting.

Members of the Audit Committee

Name	Position/Function	Function period in 2019	Member from	Function period ends
Ivan Hayek	chairman of the committee	01/01 – 31/12/2019	1 January 2018	31 December 2020
Hana Černá	member of the committee	01/01 – 31/12/2019	1 January 2018	31 December 2020
Alena Naatz	member of the committee	01/01 – 31/12/2019	1 January 2018	31 December 2020

Ivan Hayek

Ivan Hayek was appointed as a member of the Audit Committee on 1 January 2018, and named its Chairman on 15 February 2018. Since 1992 he has worked as an executive of auditing company HAYEK, spol. s.r.o., holding. He is an auditor and tax advisor. He has experience with work as Chairman of the Audit Committee and Chairman of the Supervisory Board at other companies. He is a graduate of the University of Economics in Prague (VŠE). Prior to 1992, he worked at the Federal Ministry of Supervision.

Hana Černá

Hana Černá has been a member of the Audit Committee since 1 January 2018. Since 2016, Ms. Hana Černá provides accounting services on a contractual basis. Between 1993 and 2016, she was the head accountant for the ČGS Group. Ms. Černá graduated from the Technical University of Ostrava, Faculty of Industrial Economics.

Alena Naatz

Alena Naatz has been a member of the audit committee since 1 January 2018. Mrs. Naatz is responsible for the management of R2G's portfolio. She joined R2G from international law firm White & Case, where she was a partner in the M&A, corporate and regulatory group. Mrs. Naatz has a JUDr. degree and a Ph.D. from the law faculty of Charles University in Prague and an LL.M. degree from the University of Durham, England.

Changes in the Audit Committee in 2019 and 2020 by the date of approval of the Annual Report

The Audit Committee was established on 1 January 2018 and no changes were made to the Audit Committee since that date until the date of approval of the Annual Report.

5.3.4 Board of Directors

The status and scope of authority of the Board of Directors

The Board of Directors is a statutory body that is responsible for managing the company's business. The status and scope of authority of the Board of Directors are further detailed in Article 12 of the Company's Articles of Association.

Composition of the Board of Directors

The Board of Directors comprises of five members elected or dismissed by the Supervisory Board. The term of individual members of the Board of Directors is three years. A member of the Board of Directors may be re-elected.

Decision-making of the Board of Directors

The Board of Directors has a quorum if a majority of its members is present when it meets. To pass a decision, a majority of all members of the Board of Directors must vote for it. Each member of the Board of Directors has one vote. In the case of a tie, the chairman's vote decides.

If all members of the Board of Directors agree, the Board of Directors may make decisions via written voting or voting using means of communication outside of a meeting (for example via email). The members voting are then considered to be present. If the Board of Directors makes a decision via written voting or voting using means of communication outside of a meeting (for example via email), the agreement of all members of the Board of Directors is needed to make the decision. A decision made outside of a meeting must be specified in the minutes of the next meeting of the Board of Directors.

Remuneration of members of the Board of Directors

Three members of the Board of Directors of PFNonwovens a.s. who concurrently hold executive positions at the holding level of the PFN Concern are not remunerated by PFNonwovens a.s., however do receive remuneration from PFNonwovens Holding s.r.o.

The remaining two members of the Board of Directors are remunerated at the level of PFNonwovens a.s. and their remuneration consists of only a fixed component. Fixed remuneration is set by means of a service contract according to § 59 et seq. of the Business Corporations Act. These contracts are in written form and have been approved by the Supervisory Board.

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 and their position/s within the Company:

Name	Position/Function	Function period in 2019	Member from	Function period ends
Current members of the Board of Directors				
Carl Allen Bodford	member of the board of directors chairman of the board of directors	1/1–31/12/2019	17 July 2018	16 July 2021
František Klaška	member of the board of directors	1/1–31/12/2019	30 November 2006	30 April 2020
Marian Rašík	member of the board of directors	1/1–31/12/2019	1 March 2010	31 December 2020
Michal Smrek	member of the board of directors	1/1–31/12/2019	15 November 2017	31 December 2020
Jakub Dyba	member of the board of directors	1/1–31/12/2019	18 December 2017	31 December 2020

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

Carl Allen Bodford

Mr. Bodford was appointed as the CEO of the entire PFN Group in July 2018.

Prior to PFN, Mr Bodford worked at First Quality Nonwovens for over 20 years in senior management and with Dominion Nonvovens Group (Polybond) the previous 12 years.

Mr. Bodford was not a member of the administrative, management or supervisory bodies or shareholder of any other company during the previous five years.

František Klaška

František Klaška was appointed as an executive director of the Company in November 2006. Mr. Klaška 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. Klaška is a graduate of the Czech Technical University. Mr. Klaška is the Group CTO for the entire PFN Group.

The list of companies in which Mr. Klaška was a member of the administrative, management or supervisory bodies or shareholder during the previous five years is listed below.

Type	Name of the company	Position/Function	Function period
Past Position/ Function	PEGAS-NT a.s.	Member of the Board of Directors	30/08/2007–15/07/2017
	PFN – GIC a.s.	Member of the Board of Directors	11/09/2017–31/12/2018
	PFN – NS a.s.	Member of the Board of Directors	03/12/2007–31/12/2018
	PFN – NW a.s.	Member of the Board of Directors	30/08/2007–31/12/2018
	PFNonwovens Czech s.r.o.	Executive	17/09/2007–31/12/2018
	PFNonwovens International s.r.o.	Executive	05/11/2010–31/12/2018
Current Position/ Function	PFNonwovens Egypt LLC	Executive	from 06/06/2011
	PFNonwovens RSA (PTY) LTD	Executive	from 11/07/2016
	PFNonwovens Holding s.r.o.	Executive	from 30/06/2018

Marian Rašík

Marian Rašík was appointed as an executive director as of 1 March 2010. In December 2009, he was appointed as the CFO of the Group. Mr. Rašík is the CFO for the entire PFN holding. Prior to joining PEGAS, he worked as a director at a financial advisory firm Corpin Partners. In 2003 – 2005 he was a CFO at Vítkovice Strojírenství a.s. In the past he also worked with VÚB Bank in the Prague branch, ABN AMRO and he started his professional career as an auditor with Coopers & Lybrand. Marian Rašík graduated from the Economics Faculty of the Technical University in Ostrava.

The list of companies in which Mr. Rašík was a member of the administrative, management or supervisory bodies or shareholder during the previous five years is listed below.

Type	Name of the company	Position/Function	Function period
Past Position/ Function	PEGAS-NT a.s.	Member of the Board of Directors	01/04/2010–15/07/2017
	PFN – GIC a.s.	Member of the Board of Directors	11/09/2017–31/12/2018
	PFN – NS a.s.	Member of the Board of Directors	01/04/2010–31/12/2018
	PFN – NW a.s.	Member of the Board of Directors	01/04/2010–31/12/2018
	PFNonwovens Czech s.r.o.	Executive	01/04/2010–31/12/2018
	PFNonwovens International s.r.o.	Executive	05/11/2010–31/12/2018
Current Position/ Function	PFNonwovens Egypt LLC	Executive	from 06/06/2011
	PFNonwovens RSA (PTY) LTD	Executive	from 11/07/2016
	PFNonwovens Holding s.r.o.	Executive	from 30/06/2018

Michal Smrek

Michal Smrek was appointed as a member of the Board of Directors as of 15 November 2017. Michal Smrek is the chief executive of family office R2G. Before joining R2G, Mr. Smrek was a partner at international law firm, White & Case, where he was the head of its leading CEE private equity practice. Michal Smrek was trained as a lawyer at CMS McKenna and holds an MA in law and a BA in Political Science.

The list of companies in which Mr. Smrek was a member of the administrative, management or supervisory bodies or shareholder during the previous five years is listed below.

Type	Name of the company	Position/Function	Function period
Past Position/ Function	OPEN FIELD PICTURES s.r.o.	Shareholder	12/01/2009–19/07/2016
	R2G a.s. (IČ: 04658345)	Chairman of the Board of Directors	01/09/2016–01/01/2018
	Snowblossom s.r.o.	Executive	11/05/2017–19/07/2017
	PFNonwovens Holding s.r.o.	Executive	24/02/2017–30/06/2018
Current Position/ Function	R2G a.s. (IČ: 05499640)	Chairman of the Board of Directors	from 01/01/2018
	WIC Prague a.s.	Member of the Board of Directors	from 14/12/2018
	R2G Heritage Sàrl	Director	from 17/12/2018

Jakub Dyba

Jakub Dyba has been a member of the Board of Directors since 18 December 2017. Mr. Dyba is Investment Director of the family investment office R2G. He focuses on identifying and assessing investment opportunities and their subsequent execution. Mr. Dyba joined R2G from Genesia a boutique investment firm, where he held the position of General Partner. Prior to the establishment of Genesia, he worked for Credit Suisse First Boston as a share analyst and trader and investment banker in Prague, London and New York.

The list of companies in which Mr. Dyba was a member of the administrative, management or supervisory bodies or shareholder during the previous five years is listed below.

Type	Name of the company	Position/Function	Function period
Past Position/ Function	Genesia Investments, s.r.o.	Executive Shareholder	20/02/2014–07/01/2015 20/02/2014–16/01/2015
	Lexum a.s.	Member of supervisory board	23/04/2009–31/01/2014
	Pricetown s.r.o.	Executive	07/04/2014–29/02/2016
	R2G a.s. (ID: 04658345)	Vice Chairman of the Board of Directors	01/09/2016–01/01/2018
	R2G a.s. (ID: 05499640)	Executive	14/11/2017–01/01/2018
Current Position/ Function	Genesia, s.r.o.	Shareholder Executive	from 22/02/2014 from 04/09/2014
	R2G a.s. (ID: 05499640)	Vice Chairman of the Board of Directors	from 01/01/2018
	BRODE Capital Partners Sárl	Director	from 01/09/2017
	Czech Dental Holding s.r.o.	Executive	from 15/04/2019

Changes in the Board of Directors in 2019 and 2020 by the date of approval of the Annual Report

No changes were made to the Board of Directors during the year 2019. On 17 April 2020, the Company announced that Mr. František Klaška decided to resign from the Board of Directors of the Company and from all executive positions within the PFNonwovens Concern effective as of 1 May 2020. Effective as of 1 May 2020, Mr. Tonny de Beer shall be appointed to the Company's Board of Directors and shall also replace Mr. František Klaška in all executive positions including the position of Chief Technical Officer.

5.3.5 Persons discharging managerial responsibilities

The members of the Board of Directors and the members of the Supervisory Board are considered as "persons discharging managerial responsibilities within an issuer" pursuant to Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and Directive 2003/6/EC of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.

5.3.6 Additional information about persons discharging managerial responsibilities within an issuer

Remuneration of persons discharging managerial responsibilities

Below is a summary of all monetary and non-monetary income received for the accounting period 2019 by persons discharging managerial responsibilities from the Company and persons controlled by the Company.

in thousand CZK		PFNonwovens a.s.	Other Group Companies		Total
		Monetary Income	Monetary Income	Non-monetary income	
Board of Directors	Board of Directors Remuneration	8,531	0	0	8,531
	Management Bonus	0	0	0	0
	Warrants	0	0	0	0
	TOTAL	**8,531**	**0**	**0**	**8,531**
Supervisory Board	Supervisory Board Remuneration	0	0	0	0
	TOTAL	**0**	**0**	**0**	**0**
TOTAL		**8,531**	**0**	**0**	**8,531**

Declaration of persons discharging managerial responsibilities

The persons discharging managerial responsibilities listed below:

Carl Allen Bodford, František Klaška, Marian Rašík, Michal Smrek, Jakub Dyba, Oldřich Šlemr, Pavel Baudiš and Eduard Kučera

each individually presented to PFNonwovens a.s. a "Declaration", where they declared that:

a) they are not, nor have they been in the preceding five years, members of administrative, managerial or supervisory bodies or owners of any company other than PFNonwovens a.s. or its related entities,

b) in the last five years, they have not been convicted for fraudulent criminal acts,

c) in the last five years, they have not been connected with any bankruptcy proceedings, administration, liquidation or with a company on which forced administration was enacted

d) they have not been publicly accused or sanctioned by statutory or regulatory bodies,

e) in the last five years, they have not been disqualified from the performance of their office as a member of administrative, executive or supervisory bodies of any issuer or the managerial function of any issuer by a court of law,

f) they do not perform any activities outside the Company that would be significant for the Company and do not have any potential conflict of interests,

g) they do not have a work contract or any other contract concluded with PFNonwovens a.s. or with its subsidiaries,

h) as at 31 December 2019 they do not own directly or indirectly shares or similar securities, options and comparable investment instruments, the value of which is related to the shares or similar securities of PFNonwovens a.s.

i) they are not in family relationship to any member of administrative, executive or supervisory body of PFNonwovens a.s.

and concurrently have made relevant exceptions to the individual points of this statement in the event that some of the listed facts exist in their case.

Exceptions to point (a), which were made for individual persons, are listed within the sections Board of Directors and Supervisory Board for each person separately in the wording that they provided in their statement.

There were no exceptions made to point (b)–(e) and (i).

With regard to point (f), Michal Smrek, Jakub Dyba, Oldřich Šlemr, Pavel Baudiš and Eduard Kučera stated that as investors they also have interests in the area of nonwoven textiles including other plastic products based on the processing of polymers in the chemical industry. Mr. Šlemr, Mr. Baudiš and Mr. Kučera further stated that PFNonwovens a.s. and the companies under its control are members of the PFNonwovens concern and subject to single management by PFNonwovens Holding s.r.o. In relation to this, Mr. Oldřich Šlemr, Mr. Pavel Baudiš and Mr. Eduard Kučera, stated that they hold the positions of Chairman, respectively Members of the Supervisory Board of PFNonwovens Holding s.r.o. Carl Allen Bodford, František Klaška and Marian Rašík made no exception to point (f).

With respect to point (g), Mr. Michal Smrek and Jakub Dyba concluded a contract for the performance of office with the Company. This contract with the Company recognizes the right, in the event of being dismissed from his positions and the cancellation of all contracts for the performance of office concluded with the companies of the PFNonwovens a.s. Group, to receive from the Company his monthly remuneration (but not bonus), which he was entitled to receive from all companies of the PFNonwovens a.s. Group in the preceding year preceding the termination of these contracts until the earlier of (i) the expiry of the period of three months following the date of such termination and (ii) the date of the member of the Board of Directors entering into any form of employment, directorship, or other form of service relationship with a third party.

The Company did not conclude any other contracts with the members of its administrative, managerial or supervisory bodies and senior management by which the Company would be bound to performance in the event of a termination of their office or employment.

With regard to point (h), Mr. Pavel Baudiš stated that he indirectly holds a share in the Company via R2G Rohan Sàrl, in which he holds a share of 24%. With regard to point (h), Mr. Eduard Kučera stated that he indirectly holds a share in the Company via R2G Rohan Sàrl, in which he holds a share of 26%. Mr. Carl Allen Bodford, František Klaška, Marian Rašík, Michal Smrek, Jakub Dyba and Oldřich Šlemr made no exception to point (h).

5.4 A separate part of the Annual Report pursuant to Section 118 (4) (j) of the Capital Market Undertakings Act

5.4.1 Decision-making and composition of the Board of Directors, the Supervisory Board and the Audit Committee

Detailed information about the position of the Board of Directors, the Supervisory Board and the Audit Committee is contained in the section Corporate Governance Report, chapter Statutory bodies of PFNonwovens a.s. of this Annual Report.

5.4.2 Decision-making and scope of authority of the General Meeting

Detailed information about the position of the General Meeting is contained in the section Corporate Governance Report, chapter Statutory Bodies of PFNonwovens a.s. of this Annual Report.

5.4.3 Corporate Governance principles

After the delisting of shares of the Company on the Warsaw Stock Exchange, the administration and management code of practice ("Code of Best Practice for GPW Listed Companies 2016") of the Warsaw Stock Exchange is no longer binding for the Company. For this reason, the Company has resolved to guide its operations, management and administration according to the rules contained in the OECD Principles of Corporate Governance - 2004 Edition (hereinafter "Code of conduct 2004"). The Code of conduct 2004 can be viewed at the website of the Ministry of Finance of the Czech Republic at the address:

http://www.mfcr.cz/cs/archiv/transformacni-instituce/agenda-byvaleho-fnm/sprava-majetku/kodex-spravy-a-rizeni-spolecnosti-corpor/kodex-spravy-a-rizeni-spolecnosti-zaloze-14620

The Company meets the provisions of the Code of conduct 2004 in all significant respects with the exception of certain matters, which fall under the authority of shareholders to make decisions such as membership in the statutory bodies of the Company. The Company has established an Audit Committee, the function of the Remuneration Committee and the Committee for Appointment is performed by the Supervisory Board.

5.4.4 Diversity policy

The Company has not yet officially adopted a specific diversity policy governing the relationship of the members of the Board of Directors, Supervisory Board and the Audit Committee. The Group has publicly undertaken to follow the internationally accepted principles of protection of human rights. In the Company and the entire Group, a ban on the direct or indirect discrimination based on age, gender, education, nationality, religion, conviction, sexual orientation and other criteria is strictly enforced.

In the selection of candidates, the Group takes into consideration the achieved level of education, experience, qualification and professional knowledge. The rights, responsibilities and opportunities of applicants for employment and employees of the Company do not depend on their race, colour, religion, gender, sexual orientation, citizenship, family status, origin, age or health impairments.

The Group has publicly appealed to its suppliers and other entities that cooperate with it, to adopt similar obligations within the scope of their companies.

5.4.5 Summary report pursuant to § 118, paragraph 9 of the Capital Market Undertakings Act

The explanatory summary report pursuant to § 118, paragraph 9 of the Capital Market Undertakings Act is based on the requirements stipulated in § 118, paragraph 5, letter a) to k) of the aforementioned law.

a) Information about the share capital and reserves structure of the Company

The structure of share capital and reserves as at 31 December 2019

Share capital and reserves	in thous. CZK
Share capital	229,857
Share premium	148,419
Legal and other reserves	83,461
Retained earnings	(260,829)
Total share capital and reserves	**270,908**

The share capital of the Company amounts to EUR 10,867,185.16 and is fully repaid. The share capital is divided into 8,763,859 ordinary registered shares with a nominal value of EUR 1.24. All shares of the Company are issued as registered securities. All shares of the Company have been accepted for trading on the Prague Stock Exchange. The list of shareholders is replaced by the evidence of registered securities kept at the central securities depository in Prague (Centrální depozitář cenných papírů, a.s.) pursuant to special legal regulations.

b) Information about limited transferability of securities

The Company has not issued any securities with a limited transferability.

c) Information about significant direct and indirect shares in the voting rights of the Company

The Company does not have precise information available about its shareholder structure. Based on the list of shareholders that participated in the General Meeting held on 14 June 2019, as at this date its main shareholder was PFNonwovens Holding s.r.o. with a share of 89.99% of the share capital of the Company. The Company has not received any notifications regarding shareholdings in the Company after the day of the General Meeting.

d) Information about owners of securities with special right, including description of these rights

There are no special rights connected with the Company's securities.

e) Information about limitation of voting rights

The shares of the Company are not connected to any limitations of voting rights other than those directly set by law.

f) Information about contracts between shareholders known to the Company which may result in restrictions on the transfer of securities and/on voting rights.

There are no contracts known to the Company which could result in restrictions on the transfer of shares and/on voting rights.

g) Information about special rules determining the appointment and dismissing of members of statutory bodies and changes to the Articles of Association of the Company

The Board of Directors consists of 5 members that are appointed or dismissed by the Supervisory Board. The term of office of individual members of the Board of Directors is 3 years. Reappointment of a member of the Board of Directors is possible.

Changes to the Articles of Association are decided upon by the General Meeting with a two third majority of votes of the present shareholders, unless it is a change resulting from an increase in the share capital by an authorised Board of Directors or a change that occurred on the basis of other legal facts.

h) Information about special competence of a statutory body of the Company

The Company's Board of Directors do not have entrusted any special competence according to the Business Corporations Act.

i) Information about significant contracts of the Company that will become effective, be amended or cease to exist in the event of a change in the control of the Company as a result of the takeover bid

Certain business contracts concluded in the past by the Company's subsidiaries or the conclusion of which are in negotiation over the upcoming weeks or months contain a provision for the change of control (i.e. a change of control clause), which gives the counterparty the right to terminate the contract in the event of a change of control as defined in the respective contract. The change of control clause is, likewise, a part of the conditions for the bonds that the Company and its subsidiary PFNonwovens Czech s.r.o. issued.

j) Information about contracts between the issuer and members of its statutory bodies or employees providing for compensation by the Company if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid

The Company concluded contracts for the performance of office with certain members of the Board of Directors (see Declaration of persons discharging managerial responsibilities, point g), according to which the members of the Board of Directors are entitled to performance in the event that they are dismissed from their positions and their contracts concluded with the companies of the Group for the performance of office are terminated. Each member of the Board of Directors 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 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 months following the date of such termination and (ii) the date of the member of the Board of Directors 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 members of the Board of Directors 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.

k) Information about programs enabling the acquisition of shares of the Company

At the present time there exists no program enabling the acquisition of participant securities in the Company. Persons discharging managerial responsibilities within an issuer do not own directly or indirectly any options or comparable investment vehicles the value of which is related to the shares or similar securities representing a share of the issuer.

5.4.6 Internal control and risk management organisation

The Management of the Company is responsible for the establishment and maintenance of an internal control system at the Company and its efficiency in the process of preparing financial statements. The internal control system covers the entire scope of activities of the Company. The Company has established a continuous process for identifying and managing various potential risks faced by the Company and takes appropriate actions to address any issues.

5.4.6.1 Internal audit

The internal audit plays a significant role in the internal monitoring system. The Internal Audit Department is a function subordinate to the CEO. The internal audit provides independent and professional assessment of the internal monitoring and management system of the

Company, the state and development of the inspected area relative to current best practice. In 2019, the Internal Audit Department carried out audits and auditing events, based on a yearly internal audit plan or requirements of statutory bodies and the CEO of the Company. Corrective measures are implemented based on the findings of the performed audits. The status of the fulfilment of corrective measures based on internal audits is continuously monitored and reported upon four times per year to senior management and the bodies of the Company. The activity of the internal audit and its main processes are described in the Instructions and Working procedures of the Internal audit department, which, likewise, define the principles of independence of the internal audit and the objectivity of internal auditors. The work of the internal audit is regularly monitored by the senior management, who discusses audits and other reports presented by the internal audit.

5.4.6.2 Financial reporting and accounting

Financial statements, both for internal and external reporting purposes, are prepared by professionals and their preparation is supervised by the Audit Committee. The annual financial statements, both standalone and consolidated, are subject to the independent examination by the external auditor.

Financial reporting and accounting within the framework of the Group is governed by the work procedures that are regularly updated as required. These work procedures cover namely the area of stocktaking of assets, approval of accounting documentation, resp. process for preparation of financial statements including consolidated financial statements.

The approval of accounting documents from customer and supplier relationships is performed electronically within the scope of an approval process of the SAP business information system. The range of signing rights of individual approbators and the definition of authorities of Company employees is defined by the work procedure Authorisation and Signing Order. The SAP business information system also enables the identification of the specific user who created, changed or cancelled an accounting document. An important element in relation to the embezzlement of financial resources of the Company is the section of the establishment and management of business partner information processes from the payment process to the settlement of accounted liabilities.

The correctness of accounting and accounting statements is continuously monitored by the Department of Accounting and Controlling. Selected parts of accounting and compliance of internal processes with valid legislation and company work procedures is also verified by an internal audit.

5.4.6.3 Function of the Audit Committee

The effectiveness of internal monitoring and the risk management system of the Company, the procedure of preparation of individual and consolidated financial statements, the effectiveness of the internal audit and its functional independence and the process of statutory audit is, likewise, monitored by the Audit Committee, which as a body of the Company performs this activity without impacting the responsibility of the members of the Board of Directors and the Supervisory Board.

5.4.7 Risk Factors

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

5.4.7.1 Marketing and Sales

The Company 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 sector 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-users of hygiene products and a shift of their preferences for cheaper products could lead to a change in the product mix at the Company and affect the Company's revenues and profitability.

5.4.7.2 Production

Any disruption to the Company production facilities would have a material adverse effect on the Company's business. The Company is dependent on one manufacturer for the equipment and technical support for its production lines. There is a risk that the Company 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 of the supplier of the Company.

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 the Company.

The steady supply and transportation of products from the Company's plants to the customers are subject to various uncertainties and risks.

The Company 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 polymer price movements are by large transferred to customer prices.

5.4.7.3 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.

5.4.7.4 Potential Expansion

The Company is facing risks associated with potential acquisitions, investments, strategic partnerships or other ventures, including opportunity identification, risk of the completion of the transaction and the integration of the other parties into the Company's business.

5.4.7.5 Legal and Intellectual Property

The Company'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.

The Company may be in breach of intellectual property rights of others.

Adverse outcomes in litigation to which the Company might be a party could harm the business and its prospects.

5.4.7.6 Finance

The indebtedness of the Company 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 potentially increased and therefore higher interest costs could affect the Company's profitability.

There is a risk that the fluctuations in the value of the Czech koruna and US dollar against the Euro could adversely affect the Company's profitability. The Company'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.

Polymers represent a basic input raw material for the Company and, therefore, the development of polymer prices has a significant effect on its financial results. Polymer purchase prices are to a large part connected to the polymer price indexes, which serve as the basis for the price formula and for their purchasing. Due to the fact that costs of polymers represent a significant share of the final price for the customer, the sales price of the Company's finished products is also connected to the polymer price index. Based on this mechanism, which is typical for the nonwoven textile industry, the Company is able to pass the purchase price of polymers on to the customer. However, this transfer occurs with a certain delay. Despite the fact that in the long term this mechanism hedges the Company against unfavourable polymer price developments, in the short term the fluctuation of the polymer price may affect the Company's revenues and its profitability.

The insurance coverage may not adequately protect the Company against possible risk of loss.

5.4.7.7 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.

5.4.7.8 Key Personnel and Technical Expertise

The loss of the services of key management personnel could adversely affect the Company's business.

The Company 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.

5.4.7.9 Ownership Changes

A potential entry or the change in the majority owner of the Company could result in a sudden change of the long term strategy and impact value of the shares.

5.4.7.10 Risk Factors Relating to the Investment in Egypt

Investing in emerging markets such as Egypt, generally involves a higher degree of risk than investments in more developed countries. These higher risks include, but are not limited to changes in the political environment, transfer of returns, expropriation or politically motivated violent damage. The Egyptian economy is susceptible to future adverse effects similar to those suffered by other emerging market countries.

Egypt is located in a region, which has been subject to ongoing political and security concerns, especially in recent years. In common with other countries in the region, Egypt has experienced occasional terrorist attacks in the past. There can be no assurance that extremists or terrorist groups will not escalate or continue occasional violent activities in Egypt or that the government will continue to be generally successful in maintaining the prevailing levels of domestic order and stability.

5.4.7.11 Risk Factors Relating to the Investment in the Republic of South Africa

Although South Africa belongs amongst the most developed economies in Africa, it still counts as an emerging market and, therefore, the risks associated with investing there are considered to be higher. As stated earlier these risks include, but are not limited to, changes in the political environment, transfer of returns, expropriation or politically motivated violent damage.

In this respect, it must primarily be mentioned that there is a risk of social unrest and tensions stemming from a high unemployment rate and social inequality resulting from historical developments and the previous apartheid period.

Democratic institutes in the country are still not sufficiently grounded, which increases the risk of sudden political changes and associated instability and uncertainty about the country's future direction and potential inability to repatriate the Company's investment in case of unfavourable developments.

Not in the least, due to the previous underinvestment in the energy sector, there is also the risk related to the reliability and quality of the electricity supply, which is significant from the Company's perspective.

Expenses of the Group related to external auditors' services in year 2019

CZK thousands	Statutory audit	Other assurance services	Tax advisory	Other services	Total
PFNonwovens a.s.	1,009	—	—	—	1,009
Other companies within the Group	2,558	69	337	—	2,964
TOTAL	**3,566**	**69**	**337**	**—**	**3,972**

The Group's costs related to the activities of external auditors included, in addition to the statutory audit, tax advisory services for PFNonwovens Egypt LLC and PFNonwovens RSA (Pty) Ltd and other assurance services for PFNonwovens Egypt LLC.

6

Management Report

6.1 Material events in 2019 and 2020 by the date of approval of the Annual Report

JANUARY 2019
There were no major events in this month.

FEBRUARY 2019
7 February 2019: PFNonwovens a.s. was awarded the "External Business Partner Excellence Award" for the year 2018 by Procter & Gamble Co.

MARCH 2019
There were no major events in this month.

APRIL 2019
There were no major events in this month.

MAY 2019
There were no major events in this month.

JUNE 2019
14 June 2019: Annual General Meeting of the Company approved to settle the Company's unconsolidated after-tax loss from 2018, amounting to CZK 61,818,574.39 from the unconsolidated retained profit of the Company from previous years.

JULY 2019
There were no major events in this month.

AUGUST 2019
There were no major events in this month.

SEPTEMBER 2019
There were no major events in this month.

OCTOBER 2019
There were no major events in this month.

NOVEMBER 2019
There were no major events in this month.

DECEMBER 2019
There were no major events in this month.

JANUARY 2020
There were no major events in this month.

FEBRUARY 2020
There were no major events in this month.

MARCH 2020
There were no major events in this month.

APRIS 2020
17 April 2020: Mr. František Klaška decided to resign from the Board of Directors of the Company and from all executive positions within the PFNonwovens Concern effective as of 1 May 2020 and at the same time shall continue to work in nonexecutive role together with PFN on specific projects related to its expansion. Effective as of 1 May 2020, the present Senior Product Development and R&D Director of the PFNonwovens Concern, Mr. Tonny de Beer, shall be appointed to the Company's Board of Directors and shall also replace Mr. František Klaška in all executive positions including the position of Chief Technical Officer.

SUBSEQUENT EVENTS
At the beginning of 2020, the existence of the novel corona virus (Covid-19) was confirmed, which then spread throughout China and outside its borders, including to the Czech Republic, and caused interruption to many business and economic activities. The Group considers the outbreak of this epidemic to be a subsequent event that, nevertheless, did not have a significant impact on the operations/finances of the Group as at the date that the financial statements were issued, and as such will not lead to modifications in these financial statements. The Group produces nonwoven textiles that are as a result of this epidemic in high demand and, therefore, this situation is rather an opportunity for the Group. The production capacities of the Group continue to be utilised 100% and production has not been significantly impacted by the epidemic. Nevertheless, despite the aforementioned, the situation is unstable and is developing rapidly, and, therefore, it is currently not possible to make an estimation of its potential impact on the Group. Any actual impacts shall be reflected in the financial statements for 2020.

The management of the Group is not aware of any other events that have occurred since 31 December 2019 that would have any material impact on the Company.

6.2 Description of the Company's Business and Market

6.2.1 Overview of the Nonwovens Market

The Group's key market is geographically defined as EMEA - Europe (Western, Central and Eastern Europe, Russia and Turkey), Middle East and North Africa.

The EMEA personal hygiene market, with an approximate 30% share of the total annual European nonwoven production or 0.7 million tonnes, denotes the core area of business activity for the Group. This sector is defined by three major product application groups: disposable baby diapers, adult incontinence products and feminine hygiene products. Hygiene products have become a modern necessity, the demand for which is non-cyclical and compared to other market sectors is relatively unaffected by economic developments.

Geographically, the Group's core market continues to be the broader European area, consisting of traditional Western European countries, Central and Eastern Europe (CEE), including Russia. The Group started to serve the Middle East and North Africa region to a greater extent following the opening of the new production plant in Egypt and later also in the Republic of South Africa.

Competition

The Group's competition can be defined as European, Middle Eastern and North African producers of spunmelt PP and PP/PE nonwoven textiles, namely those active in the hygiene sector. The Company's main competitors are international and regional companies. Compared to other continents, the EMEA spunmelt PP- and PP/PE-based nonwoven textile market is much more fragmented, numbering more than 30 producers in total.

Customers

The Group's position as one of the market leaders in the EMEA hygiene nonwovens market has enabled it to develop longstanding relationships with customers that are leading producers of disposable hygiene products. The Group intends to continue to strengthen its existing customer relationships further by taking advantage of its in-depth understanding of customer needs, leveraging technological expertise and by introducing new and improved products and technologies. The Group works in close cooperation with its customers as well as suppliers in order to improve existing and introduce new improved products and product properties that primarily address specific customer requirements for softness and lower basis weights.

The Group's top five customers represented an 80% share of total revenues in 2019 (81% in 2018). The Group's present customer mix concentration reflects the situation in the hygiene nonwoven textile market, which is divided among a small number of end producers, each having a substantial market share.

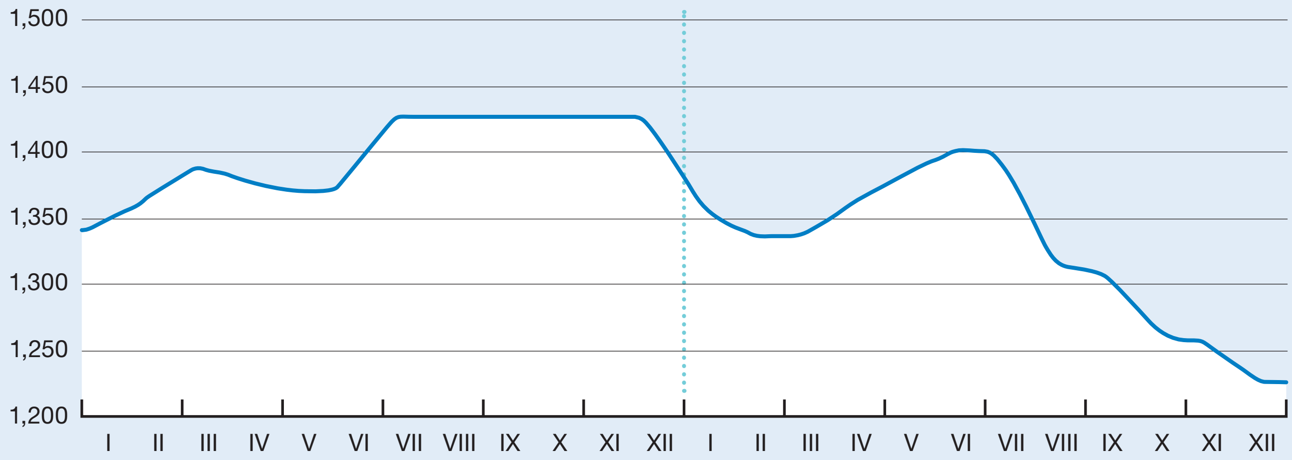
Suppliers of polymers

The main raw materials used for the production of spunmelt nonwovens are polymers, primarily polypropylene followed by polyethylene. During 2019, the Group had sourced polymer raw materials from a total of eleven 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.

POLYMER MARKET PRICE DEVELOPMENT

The fluctuation and development of polymer prices may have, especially in the short-term, a significant impact on the financial results of the Group. Changes in polymer prices are reflected first in the purchase prices, whilst they are reflected into final sales prices for customers with a certain delay. Thus, the development of polymer prices affects not only the costs of raw materials but also revenue levels. The development of polymer prices in Euros per tonne in 2018 to 2019 is shown on the included graph.

DEVELOPMENT OF POLYMER PRICES 2018–2019



It is evident from the graph that the prices of polymers in 2019 were generally lower compared to 2018 and in particular in the second half of the year, dropped significantly to a minimum at the end of the year. The transmission mechanism thus had a positive impact on the Group due to falling prices in 2019.

6.2.2 Overview of the Group's Products

Hygiene

The core of the Group's product mix are the nonwoven textiles, 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, the Group produces a wide range of light and ultra-light technologically advanced nonwoven textiles with excellent technical properties, which are soft, pleasant to touch and therefore provide improved comfort to the final consumer.

Medical and Protective Clothing

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 penetration of dust particles and micro-organisms. Due to these qualities they are used as 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.

Agriculture

For agriculture, the Group offers a nonwoven textile, which is used mainly in vegetable cultivation and gardening and is suitable for large-scale production and mechanisation. This material is used as a covering textile (crop cover) creating optimal microclimate for plants and sheltering them from weather changes (light frost, hail) and various pests and it is also used as a mulching fabric for preventing the growth and spreading of weeds.

Furniture and Construction Industries

In the furniture-making industry, the 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.

In the construction industry, the 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.

Application area	Key applications
Hygiene products	Baby diapers, feminine hygiene products, adult incontinence products
Medical and protective clothing	Surgical drapes, gowns, head and shoe covers, industrial protective apparel
Agriculture	Crop cover, mulching textile
Furniture and construction industry	Mattresses, neatening fabrics, interlinings,wind barriers, roofing membranes
Various industries	Composite fabrics, laminates

6.3 Plants and Premises

The Group has plants in the Czech Republic, Egypt, and in South Africa.

Czech Republic

The Group operates two production facilities located in Czech Republic.

Plant in Bučovice

The original site in Bučovice has a production building, in which three production lines are installed together with three other small finishing lines, which enable the cutting, gluing and perforation of processed fabrics according to customer specifications. Further expansion of the Bučovice plant on adjacent space is limited.

Plant in Znojmo-Přímětice

The newer site in Znojmo-Přímětice consists of an administrative building and operational buildings, in which seven production lines, two regranulation lines and a debagging line are installed.

The Group built a warehouse building at its production plant in Znojmo-Přímětice in order to improve its efficiency and logistics flows and to achieve savings on external warehousing. A production-warehousing building with a total area of 11,000 m2 was approved for use in September 2016. Currently, the building serves as a warehouse for finished products. A new production line Reicofil 4S Compact Bico was installed in one part of the building in 2017 and a new semi-comercial line RF5 Bico FHL R&D 2F was installed in another part of the building. The Group also owns an administrative building in Znojmo.

Egypt

The plant in Egypt is located in the industrial zone near the City of 6th October not far from Cairo and consists of an administration and production building containing a production, regranulation and debagging line.

Republic of South Africa

The newly built plant in South Africa is located in the industrial zone near the city of Atlantis in the West Cape Province approximately 60 km from Cape Town. The land purchase contract for the construction of the plant was concluded in July 2017. Construction of the plant and installation of a new production line were completed at the end of the first half of 2019.

6.4 Technology and Production

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

All twelve production lines were manufactured by Reifenhäuser Reicofil, a leading German global supplier of spunmelt nonwoven production equipment, that currently dominates the market for PP- and PP/PE-based spunmelt nonwoven machines worldwide.

Three production lines are located at the Bučovice plant near Brno and seven production lines are located in the Znomo-Přímětice plant. The output of the first and the second line, installed in 1992 and 1996, is primarily sold for technical and agricultural applications. The remaining production lines are dedicated to the production of hygiene materials.

In 1998, the Group was the first to install a Reicofil 3 production line capable of producing bi-component 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 Group's "SSMMMS 3200 Reicofil 4 Special" production line was installed in autumn 2007 as the first of its kind in the world. It is state-of-the-art technology and is able to produce ultra light-weight nonwoven textiles for the hygiene sector as well as for other applications.

In the second half of 2011, the Group launched its 9th production line. This Reicofil 4 BiCo type production line produces mainly hygiene materials with the option of production for other applications.

In 2013, the Group installed its first line in Egypt, model Reicofil 4S, which has a capacity of approximately 20 thousand tonnes per annum (depending on the product portfolio). Commercial production commenced in the third quarter of 2013 and the line has been running in standard commercial operation since 2014.

In June 2017, the Group was the first in the world to put into commercial operation a new production line Reicofil 4S Compact Bico at the Group's production plant in Znojmo-Přímětice in the Czech Republic. This line is based on a new "no-basement" concept, the advantages of which are lower infrastructure requirements, shorter installation time and associated lower total investment costs.

During the course of the first half of 2019, the installation of the Reicofil 4S Compact Bico production line at the newly built production plant in South Africa was completed. It has an annual production capacity of approximately 10 thousand metric tonnes. The production line was put into commercial operation in June 2019.

In the second half of 2019, a new semi-commercial production line was installed at the production plant in Znojmo-Přímětice. The annual production capacity of the RF5 Bico FHL R&D 2F production line depends on the used input raw materials and the produced products and is producing 8-15 thousand tonnes. The production line was put into commercial operation in November 2019.

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

Machine	Year of Installation	Technology Configuration	Plant Location	Line Width in Metres	Annual Production Capacity in Tonnes
Reicofil 2	1992	S	Bučovice	3.2	2,600
Reicofil 2	1996	SMS	Bučovice	3.2	4,700
Reicofil 3	1998	SMS	Bučovice	3.2	6,900
Reicofil 3 BiCo	2000	SSMMS	Přímětice	3.2	11,400
Reicofil 3 BiCo	2001	SSS	Přímětice	3.2	9,700
Reicofil 4	2004	SSS	Přímětice	4.2	20,000
Reicofil 4 Special	2007	SSMMMS	Přímětice	3.2	15,000
REICOFIL 4S Advanced BiCo	2011	SSMMS	Přímětice	4.2	20,000
Reicofil 4S	2013	SSMMXS	6th of October City	4.2	20,000
Reicofil 4S Compact Bico	2017	SMMS	Přímětice	2.6	10,000
Reicofil 4S Compact Bico	2019	SMMS	Cape Town	2.6	10,000
Reicofil 5 Bico FHL R&D 2F	2019	SMMS	Přímětice	2.4	10,000
Total Production Capacity					**140,300**

6.5 Investments

Investments completed in 2019

The following investments, that have a significant impact on the production capacity of the Group, were completed in 2019.

Semi-commercial production line at the production plant in Znojmo-Přímětice in the Czech Republic

A strategically very important project was the installation of a semi-commercial production line at the Znojmo--Přímětice production plant. The production line was put into operation in November 2019. The investment was financed by means of capital deposits and intra-company loans from the companies of the Group.

Production plant in South Africa

In 2016, the Company decided to build a production plant in South Africa. The production line was put into commercial operation in June 2019. The investment was financed by means of capital deposits and intra-company loans from the companies of the Group.

Ongoing investments

At the present time there are no ongoing investments that would have a significant impact on the production capacity of the Group.

6.6 Quality Management and the Environment

Quality Management System

The Group implemented an in-house open integrated quality management system complying with the requirements of the EN ISO 9001 and EN ISO 14001 standards, quality management tools, quantitative requirements of key customers and their quality management methods. Quality and sustainability are strategic priorities across all areas of activity of the Group, and the principles of the integrated quality management system are implemented by the company's management at all levels of management and applied by all employees.

The goal of the Group is long-term prosperity achieved through continuous self-improvement for the purpose of ensuring customer satisfaction with its products and services. The perception of quality as a key factor, the company culture and the constant high quality of its produced products are regularly acknowledged by the customers of the Group.

The integrated quality system of the Group in the production plants in the Czech Republic has been certified under EN ISO 9001 and EN ISO 14001 certificates from CQS, IQNet since 1997. Recertification of the system according to the new ISO 9001:2015 and ISO 14001:2015 norms occurred in December 2017 with certificates being valid until 2020. The production plant in Egypt is likewise certified according to EN ISO 9001:2015, in this case by TÜV Nord with certificates valid until 2020. The new production plant in South Africa that was put into operation in the middle of last year has implemented the same quality management system as the other plants of the Group, however without ISO certification for the time being.

High standards of the Group's quality culture are based on these fundamental pillars:

- Advanced technology and processes
- People
- Self-improvement
- Goals and results

Risks associated with the activities of the Group are regularly monitored and assessed within the scope of the integrated quality system. The Company makes every effort to eliminate or mitigate risks.Significant stress is placed primarily on the prevention of contamination of finished products, cleanliness and order at all workplaces and special fundamentals of hygiene practice.

All production premises are equipped with overpressure air control to eliminate the risk of insects contaminating textiles. The presence of pests is regularly monitored for the purpose of continuous self-improvement and setting appropriate measures. On the production lines for the hygiene segment there are camera detection systems installed for the continuous detection of the presence of all types of defects on textiles, including any contamination. The group applies the four-eyes-principle.

Environmental Management System

Environmental protection and the creation of safe and healthy work conditions for employees of the Group and their constant improvement, including pollution prevention and continuous efforts to reduce the negative impact of the Group's activities on the environment belong to the highest priorities of the Group.

The Group has implemented and maintains an environmental management system to take care of all environmental aspects as required by ISO 14001. 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 only limited atmospheric emissions. All environmental aspects implemented by the Group are monitored and reviewed.

The 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 these principles.

Details related to environmental activities are available on the Company's website www.pfnonwovens.cz.

6.7 Research

Research and Technical Support

The development of new applications, products and the optimisation of technologies are some of the key components of the current and future strategy of the Group. This platform is supported by a team of engineers, who are dedicated to the development of this new product platform and the continuous development and improvement of the products produced for our partners.

Work teams are active in several different areas, which are principally divided into industrial and hygiene applications with the primary focus on the hygiene field. The majority of important projects of the Group are focused in this direction.

From a technological standpoint, the technical department has three primary objectives:

1. to continuously improve the quality, performance and efficiency of production of standard products,

2. to develop products with an added value through the use of current and new technologies including bi-component spinning technology with the objective of increasing textile utility characteristics for end customers,

3. to develop products respecting environmental protection – in the context of the Group this concerns primarily the development of nonwoven textiles produced from renewable resources (so-called biopolymers).

All of these objectives are being achieved in cooperation with the raw material suppliers, using standard and special new polymers, and/or with machinery suppliers, which allows the Group to offer value added products to its customers.

In the preceding year, a new Spunmelt technology concept, i.e. Compact, was fully verified at the Cape Town production plant. This platform was developed to simplify and speed up the Company's entry into developing markets, which are characterised by a set of specific risks related, for example, to higher CAPEX, immediate sale of the entire capacity of a production line, or the complexity of commissioning large production lines.

The new production line was put into operation in mid 2019, customer qualifications were completed according to plan and it has been running in full commercial mode since September. Apart from the development of new technologies, the Group is actively working on developing nonwoven textiles with excellent touch and feel properties, bulkiness and softness. The development is based on the requirements of key customers and in several cases it is a product tailor-made for a specific partner.

A new element in the development of these soft and bulky nonwoven textiles is the development of technologies offering alternative nonwoven textile bonding methods in place of the normally used heated rollers (calanders). This new system called "Full High Loft" has been successfully verified on pilot production lines and now is being put into operation on the new semi-commercial production line in Znojmo, the first of its kind in the world. Apart from offering an alternative bonding method, this innovation also provides the opportunity to process polymers other than the traditional polyolefins.

The Group cooperates with many institutions such as universities and R&D centres, primarily in the Czech Republic and Slovakia but also in Western Europe. These institutions provide the Group with special support in various specialised research areas including the opportunity to develop products on pilot equipment, as well as consulting in areas such as patent research, drawing up of patents, modelling nonwoven textile structures or testing of new technologies and input raw materials.

Research and development costs in 2019 were CZK 36.2 million (CZK 43.2 million in 2018).

Intellectual Property

PFNonwovens a.s. and its controlled companies, are members of the PFNonwovens Group subject to single management by PFNonwovens Holding s.r.o., including all matters of intellectual property.

The Group has patented its trademarks and logos in key countries in Europe, the Americas, Africa and Asia in order to provide protection in the main international markets.

The Group is an applicant for eleven published patent families submitted since 2010. Six of them are the result of internal development, the other six are the product of cooperation with important business partners. One of the applications is research supported by the Ministry of Industry and Trade of the Czech Republic. The individual applications are usually first submitted in the Czech Republic and then the Group gradually takes them into international phases to cover the areas of interest both in Europe as well as Africa, Asia, America and the Middle East. Certain applications are submitted together with partners on the basis of mutual agreement to the European Patent Office. Patent granting proceedings take on average 3–7 years and the process runs entirely independently in the individual countries.

The Group has patents granted for several applications submitted in various countries. For example, recently several patents have been granted in the Asian part of the family or protection was granted in the USA for the improved two-step defect detection method for fibrous materials. There are a total of 12 valid patent families, 22 valid patents and 51 applications at various stages of proceedings. The patent families are gradually revised, paid protection is maintained only for active products in interest areas. If, for example, a product has been superseded or replaced with an entirely different solution, the documents providing them with protection are abandoned and the freed up resources are invested into protection of new products. For example, in recent years the newly submitted applications have focused primarily on protecting products from the new L12 production line utilising the potential of the unique technology installed there. The applications focus both on new types of nonwoven textiles and their properties, as well as, in cooperation with the customer, on their applications in final products.

Information about dependency on patents or licences, industrial, commercial or financial contracts that have fundamental importance for business activity

The Group also utilises licences for the production of technical materials provided by the supplier of the production lines.

Apart from these licensing contracts, the Group is not aware that during its activities it would be significantly dependent on the utilisation of patents, licenses, industrial, commercial, financial or other similar contracts.

6.8 Litigation

As of today, the companies within the Group are not aware of any pending or threatening litigation or arbitration proceedings against the Group that are likely to have a significant effect on the Group's financial position or results of operations.

6.9 Significant contracts

In 2019, excluding contracts concluded during the course of normal business activity, neither the Company nor any of the Group companies concluded (i) any significant contracts, or (ii) contracts containing any provisions according to which any member of the Group would have rights or obligations substantial for the Group as at 31 December 2019.

6.10 Strategy

The Group's strategy into the future is to:

4. develop and take advantage of growth opportunities to strengthen its market position,

5. maintain and extend technological excellence in spunmelt nonwoven textiles for disposable hygiene products in the EMEA region, and

6. provide solid returns to shareholders.

The Group intends to fulfil its strategy principally by focusing on the following areas:

Continue Investing into Technologically Advanced Production Capacity: the Group will strive to install state-of-the-art production capacities. The Group's latest production line, the semi-commercial line RF5 Bico FHL

R&D 2F, was put into operation in the fourth quarter of 2019 in Znojmo Plant.

Maintain Close Relationships with Customers and Suppliers: the Group will continue to work together with its clients, machinery manufacturers and raw material suppliers to research, develop and implement new products ahead of the competition. The Group will endeavour to remain at the forefront of technical developments in the industry, supply its customers with the highest quality products and continually develop new materials.

Focus on Technologically Advanced Products: the Group is EMEA's largest producer of bi-component spunmelt nonwovens with extensive experience in the design and production of ultra-lightweight materials. During recent years, the Group has successfully commercialised several new materials with unique properties.

Maintain good financial performance within the industry: the Group's principal objectives are to continue to grow with its core target market, deliver revenues in line with this growth and maintain high operating margins relative to its core competitors. The Group is effective at generating significant levels of cash, which is subsequently used to support expansion or reduce outstanding debt.

6.11 Human Resources

The Group benefits from a skilled and motivated workforce. The table below indicates the number and functional breakdown of employees:

Number of Employees	As at 31 December		
	2017	2018	2019
Board of Directors of the Company	5	5	5
Management	18	17	14
Specialists	74	77	80
Laboratory Staff	59	58	69
Foremen	73	78	88
Qualified Workers	361	370	428
Total	**590**	**605**	**684**
Average no. of employees	**584**	**598**	**659**

The Group provides continuous training, both statutory and also voluntary with the aim of increasing their expertise and qualifications.

The remuneration structure is highly motivational, with the fixed component of the basic salary ranging from approximately 85% for manual workers and down to approximately 80% for management. The salary of workers varies in relation to the volume produced in a specific production plant and also takes into account the quality of the product.

6.12 Corporate Social Responsibility

The Group is more than just a major manufacturer and employer in its region. The Company understands its commitment to social responsibility in its neighbourhood, the local community and a healthy environment.

In 2019, the Group continued in the support of a number of cultural, social and sports events in these regions.

Children's Centre

In 2009, Group began its cooperation with the Children's Centre in Znojmo, which provides paediatric, neurological, rehabilitation, psychological, educational and social care services to threatened or handicapped children and their families. Complex care is provided in the form of ward, stationary and outpatient care to threatened or handicapped children up to the age of 15.

In 2019, the Group financed a number of holidays and trips for children from the Children's Centre. Employees of the Group have been actively involved in providing assistance to the children.

Zlín Film Festival for Children and Youth

The Zlín Film Festival for Children and Youth is the oldest and largest children's film festival of its kind in the world. The festival screenings are conducted not only in Zlín, but also in many other towns in the Czech Republic. Each year, the festival screens around 300 films from more than 50 countries around the world. The festival's attendance has reached 100,000 children and adults.

The Group has been a supporter of the Zlín Film Festival for Children and Youth since 2013.

Volleyball Club Znojmo-Přímětice

VK Znojmo-Přímětice is the only volleyball club in the Znojmo District with players in all age categories in both boy's and girl's leagues starting with prep, student, cadet and junior level teams all the way up to adult men's and women's teams. In all these categories the club ranks among the best in Czech volleyball.

The Group has been the general partner of the volleyball club since 2010.

City of Bučovice

The Group supports cultural and social life in the City of Bučovice, where one of the production plants is located. A part of this support goes to local educational and sports institutions.

6.13 Non-financial information

According to Accounting Act No.563/1991 Coll. the Company is obliged to provide non-financial information. In accordance with this law, the Company shall prepare a separate report that will be published by 30 June 2020 on the website of the Company www.pfnonwovens.cz in the section "Investors and Media".

6.14 Comments on Financial Results

Revenues, Costs and EBITDA

In 2019, consolidated revenues (revenues from sales of the Company's products) reached CZK 6,541.1 million, up by 0.9% yoy.

In 2019, total consolidated operating costs without depreciation and amortization (net) increased by 3.6% yoy to CZK 5,323.9 million.

EBITDA amounted to CZK 1,217.5 million, down by 9.6% yoy. Thus the company did not manage to meet the target that it had set itself in the range CZK 1.30 to 1.45 billion. The failure to meet the EBITDA target was primarily the result of low production effectiveness, which was related to the very low levels of inventories of finished products during the course of the entire year 2019, and later than planned ramp-up of new production capacities.

Operating Costs

Total raw materials and consumables used last year amounted to CZK 4,918.4 million, a 4.3% yoy increase.

In 2019, total staff costs amounted to CZK 366.4 million, i.e. up by 5.7% yoy, which was to a greater degree caused by the increase in the number of employees in relation to the new production lines put into operation at the production plants in Znojmo-Přímětice and South Africa.

Depreciation and Amortisation

Consolidated depreciation and amortization reached CZK 529.5 million in 2019, up by 13.3% yoy. The year-on-year increase in depreciation and amortization was related to the new production lines put into operation at the production plants in Znojmo-Přímětice and South Africa.

Profit from Operations

In 2019, profit from operations (EBIT) amounted to CZK 688.0 million, down by 21.8% compared with 2018.

Financial Income and Costs

In 2019, FX gains and other financial income/expense (net) reached CZK 130.5 million. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The positive impact of unrealized foreign exchange differences in 2019 was primarily the result of a year-on-year appreciation of the USD against the EUR by almost 2%, which had a positive effect on the revaluation of the intra-company loan to the Company's subsidiary in Egypt. The appreciation of the South African rand against the EUR by almost 4% also had a positive impact, which positively affected the revaluation in respect to the intra-company loans provided to the subsidiary in South Africa. The impact of the revaluation of EUR-denominated bonds issued by the Czech subsidiary was, likewise, positive due to the year-on-year appreciation of the CZK against the EUR by more than 1%.

Interest expenses (net) related to debt servicing amounted to CZK 113.6 million in 2019, a 34.6% decrease compared with 2018. The reason for the decline in interest expenses was the repayment of the public bond issue in November 2018.

Income Tax

In 2019, income tax amounted to an expense in the amount of CZK 231.6 million. Current tax payable amounted to CZK 108.4 million, increasing by 1.8% compared to 2018. Changes in deferred tax represented a cost of CZK 123.2 million in comparison to 2018, where in relation to the change in the approach to the calculation of effect of deferred tax on investment incentives represented a gain of CZK 201.6 million.

Net profit

Net profit reached CZK 473.2 million in 2019, down by 41.9% yoy. The decline of net profit was caused by the aforementioned factors, namely worse operations results and an increase in depreciation and amortization related to putting the new production lines into operation.

Investments

In 2019, total consolidated capital expenditure (CAPEX) amounted to CZK 1,166.6 million, a 62.8% yoy increase. Capital expenditures related to expansion of production capacity represented CZK 933.1 million of this amount. Maintenance CAPEX constituted the remaining CZK 233.5 million. The Group, therefore, did not exceed its estimate of capital expenditures for 2019, which expected a maximum level of CZK 1.45 billion.

Cash and Indebtedness

The amount of net debt as at 31 December 2019, was CZK 4,785.3 million, up by 2.3% compared with the level as at 31 December 2018. The increase in net debt in comparison with the balance at the end of 2018 was primarily the result of the intensive CAPEX program related to the putting of two new production lines into operation.

Net debt to EBITDA ratio equated to 3.93.

Business Overview of 2019

In 2019, production output (net of scrap) reached a total of 110,966 tonnes, up by 1.0% compared with 2018.

In 2019, the share of revenues from sales of nonwoven textiles for the hygiene industry represented a 91.2% share of total revenues.

The geographical distribution of its markets, confirms the Group's steady focus on sales to the broader European area. In 2019, revenues from sales to Western Europe amounted to 33.8%, revenues from sales to Central and Eastern Europe and Russia amounted to 41.2% and revenues from sales to other territories amounted to the remaining 25.0%.

Guidance for 2020

The contracts negotiated with customers indicate the full utilisation of our production capacity in 2020.

In 2020 we expect further increases in production volumes due to the fact that the production lines that were installed in Znojmo-Přímětice and South Africa in 2019 will be in operation for the full year 2020.

Based on these facts and the information known to date, the Company has set its EBITDA guidance to CZK 1.25 to 1.4 billion.

The Company is planning for total capital expenditures in 2020 not to exceed CZK 0.8 billion, whilst approximately one half of this amount relates to the completion of the installation of the new production line in Znojmo-Přímětice.

6.15 Czech Investment Incentives

Granted Investment Incentives

PFN – NW a.s.

PFN – NW a.s. received a commitment of investment incentives from the Ministry of Industry and Trade of the Czech Republic based on the decision from October 2016. The incentive consists of corporate income tax relief of 25% of the total eligible costs and in any case cannot exceed CZK 148.05 million. The income tax relief may be exercised for a period of ten directly consecutive taxation periods. In 2017, PFN – NW a.s. received an investment incentive subsidy for work positions in the amount of CZK 2.5 million.

The investment incentives started being drawn in the form of an income tax subsidy in 2018. The subsidy was not utilised either in 2019 or in 2018.

PFN – NS a.s.

PFN – NS a.s. received a commitment of investment incentives from the Ministry of Industry and Trade of the Czech Republic based on the decision dated 12 January 2009.

PFN – 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 eligible investment costs (CZK 1,187 million as at 31 December 2016). At the same time the total amount of the public grant may not be higher than CZK 403.5 million.

In the past, the Company has received financial support for job creation in the amount of CZK 9.6 million. Based on the current estimate of the corporate income tax, the Company expects to utilise the investment incentives amounting to CZK 47.5 million as at 31 December 2019. Overall, CZK 179.6 million should be used by the end of 2019 and CZK 172.1 million still remains to be utilised.

PFN – GIC a.s.

PFN – GIC a.s. received a commitment of investment incentives from the Ministry of Industry and Trade of the Czech Republic based on the decision dated 14 March 2018.

PFN – GIC 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.

The total amount of incentives may not exceed 21.54% of the eligible investment costs. At the same time the total amount of the public grant may not be higher than CZK 212.635 million. The relief can be applied for ten immediately following tax periods. The use of investment incentives has not yet begun, as the project is not completed.

6.16 Own shares

Own shares data at the beginning and end of 2019

As at 31 December 2019, the Company did not hold any of its own shares.

7

Report on Relations

PFNonwovens a.s. is a member of the PFNonwovens Concern controlled by the business corporation PFNonwovens Holding s.r.o, head office at Hradčanské náměstí 67/8, Hradčany, 118 00 Prague 1, ID No.: 046 07 341, registered in the Commercial Register at the Municipal Court in Prague, ref. no. C 250660 (hereinafter "PFNonwovens Concern"), within the meaning of Section 79 of the Act on Commercial Companies and Cooperatives No. 90/2012 Coll. (Business Corporations Act).

In accordance with Section 82 of the Business Corporations Act, the Company's Board of Directors has drawn up a Report on relations describing the relations between the controlling entity and controlled entity, and between the controlled entity and other entities controlled by the same controlling entity (hereinafter "Report on relations").

7.1. Entities connected with the Company

7.1.1 Entity controlling the Company

The majority owner of the Company on the basis of acquisition of the Company's shares within the scope of a voluntary takeover bid in October 2017 is PFNonwovens Holding s.r.o., Head office at Hradčanské náměstí 67/8, Hradčany, 118 00 Prague 1, ID No.: 046 07 341, that as at 31 December 2019 owned 89,99% of the share capital and voting rights of the Company. PFNonwovens Holding s.r.o. is, therefore, within the meaning of Section 74 (3) of the Business Corporations Act, a controlling entity and the Company is in relation to it a controlled entity.

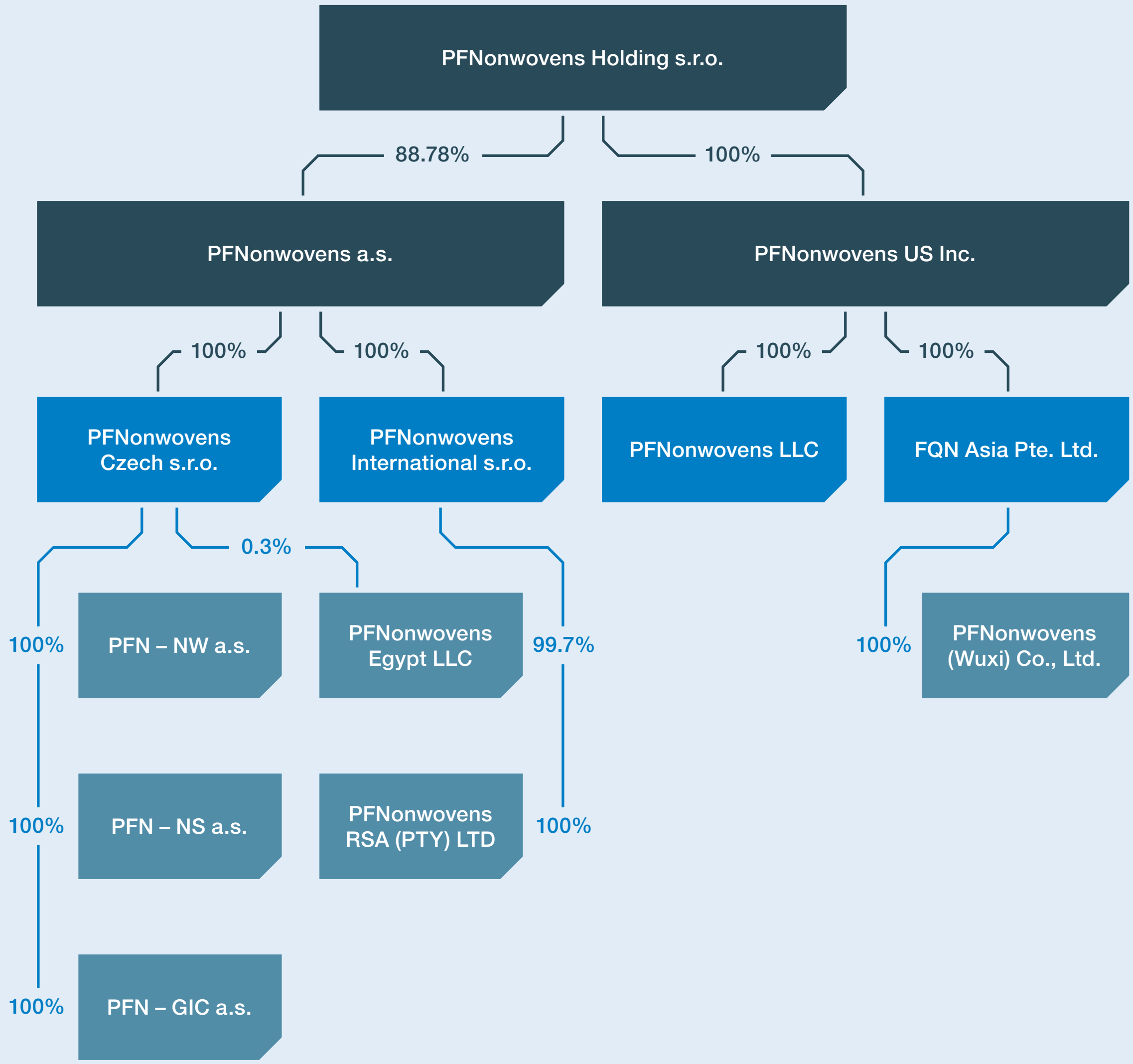
The only associate of PFNonwovens Holding s.r.o. and the ultimate controlling entity as at 31 December 2019 is R2G Rohan Sàrl, with head office at 2540 Luxembourg, rue Edward Steichen 14, Grand Duchy of Luxembourg, registration number: B 210733. R2G Rohan Sàrl is currently owned by several Czech physical persons and by a Lichtenstein family foundation. R2G Rohan Sàrl does not control any company other than PFNonwovens Holding s.r.o.

7.1.2 Members of the PFNonwovens Concern

As at 31 December 2019, excluding the controlling entities and controlled entities among the members, the PFNonwovens Concern owned the following companies:

- PFNonwovens Czech s.r.o., Czech Republic, ID No.: 254 78 478
- PFNonwovens International s.r.o., Czech Republic, ID No.: 292 49 708
- PFN – GIC a.s., Czech Republic, ID No.: 064 23 078
- PFN – NS a.s., Czech Republic, ID No.: 277 57 951
- PFN – NW a.s., Czech Republic, ID No.: 269 61 377
- PFNonwovens RSA (PTY) LTD, South Africa, reg. number 2016/278699/07
- PFNonwovens Egypt LLC, Egypt, reg. number 52190;
- PFNonwovens US Inc., United States of America
- PFNonwovens LLC, United States of America
- PFNonwovens (Wuxi) Co., Ltd, China, ID No.: 320200M279381
- FQN Asia Pte. Ltd., Singapore, registration number 201105819R

7.1.3 Graphical representation of ownership relations of the PFNonwovens Concern as at 31 December 2019



7.2 Role of the Company in the PFNonwovens Concern

The PFNonwovens Concern presents itself to the market as one group. Supportive business, financial and administrative operations are arranged at the level of PFNonwovens Holding s.r.o. for the entire PFNonwovens Concern. The relationships with the suppliers and customers of the PFNonwovens Concern are subsequently managed by the companies PFNonwovens Czech s.r.o., PFNonwovens LLC, PFNonwovens Egypt LLC, PFNonwovens (Wuxi) Co., Ltd and PFNonwovens RSA (PTY) LTD.

The operating assets of the PFNonwovens Concern are owned:

- in the Czech Republic by PFNonwovens Czech s.r.o. and its three operating subsidiaries PFN – GIC a.s., PFN – NW a.s. and PFN – NS a.s.
- in the USA by PFNonwovens LLC
- in Egypt by PFNonwovens Egypt LLC
- in China by PFNonwovens (Wuxi) Co.
- in the Republic of South Africa by PFNonwovens RSA (PTY) LTD.

The shares of the Company are traded on the Prague Stock Exchange.

7.3 Method and means of control in the PFNonwovens Concern

Control in the entire PFNonwovens Concern is based on ownership participation in the individual business corporations, PFNonwovens Concern members, and with the associated authority to appoint and dismiss the majority of persons such as members of statutory bodies of the business corporation and persons in similar positions or members of supervisory bodies of the business corporation.

7.4 Summary of actions taken in the accounting period, which were taken at the initiative or in the interest of the controlling entity or the entities controlled by the controlling entity, where such actions concerned assets exceeding 10% of the controlled equity of the Company as determined from the last financial statements

In the accounting period, no qualified acts taken at the initiative or in the interest of the controlling entity or entities controlled by it were performed within the meaning of Section 82(2)(d) of the Business Corporations Act.

7.5 Contracts between related entities

7.5.1 Contracts between a controlled entity and a controlling entity

In the respective accounting period the following contracts between the controlled entity and the controlling entity continued or were newly concluded:

- Sublease contract for business premises concluded between PFNonwovens Holding s.r.o., as the lessee, and PFNonwovens a.s., as the sublessee;
- contract between the common administrators of personal information.

No contracts continued nor were any new contracts concluded between R2G Rohan Sàrl and the controlled entity.

7.5.2 Contracts between a controlled entity and other entities controlled by the same controlling entity

In the respective accounting period the following contracts between the controlled entity and other entities controlled by the same controlling entity continued or were newly concluded:

7.5.2.1 Contracts with PFNonwovens Czech s.r.o.

- contract for the provision of financial and organisational services by PFNonwovens Czech s.r.o. to PFNonwovens a.s. and its supplements;
- loan contracts between PFNonwovens Czech s.r.o. as the lender and PFNonwovens a.s. as the borrower, total principal loaned as at 31 December 2019 amounted to EUR 27.000.000;
- contract between the common administrators of personal information.

7.5.2.2 Contracts with PFN – GIC a.s.

- contract between the common administrators of personal information.

7.5.2.3 Contracts with PFN – NS a.s.

- contract between the common administrators of personal information.

7.5.2.4 Contracts with PFN – NW a.s.

- contract between the common administrators of personal information.

7.5.2.5 Contracts with PFNonwovens International s.r.o.

- loan contracts between PFNonwovens International s.r.o. as the borrower and PFNonwovens a.s. as the lender, total principal loaned as at 31 December 2019 amounted to EUR 58.543.500;
- contract between the common administrators of personal information.

7.5.3 Conditions of contracts between related entities

The terms and conditions of the contracts mentioned above in points 5.1 and 5.2 and the considerations provided correspond to the terms and conditions, respectively standard considerations in normal business relationships.

7.6 Final statement of the Company's Board of Directors

We hereby declare that as at the date of our signing of this Report on relations drawn up according to Section 82 of the Business Corporations Act for the accounting period starting 1 January 2019 and ending 31 December 2019, we have provided all the existing relevant important facts for this accounting period that we are aware of relating to:

a) structure of relations between the Company and the controlling entity,

b) structure of relations between the members of the PFNonwovens Concern,

c) role of the Company in the PFNonwovens Concern,

d) method and means of control in the PFNonwovens Concern,

e) summary of actions taken in the past accounting period, which were taken at the initiative or in the interest of the controlling entity or the entities controlled by the controlling entity, where such actions concerned assets exceeding 10% of the controlled entity's equity as determined from the last financial statements,

f) overview of contracts between the controlled entity and the controlling entity or between the controlled entities, and

g) assessment of whether or not the controlled entity suffered any damages.

We hereby declare that we are not aware of a situation, whereby the Company would suffer any damages resulting from the aforementioned contracts, actions or measures.

We are confident that for the Company, predominantly advantages result from the relations between the members of the PFNonwovens Concern. The inclusion into the PFNonwovens Concern brings the Company opportunities to expand and consolidate existing business relationships, to provide the opportunity to offer new solutions in the form of new products, applications and optimisation of operational-production parameters. Concurrently, with respect to its global coverage, the Company will be able to apply these solutions in all the markets of the Concern, in a faster manner and at lower cost. The fact that only certain companies deal with customers and key suppliers on behalf of the members of the Concern results in significantly lower costs. We see a potential risk in possible future stricter legislative requirements on the functioning of relations between the members of the Concern, with which higher financial costs may be associated compared to the existing system.

In Prague on 30 March 2020

František Klaška
Member of the Board of Directors
PFNonwovens a.s.

Marian Rašík
Member of the Board of Directors
PFNonwovens a.s.

8

Consolidated Financial Statements

Consolidated Statement of Financial Position

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
As at 31 December 2019

in thousands of CZK	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	5 o)	6,046,997	5,191,854
Intangible assets	5 p)	2,320,127	2,320,127
Goodwill	5 p)	184,791	184,264
Total non-current assets		**8,551,916**	**7,696,245**
Current assets			
Inventories	5 q)	776,496	605,905
Trade and other receivables	5 r)	1,607,412	1,849,922
Contract assets	5 a)	446,923	309,717
Cash and cash equivalents	5 t)	202,534	400,134
Total current assets		**3,033,366**	**3,165,678**
Total assets		**11,585,281**	**10,861,924**
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	5 u)	299,857	299,857
Legal and other reserves	5 v)	86,701	86,701
Translation reserves		88,335	57,594
Cash flow hedge reserves		16,270	4,860
Retained earnings	5 v)	4,994,938	4,521,740
Total share capital and reserves		**5,486,101**	**4,970,752**
Non-current liabilities			
Deferred tax liabilities	5 x)	450,061	324,552
Long-term bonds	5 z)	3,898,726	3,923,267
Total non-current liabilities		**4,348,787**	**4,247,819**
Current liabilities			
Trade and other payables	5 aa)	582,943	404,211
Corporate income tax liabilities	5 bb)	7,502	14,031
Other tax liabilities	5 bb)	3,893	3,252
Bank current liabilities	5 w)	1,089,148	1,153,368
Short-term bonds	5 y)	63,396	60,795
Provisions		3,510	7,696
Total current liabilities		**1,750,393**	**1,643,353**
Total liabilities		**6,099,180**	**5,891,172**
Total equity and liabilities		**11,585,281**	**10,861,924**

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

Consolidated Statement of Comprehensive Income

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
For the year ended 31 December 2019

In thousands of CZK	Note	2019	2018
Revenue	5 a), b)	6,541,444	6,484,793
Changes in inventories of finished goods and work in progress		31,087	1,278
Raw materials and consumables used	5 c)	(4,985,633)	(4,762,287)
Capitalization of development costs	5 e)	36,152	43,228
Staff costs	5 f), g)	(366,402)	(346,588)
Depreciation and amortisation expense	5 h)	(529,503)	(467,523)
Other operating income	5 d)	21,735	28,889
Other operating expense	5 d)	(60,885)	(102,259)
Foreign exchange gains and other financial income	5 i)	141,987	176,247
Foreign exchange losses and other financial expenses	5 j)	(11,507)	(162,087)
Interest income	5 k)	3,406	4,206
Interest expense	5 l)	(117,052)	(177,865)
Profit before tax		**704,828**	**720,032**
Income tax expense	5 m)	(231,630)	95,125
Net profit after tax		**473,198**	**815,157**
Other comprehensive income			
Exchange differences arising from translation		30,741	40,847
Net value gain/(loss) on cash flow hedges*		11,410	(36,412)
Total comprehensive income for the year		**515,349**	**819,592**
Net profit attributable to:			
Equity holders of the company		**473,198**	**815,157**
Total comprehensive income attributable to:			
Equity holders of the company		**515,349**	**819,592**
Net earnings per share	**5 n)**		
Basic net earnings per share (CZK)		53.99	93.01
Diluted net earnings per share (CZK)		53.99	93.01

*) Items will be reclassified into the Statement of Comprehensive Income.
The Notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
For the year ended 31 December 2019

In thousands of CZK	Note	2019	2018
Profit before tax		**704,828**	**720,032**
Adjustment for:			
Depreciation and Amortisation	5 h)	529,503	467,523
Foreign exchange gains/losses		(61,180)	(20,926)
Interest expense	5 l)	117,052	173,658
Other changes in equity		0	0
Other financial income/(expense)	5 i)	(16,688)	86,946
Cash flows from operating activities			
Decrease/(increase) in inventories	5 q)	(170,591)	454,224
Decrease/(increase) in receivables		161,206	(595,108)
Increase/(decrease) in payables		(44,820)	(20,866)
Income tax (paid)/received		(100,395)	(94,087)
Net cash from operating activities		**1,118,914**	**1,171,396**
Cash flows from investment activities			
Purchases of property, plant and equipment		(1,166,589)	(748,345)
Net cash flows from investment activities		**(1,166,589)**	**(748,345)**
Cash flows from financing activities			
Increase in bank loans		(57,837)	893,725
Decrease in bonds		0	(2,302,000)
Decrease in other long term payables		0	(13,340)
Acquisition of own shares and other changes in equity		0	0
Distribution of dividends		0	0
Interest paid		(113,739)	(172,173)
Other financial income/(expense)		0	0
Net cash used in financing activities		**(171,576)**	**(1,593,788)**
Net increase (decrease) in cash and cash equivalents		**(219,251)**	**(1,170,737)**
Cash and cash equivalents at the beginning of the period	5 t)	400,134	1,514,202
Effect of exchange rate fluctuations on cash held		21,651	56,669
Cash and cash equivalents at the end of the period	**5 t)**	**202,534**	**400,134**

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

Consolidated Statement of Changes in Equity

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
For the year ended 31 December 2019

In thousands of CZK	Share capital	Transl. reserves	Cash flow hedge reserve	Legal and other reserves	Retained earnings	Total equity attributable to equity holders of the Company
Note	5 u)			5 w)	5 v)	
At 1 January 2018	**299,857**	**16,747**	**41,272**	**86,701**	**3,706,583**	**4,151,160**
Other comprehensive income for the year	0	40,847	(36,412)	0	0	4,435
Net profit for the year	0	0	0	0	815,157	815,157
Comprehensive income for the year	**0**	**40,847**	**(36,412)**	**0**	**815,157**	**819,592**
Shareholder Transactions	**0**	**0**	**0**	**0**	**0**	**0**
At 31 December 2018	**299,857**	**57,594**	**4,860**	**86,701**	**4,521,740**	**4,970,752**
At 1 January 2019	**299,857**	**57,594**	**4,860**	**86,701**	**4,521,740**	**4,970,752**
Other comprehensive income for the year	0	30,741	11,410	0	0	42,151
Net profit for the year	0	0	0	0	473,198	473,198
Comprehensive income for the year	**0**	**30,741**	**11,410**	**0**	**473,198**	**515,349**
Shareholder Transactions	**0**	**0**	**0**	**0**	**0**	**0**
At 31 December 2019	**299,857**	**88,335**	**16,270**	**86,701**	**4,994,938**	**5,486,101**

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

Notes to the consolidated financial statements

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

For the year ended 31 December 2019

(in thousands of CZK)

1. General information and definition of the consolidated entity

Description and principal activities

The Company was incorporated in Luxembourg as a public limited liability company (société anonyme) for an unlimited duration on 18 November 2005, under the name Pamplona PE Holdco 2 SA and was registered with the Luxembourg trade and companies register under number B 112.044. In 2006, the Company changed its name to PEGAS NONWOVENS SA.

On 18 December 2017, the Extraordinary General Meeting of the Company resolved to transfer the head office to the Czech Republic and to change the nationality (status) of the Company from Luxembourg nationality to Czech nationality. Concurrently, the Extraordinary General Meeting resolved to accept a new wording of the Articles of Association and to change the name of the Company to PEGAS NONWOVENS a.s.

Luxembourg company PEGAS NONWOVENS SA did not cease to exist as a result of the transfer of the head office of the Company nor did a new legal entity come into existence, but rather its legal form was changed to a joint stock company according to Czech law. PEGAS NONWOVENS a.s. was recorded in the Czech commercial register with effect from 1 January 2018. On 15 June 2018, the Annual General Meeting resolved to change the name of the Company to PFNonwovens a.s. The new name was recorded in the Czech commercial register with effect from 19 June 2018. The head office of the Company is Hradčanské náměstí 67/8, Hradčany, 118 00 Prague 1, Czech Republic. The head office and principal place of business of the main operating and trading company, PFNonwovens Czech s.r.o., is at Přímětická 3623/86, 669 02 Znojmo, Czech Republic.

PFNonwovens a.s. is a holding company and owns a 100% share in the main operating company PFNonwovens Czech s.r.o. and in the company PFNonwovens International s.r.o.

PFNonwovens Czech s.r.o. was incorporated in the Czech Republic. Its registered office is located in Znojmo, Přímětická 86, 669 02 and its subsidiaries (PFN – NW a.s., PFN – NS a.s. a PFN – GIC a.s.) are engaged in the production of nonwoven textiles.

Within the scope of international expansion was established PFNonwovens International s.r.o. in 2010 and in June 2016 was established PFNonwovens Egypt LLC, which invests in the Egyptian production capacity. In July 2016, a subsidiary PFNonwovens RSA (PTY) LTD was established for the purpose of realisation of the investment project in the Republic of South Africa.

The sole shareholder of PFNonwovens Holding s.r.o. and the ultimate controlling party as at 31 December 2019 is R2G Rohan S.à r.l., registered at 2540 Luxembourg, rue Edward Steichen 14, Grand Duchy of Luxembourg, registration number: B 210733. Subsequently, R2G Rohan Sàrl is currently owned by several Czech individuals and the Liechtenstein Family Foundation. Except for PFNonwovens Holding s.r.o., company R2G Rohan Sàrl does not control any other company.

The consolidated financial statements of the Company as at and for the year ended 31 December 2019 comprise the Company (also referred as parent company) and its subsidiaries, see note 5dd) (together referred to “Company” or the “Group”).

2. Basis of preparation

a) Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 30 April 2020.

b) Presentation and functional currency

The financial statements are presented in thousands of Czech Koruna (thous. CZK). The underlying functional currency of PFNonwovens Czech s.r.o. and its Czech subsidiaries is the Czech Koruna ("CZK"). Czech Koruna is the underlying functional currency of PFNonwovens International s.r.o. as well. The functional currency of PFNonwovens Egypt LLC is the United States Dollar ("USD"). The functional currency of PFNonwovens RSA (PTY) LTD is the South African Rand ("ZAR"). The functional currency of PFNonwovens a.s. is Czech Koruna ("CZK"). The financial statements were translated from the functional currencies to the presentation currency.

c) Rounding of financial amounts

When preparing consolidated financial statements, the Group uses CZK 1,000 as the minimum reporting unit.

All reported figures were rounded off and for this reason some additions may not add up.

d) Basis of measurement

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

e) Use of estimates and judgments

The preparation of financial statements in compliance with IFRS requires management to make judgments, 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 judgments 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 on-going basis. Revisions to accounting estimates are recognised 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 and for the goodwill and fixed assets impairment testing (see note 5 o) and 5 p). The estimates are applied for the determination of useful life of property, plant and equipment in respect of their depreciation.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all years 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 PFNonwovens a.s. and entities controlled by the Company (its subsidiaries). Control exists where the Company is exposed, or has rights, to variable returns of an entity and has the ability to affect those returns through its power over the entity.

Assets, liabilities and contingent liabilities, which fulfil 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.

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 group entities included in the note 5 dd) are fully consolidated.

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

b) Foreign currencies

At the end of the respective accounting period, financial assets and liabilities are translated into the functional currency of each accounting entity on the basis of the official foreign exchange rate of the central bank of the country in which the given company is present.

Foreign exchange gains and losses arising from the settlement of transactions from the translation of financial assets and liabilities into the functional currencies of each accounting entity using the official foreign exchange rates of the central bank at the end of the period are reported in profit or loss as a financial income or expense.

Revaluation using the foreign exchange rate at the end of the period does not apply to non-financial items, which are valued in historical prices. Non-financial items priced at fair value in a foreign currency, including capital participations, are revalued using the foreign exchange rate as at the date on which their fair value was set. The impact of a change in foreign exchange rates on the non-financial items priced to fair value in a foreign currency is booked as part of profit or loss from revaluation.

For the purpose of presenting consolidated financial statements, the assets and liabilities are expressed in CZK 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:

Period average (for Statement of Comprehensive Income and Cash Flow Statement)	Exchange rate
1 January 2018–31 December 2018	21.735 USD/CZK
1 January 2018–31 December 2018	1.647 ZAR/CZK
1 January 2019–31 December 2019	22.934 USD/CZK
1 January 2019–31 December 2019	1.588 ZAR/CZK
Balance sheet date	
Balance sheet as at 31 December 2018	22.466 USD/CZK
Balance sheet as at 31 December 2018	1.562 ZAR/CZK
Balance sheet as at 31 December 2019	22.621 USD/CZK
Balance sheet as at 31 December 2019	1.611 ZAR/CZK

Exchange differences arising from translation to the presentation currency are classified as equity and transferred to the Group's translation reserve.

c) Revenue recognition

Effective as at 1 January 2018 and in accordance with IFRS 15, revenues are recognised in the expected value item, which the Group should, based on expectation, receive for the goods transferred to the customer, or for the services provided to the customer. Revenues represent trade receivables for goods and services reduced by discounts, VAT and other taxes related with the sale. Payment terms are usually in the range from 30 to 120 days.

Revenues are reported over time in the case where performance does not create an asset for which the Group would have an alternative use, and at the same time if the Group has a legally enforceable right to payment for performance that it has heretofore provided to the customer. In practice this means that products that are produced based on an order from a given customer are recognised as revenues immediately after the given product is produced. This procedure is exercised in accordance with the requirements of IFRS 15, thus it was not exercised in the comparable period.

In the event that the IFRS 15 criteria from the preceding paragraph are not met then revenues reported at a point in time of the sale of the products are recognised in accounting at the time when the product is delivered and ownership is transferred to the customer, or at the moment when the control with the product is transferred to the carrier, at a time when all the following conditions are met:

- The Group transferred to the buyer the control from the ownership of the goods,
- The Group no longer retains a continued connection at the management level pertaining to the ownership or effective control over the goods sold,
- revenues can be reliably determined,
- it is probable that the economic benefits related to the transactions will accrue to the Group
- the resulting costs or costs arising in connection with the transaction can be reliably determined.

Revenues from the sale of services are recognised when the service is rendered.

A description of the main activities from which the Group generates revenues is provided below.

Sale of nonwoven textiles – main source of revenues for the Group is from the sale of nonwoven textiles. The Group supplies products that are used primarily for the production of disposable hygiene products and supplies these products predominantly to large multi-national companies.

d) Segment reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Based on analysis of IFRS 8, the Group identified one operating segment, the production of nonwoven textiles including scrap from its production.

In view of the above, the reports and other information for this segment are the same as those for the entire Group. For this reason, there is also no reconciliation of segment indicators with indicators for the whole Group.

e) Research and development

Expenditure on research activities, undertaken with the prospect of acquiring new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised as intangible asset if the product or process is technically and economically feasible. The expenditure capitalised includes the cost of materials, direct labour and directly attributable overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

f) Borrowing costs

Borrowing costs other than stated below are recognised in the income statement in the period to which they relate.

Borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale are capitalised as part of the cost of such assets.

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 from 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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.

Book value of the deferred tax receivable is tested on each balance sheet date. If necessary, the value of the deferred tax receivable is decreased to the extent that it is improbable that sufficient taxable profit will be generated which would enable to utilise a part or the whole deferred tax receivable.

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 realised. Deferred tax is charged or credited to the profit or loss account except for deferred tax derived from the hedge effective part of mark-to-market revaluation of cross currency rate swaps (CCRS). The Group designates the CCRSs as cash flow hedge and the changes in fair value recognises in equity. The changes in deferred tax derived from the changes in fair value of the CCRS are recognised in equity as well.

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 Group benefits from the following investment incentives granted by the Czech Government:

Grants and subsidies relating to employees

The grants to train employees and subsidies to establish new jobs from the government of the Czech Republic are accounted for in the comprehensive income statement in the year in which related expenses are 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.

Grants for R&D projects

The Group is successful in obtaining the grants for R&D projects. These grants are tendered under the research and development support programmes by the Czech Ministry of Industry and Trade. The grants for R&D projects are recognised in the statement of comprehensive income in the year in which related expenses were incurred.

Tax deductible items

The Group benefits from reduction of tax base by tax deductible items related to research and development expenses.

i) Property, plant and equipment

Property, plant and equipment are stated at cost (including costs of acquisition) less accumulated depreciation and any recognised 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 group of assets	Number of years
Production lines	20–25
Factory and office buildings	20–60
Laboratory equipment	10
Cars and other vehicles	5
Computer technology	4

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 recognised in statement of comprehensive income.

j) Intangible assets

Purchased intangible assets are stated at cost less accumulated amortisation. They are amortised 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 include software, which is amortised on a straight-line basis over its estimated useful life, which is three years. The item also includes capitalised intangible assets arising from development which is amortized on a straight-line basis over its estimated useful life, which is ten years.

An internally-generated intangible asset arising from development is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

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 presented as separate intangible asset. After the initial recognition, goodwill is stated at cost less any impairment losses.

l) Impairment of assets and goodwill

At least 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). Where it is not possible to estimate the recoverable amount of an individual asset, 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. The difference between the carrying amount and recoverable amount is recognised as a provision in the statement of comprehensive income.

For the purposes of impairment testing, goodwill is analysed 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 recognised for goodwill is not reversed in a subsequent period.

Management has determined that for goodwill testing purposes all acquired subsidiaries are considered as a single cash generating economic unit. Recoverable amount is set as a value in use on the basis of a discounted cash flow model.

For the purposes of impairment testing of goodwill, the goodwill is allocated to all goods producing subsidiaries. The recoverable amount is established using a discounted cash flow model.

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, based on normal operating capacity, excluding finance costs. 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.

n) Financial instruments

A financial asset is mainly cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset. A financial liability is mainly a contractual obligation to deliver cash or another financial asset.

Financial liabilities and assets are presented as current (short-term) or non-current (long-term). Financial assets are presented as current when the Group expects to realize them within 12 months of the balance sheet date or if there is no reasonable certainty that the Group will hold the financial assets for more than 12 months of the balance sheet date.

Financial liabilities are presented as current when they are due within 12 months of the balance sheet date.

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Financial liabilities

Financial liabilities are valued in the category “amortised value” with the exception of i) financial liabilities booked against expenses and gains: this classification is applied to derivatives, financial liabilities including for trading (e.g. short positions in securities) and other financial liabilities that have been classified as such at initial recognition.

The valuation and reporting methods for derivatives intended for hedging, and derivatives intended for trading are described in the section Derivative financial instruments.

Financial assets

Financial assets are classified into two main categories (a) at amortized cost (which include mainly trade receivables) and (b) at fair value through profit or loss or through other comprehensive income.

The Group categorises financial assets such as financial assets in amortised value only when the following criteria are met:

- the asset is held on the basis of a business model, the objective of which is to collect contractual financial flows and concurrently
- financial flows that arise on the basis of contractual conditions, are only payments of principal and interest

IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets by applying the IFRS 9 requirements is based on expected credit loss (ECL) model.

Payment discipline of customers is very good, trade receivables of the Group are insured. Historically, the Group has suffered only minimal losses arising from customers' unwillingness to pay, and these losses were, furthermore, to a large degree, covered by the insurance of receivables. The Group has its financial claims covered by credible financial institutions. The reduction in the value of financial assets due to expected credit losses is, for the aforementioned reasons, insignificant and thus the Group has decided not to book them.

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.

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

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

HEDGE ACCOUNTING – CASH FLOW HEDGES

Upon implementation of IFRS 9, the Group used transitional provisions and continues to proceed according to IAS 39 for existing hedging relationships.

The Group uses cross currency swaps to hedge cash flows from bonds issued by the Group, resp. currency forwards to hedge cash flows related to the operating activities of the Group. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item The economic relationship is defined as the expectation that the value of the hedging instrument and the value of the hedged item will move in the opposite direction with respect to the hedged risk. From the creation of the hedge, the Group regularly documents whether the hedging instrument is effective. The effectiveness of the hedging relationship is defined as the ratio of the cumulative change in the fair value of the hedging instrument relative to the change in the fair value of a hypothetical derivative (derivative, which perfectly hedges the hedged item). A certain level of ineffectiveness is introduced into the hedging relationship by the difference between the Bid and Ask rates, however, the Group assessed this ineffectiveness as insignificant. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, on the same line as the recognised hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

OTHER DERIVATIVES

Certain derivative instruments are not designated for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

o) Stock option plan

The Company concluded a stock option plan, which is realized through phantom options, the value of which is derived from the actual share price of the Company.

The Company measures the liability arising from the stock option plan at fair value at the balance sheet date. Changes in the fair value of these liabilities are recognised in the statement of comprehensive income for the period.

Fair value is calculated as the intrinsic price of an option, i.e. the difference between the current market price of the Company's shares and the phantom share strike price. The time value of an option is not taken into consideration.

p) Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently at amortised cost using the effective interest method.

q) 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.

r) Long-term liabilities

Long-term liabilities, such as long-term bank loans and bonds, are initially measured in the amount of the cash-flow received upon issuance of such a debt instrument reduced by the related transaction costs. Subsequently the liabilities are measured at amortized cost using the effective interest rate method. The difference between the nominal value and the initial measurement of the debt is amortised through the income statement over the maturity of the debt.

The issuance costs and discount below, resp. premium above the nominal value, are treated as a reduction of, resp. increase in the nominal value of the instrument issued. These amounts are included in the amortization using the effective interest rate method.

s) Contract assets and liabilities

Contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the Group's future performance).

Contract liability is the Group's obligation to transfer goods or provide services to a customer for which the Group has received consideration from the customer.

Contract assets and liabilities are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

t) Trade and other payables

Trade payables arise when the counterparty fulfils its obligations from a contract and are initially measured at fair value, subsequently measured at amortised cost using the effective interest method.

u) Provisions

Provisions are recognised 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.

v) Own shares

Treasury shares are presented in the balance sheet as a deduction from equity in the amount equal to their acquisition cost. The acquisition of treasury shares is recorded based on the trade date and presented in the statement of changes in equity as a reduction in equity.

w) Adoption of new and revised standards

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period for the first time:

- **IFRS 16 Leases** – effective for annual periods beginning on or after 1 January 2019.

  The new standard IFRS 16 Leasing replaces all existing international accounting regulations relating to lease accounting for both the lessee and the lessor. According to this standard, the lessee will book the majority of lease items on the balance sheet. From the lessor's perspective, the accounting treatment of leasing remains practically unchanged. This model will be applied to leases, with the exception of short term leases and leasing where the underlying asset has a low value. The standard is binding from the accounting period starting on 1 January 2019 and the Group has implemented this standard as of this date.

- **Amendments to IFRS 9 Financial instruments** – Subscription feature with negative compensation – effective for annual periods beginning on or after 1 January 2019,

- **Amendments to IAS 19 Employee Benefits** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IAS 28 Investments in Associates and Joint Ventures** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),

- **IFRIC 23 Uncertainty over Income Tax Treatments** (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015–2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019).

The adoption of the above standards did not have a significant impact on the Group's financial statements.

New Standards

Certain new standards and interpretations have been issued that are compulsory for the financial period starting 1 January 2020 or later and that the Group has not implemented earlier. At the date of authorisation of these financial statements the following new standards, amendments to the existing standards and new interpretation issued by IASB and adopted by the EU were in issue but not yet effective:

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

- **Amendment to IFRS 3 Business Combinations** (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies,**

Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020),

- **IFRS 17 Insurance Contracts** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments IFRS 9, IAS 39 and IFRS 7 Benchmark rate reform** (effective for annual periods beginning on or after 1 January 2020)
- **Amendment IAS 1 - Presentation and publication of financial statements: Classification of liabilities as short term, resp. long term** (effective for annual periods beginning on or after 1 January 2022).

The Group does not expect to apply any of the above standards, revisions or amendments before their effective date. The Group anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Group in the period of initial application.

4. Financial risks, investment risks and capital management

The Group 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 foreign exchange and interest rates), since the Group 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 Group.

Credit risk

The vast majority of sales are on credit to customers. Risks arising from the provision of credit are covered up to 90% of their nominal value by insurance policies in respect of individual customers' receivables or by receiving advance payments from customers.

The maximum credit risk to which the Group is theoretically exposed is represented by the carrying amounts stated for cash and cash equivalents and trade and other receivables in the balance sheet. Overview of trade and other receivables according to due date is shown below.

	2019		2018	
		% of total		% of total
Not yet overdue	1,033,946	92.3%	1,267,288	90.5%
Overdue less than 1 month	39,063	3.5%	113,794	8.1%
Overdue more than 1 month	47,208	4.2%	18,837	1.4%
Total	**1,120,217**	**100.0%**	**1,399,919**	**100.0%**

In 2019, the Group created a provision for an expected overdue credit loss in the amount of 673 thousand CZK (18 thousand CZK in 2018).

The credit quality of bank balances can be summarized based on Moody's ratings as at 31 December 2019 and 2018 as follows:

	31 December 2019	31 December 2018
– Aa3	172,516	174,575
– A1	28,980	225,077
– A2	5	9
– A3	159	(2)
– Without external rating	387	0
Total	**202,046**	**399,659**

Explanation of the Moody's rating:

Aa3 – very high quality with very low credit risk

A1 – A2 assessed as high quality with low credit risk.

A3 – assessed as medium quality at a higher level with a low credit risk.

Baa1 – Baa3 – assessed as medium quality with a certain degree of a speculative level and a medium credit risk.

Concentration of credit risk

The Group supplies the vast majority of its production to global customers and their production plants around the world. Due to this fact, it is difficult to determine the exposure of the Group to geographical segments.

The Group supplies nonwoven textiles primarily to the hygiene segment, where the segment's share of total revenues in 2019 accounted for approximately 91% (90% in 2018). The remaining 9% of revenues (10% in 2018) came from the building construction, agricultural and healthcare segments.

The present customer mix concentration of the Group reflects the situation in the final consumer market, which is divided among a small number of end producers, each having a substantial market share. The top five customers represented an 80% share of total revenues in 2019 (81% in 2018). The trade receivables of top five customers as at 31 December 2019 amounted to 88% of all trade receivables (92% as at 31 December 2018).

In 2019, the largest customer accounted for 46% of the Group's total sales (48% share in 2018). The second largest customer accounted for 15% of the Group's total sales, compared with a 17% share in 2018, and the third largest customer accounted for 11% of the Group's total sales, compared with a 9% share in 2018. There were no other customers with more than 10% share on total sales.

The Group did not change any objectives, policies and processes for managing the credit risk in 2019.

Liquidity risk

Liquidity risk arises if the Group is unable to obtain the funds needed to carry out its operations under current economic conditions.

In order to reduce the liquidity risk, the Group 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.

2019	Book value	Less than 6 months	6 months – 1 year	1 year – 2 years	2 years – 5 years	5+ years	Total
Financial liabilities:							
Variable interest rate bonds	670,109	14,306	14,306	28,612	85,835	706,612	**849,670**
Fixed interest rate bonds	3,228,617	23,822	58,726	82,548	2,540,989	919,499	**3,625,584**
Trade payables	230,944	230,944	0	0	0	0	**230,944**
Short-term bond payables	63,396	63,396	0	0	0	0	**63,396**
Payables to employees	28,117	28,117	0	0	0	0	**28,117**
Other payables	9,214	9,214	0	0	0	0	**9,214**

2018	Book value	Less than 6 months	6 months – 1 year	1 year – 2 years	2 years – 5 years	5+ years	Total
Financial liabilities:							
Variable interest rate bonds	669,834	13,797	13,797	27,595	82,784	733,189	**871,162**
Fixed interest rate bonds	3,253,433	24,117	59,100	83,217	1,301,073	2,271,788	**3,739,294**
Trade payables	262,435	262,435	0	0	0	0	**262,435**
Short-term bond payables	60,795	60,795	0	0	0	0	**60,795**
Payables to employees	37,912	37,912	0	0	0	0	**37,912**
Other payables	9,205	9,205	0	0	0	0	**9,205**

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 Group 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. 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.

2019	Less than 6 months	6 months – 1 year	1 year – 2 years	2 years – 5 years	5+ years
Net settled:					
Cross currency rate swap	14,306	(10,551)	3,755	85,259	49,827
FX option structure	5,412	5,412	14,344	4,818	--

2018	Less than 6 months	6 months – 1 year	1 year – 2 years	2 years – 5 years	5+ years
Net settled:					
Cross currency rate swap	13,797	(11,722)	2,076	64,741	46,460
FX option structure	6,303	16,533	37,158	21,676	--

The Group did not change any objectives, policies and processes for managing the liquidity risk in 2019.

Market Risk

Market risk is the risk that the Group'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 Group is exposed to market risks from fluctuations in foreign currency exchange and interest rates.

Currency risk

The Group operates its production activities only in the Czech Republic, Egypt and the republic of South Africa, it conducts business at an international level. This fact exposes the Group to a currency risk, namely in relation to both its operational as well as financial activities. The underlying functional currency of PFNonwovens Czech s.r.o. and its subsidiaries is Czech koruna (CZK). The Czech koruna is the functional currency of PFNonwovens International s.r.o. The functional currency of PFNonwovens Egypt LLC is the US dollar (USD). The functional currency of PFNonwovens RSA (PTY) LTD is the South African rand (ZAR). The functional and presentation currency of PFNonwovens a.s. is the Czech koruna (CZK). The part of operating activities (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.

Trading activity

From the trading (operational) perspective the Group attempts to hedge the currency risk of its revenues and expenses naturally in the given currencies. Despite this natural hedging, a certain balance is created between the revenues and expenses in the given currencies (namely in CZK and EGP), e.g. staff costs and energy, which are paid out in the local currency (CZK and EGP) and are not covered, resp. are covered only partially by revenues in the local currencies. This discrepancy, resp. remaining balance between revenues and expenses in the individual currencies represents a currency risk.

Financial activity

The Group is exposed to unrealized foreign exchange gains/losses from the revaluation of balance sheet items (bank loans, bonds, intra-company loans, cash, trade receivables and trade payables). Unrealized foreign exchange gains and losses do not have an effect on the cash flows of the Group.

The Group is exposed to a currency risk primarily resulting from changes to the following currency pairs:

- CZK/EUR – The appreciation of CZK against EUR has a negative effect on the operating results of the Group resulting from the fact that a majority of revenues are invoiced in EUR, whereas a part of the expenses, e.g. staff costs and energy are paid out in CZK. The appreciation of CZK against EUR has a positive effect on financial results since the appreciation of CZK leads to a reduction in liabilities tied to EUR-denominated company bonds. The depreciation of CZK against EUR has the opposite effect.
- USD/EUR – the appreciation of USD against EUR has a positive impact on financial results since the appreciation of USD leads to a reduction in liabilities arising from intra-company loans provided in EUR for the financing of the investment project in Egypt to the Egyptian subsidiary, whose functional currency is USD. The depreciation of USD against EUR has the opposite effect.
- ZAR/EUR – the appreciation of ZAR against EUR has a positive impact on financial results since the appreciation of ZAR leads to a reduction in liabilities arising from intra-company loans provided in EUR for the financing of the investment project in South Africa to the South African subsidiary, whose functional currency is ZAR. The depreciation of ZAR against EUR has the opposite effect.

Changes in other currency exchange rates should have no fundamental impact on the results of the Group.

Impact of changes in foreign currency exchange rates	2019	2018
Appreciation of CZK against EUR by 5 %	(67,634)	(55,079)
Depreciation of CZK against EUR by 5 %	67,634	55,079
Appreciation of USD against EUR by 5 %	60,378	69,525
Depreciation of USD against EUR by 5 %	(60,378)	(69,525)
Appreciation of ZAR against EUR by 5 %	78,137	22,906
Depreciation of ZAR against EUR by 5 %	(78,137)	(22,906)

’000 CZK

Interest rate risk

The Group is exposed to interest rate risk resulting from a private bond issue in the amount of CZK 678 million bearing a variable interest rate of 6M PRIBOR + 2%. In order to manage the interest rate risk, the Group has concluded a cross currency swap (CCRS), where the Group receives a variable interest rate of 6M PRIBOR + 2% and pays a fixed rate. The interest rate risk is thus fully eliminated. For details refer to Note 5 aa).

The Group did not change any objectives, policies and processes for managing the interest rate risk in 2019.

Capital management

The Group'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 Group 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. The Group considers equity and proceeds from the bond issues as capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group does not define any level of capital, however management closely monitors the risks in connection with capital inadequacy and is prepared to change the level of capital as stated above.

In accordance with the terms of the bonds issued by the Group, the Group has to keep the ratio of consolidated net debt to consolidated EBITDA below 4.50. As at 31 December 2019, this ratio was 3.91 (3.47 as at 31 December 2018).

5. Notes to the consolidated financial statements

a) Revenues

Revenues divided by product groups

	2019	% of total	2018	% of total
Hygiene	5,965,391	91.2%	5,845,672	90.1%
Other	576,053	8.8%	639,121	9.9%
Total revenues	**6,541,444**	**100.0%**	**6,484,793**	**100.0%**

Division of Revenues according to actual delivery location of goods to customer

Region	2019	% of total	2018	% of total
Western Europe	2,212,377	33.8%	2,185,487	33.7%
Central and Eastern Europe, Russia	2,696,325	41.2%	2,489,646	38.4%
Other	1,632,742	25.0%	1,809,660	27.9%
Total	**6,541,444**	**100.0%**	**6,484,793**	**100.0%**

Division of revenues according to time of revenue recognition

	2019	% of total	2018	% of total
Over time	2,212,377	33.8%	5,389,698	83.1%
Point in time	2,696,325	41.2%	1,095,095	16.9%
Total	**1,632,742**	**25.0%**	**6,484,793**	**100.0%**

Contract assets

The following table provides information about trade receivables and contract assets resulting from contracts with customers.

Receivables constitute trade receivables from already issued invoices.

Contract assets constitute products that have been produced on the basis of an order received from a customer and meet the IFRS 15 condition for recognition of revenue over time. In the case of the Group the condition is met that the product does not have an alternative use for the Group and at the same time the Group has a legally enforceable right to payment for performance. For this reason, no provision is created for these assets. Essentially, these constitute products produced on the basis of a customer's order, which will be delivered in the following period for a price that is already known for the following period.

	as at 31 December 2019	as at 31 December 2018
Trade receivables	1,120,217	1,399,919
Contract assets	446,923	309,717
Total	**1,567,140**	**1,709,636**

Contract assets are converted into receivables when the products are shipped and an invoice is issued. New contract assets are created when products are produced that meet the aforementioned conditions for recognition of revenue over time.

Allocation of a transaction price to remaining performance obligations

The Group applies practical expedient in accordance with paragraph 121 of IFRS 15 and does not publish information about remaining performance obligations for which the initially expected time of duration is one year or less.

In accordance with the aforementioned, the Group has no liabilities for performance with an expected time of duration longer than one year.

b) Segment reporting

In accordance with IFRS 8, the Group identified one operating segment, the segment of nonwoven textiles. This segment consists of the production and sale of nonwoven textiles, including scrap from its production.

In consideration of the aforementioned, the statements and other information for this segment are identical to the statements and other information for the entire Group. Likewise, for this reason no reconciliation of segment indicators with the indicators for the entire Group is performed.

c) Raw materials, consumables and services used

	2019	2018
Raw materials consumed	3,988,808	4,020,620
Purchase of goods	58,369	0
Consumed spare parts and repairs	169,055	118,937
Energy consumed	220,388	211,620
Other consumables	32,582	25,163
Other services	516,431	385,947
Total raw materials and consumables used	**4,985,633**	**4,762,287**

d) Other operating income/expense

Other operating income

	2019	2018
Gain on the sale of assets	4,591	3,853
Insurance proceeds	3,483	14,246
Other income	13,661	10,790
Other operating income total	**21,735**	**28,889**

Other operating expense

	2019	20178
Net book value of sold assets	2,164	3,152
Insurance expense	37,455	30,754
Other expense	21,266	68,353
Other operating expense total	**60,885**	**102,259**

e) Capitalization of development costs

Expenditure on development activities are capitalized according to the Group's accounting policies. The expenditure capitalised includes the cost of materials, direct labour and directly attributable overheads.

	2019	2018
Cost of materials	34,329	41,825
Direct labour	3,383	3,227
Directly attributable overheads	(1,560)	(1,824)
Total developments costs capitalized	**36,152**	**43,228**

f) Staff costs

2019	Average number of employees	Total	Wages and salaries	Remuneration of Board members	Revenues related to the stock option plan revaluation	Social security and health insurance expenses	Social expenses
Employees	654	359,792	268,217	0	0	82,259	9,317
Executives and non-executives	5	6,610	240	8,531	-4,186	2,025	0
Total	**659**	**366,402**	**268,457**	**8,531**	**-4,186**	**84,284**	**9,317**

2018	Average number of employees	Total	Wages and salaries	Remuneration of Board members	Revenues related to the stock option plan revaluation	Social security and health insurance expenses	Social expenses
Employees	593	319,923	235,392	0	0	79,170	5,361
Executives and non-executives	5	26,665	14,479	10,367	(911)	2,730	0
Total	**598**	**346,588**	**249,871**	**10,367**	**(911)**	**81,900**	**5,361**

g) Cash-settled share-based payment for executive managers and non-executive directors

The information below relates to share option programs from 2007 and 2010 for which as at 31 December 2019 and as at 31 December 2018 there remained 60,304 phantom share options to be exercised. All the issued share options/warrants from share option programs in 2014 and 2017 have been exercised.

The Annual General Meeting held on 15 June 2007 approved the grant of an aggregate amount of 230,735 phantom options. 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 PFNonwovens a.s. (the IPO price). Of the originally granted 230,735 phantom options, 44,840 phantom options are currently held by former executive managers and non-executive directors.

The Annual General Meeting held on June 15, 2010 approved the grant of an aggregate amount of 230,735 phantom options. Each phantom option, when exercised, will grant the director the right to receive in cash an amount equal to the difference between CZK 473.00 representing the Company's share price on the PSE as of 15 December 2009 increased by 10%, and the closing price of one Company's share on the day preceding the day of exercise of the phantom option on the PSE. Of the originally granted 230,735 phantom options, 15,464 phantom options are currently held by former executive managers and non-executive directors.

Summary of the contractual terms of the phantom option as at 31 December 2019:

Grant date	Strike price	Number of granted options	Fair value of granted options
	(CZK)	(pcs)	(TCZK)
24/05/2007	749.20	44,840	0
15/06/2010	473.00	15,464	3,510
Total		**60,304**	**3,510**

Summary of the contractual terms of the phantom option as at 31 December 2018:

Grant date	Strike price	Number of granted options	Fair value of granted options
	(CZK)	(pcs)	(TCZK)
24/05/2007	749.20	44,840	2,547
15/06/2010	473.00	15,464	5,150
Total		**60,304**	**7,696**

The fair value of the phantom options as at 31 December 2019 was TCZK 3,510 (TCZK 7,696 as at 31 December 2018). The current management of the Company did not hold any phantom option as at 31 December 2019 and as at 31 December 2018.

The fair value of phantom options was calculated as a difference between the Company's closing share price on the PSE of CZK 700 as at 31 December 2019 (CZK 806 as at 31 December 2018) and the strike price of the phantom options.

h) Depreciation and amortisation expense

	2019	2018
Depreciation of tangible assets	493,305	445,102
Amortisation of intangible assets	36,199	22,421
Total	**529,503**	**467,523**

i) Foreign exchange gains and other financial income

	2019	2018
Realised and unrealised foreign exchange gains	125,299	176,247
Derivatives revaluation	16,688	0
Other financial income	0	0
Total	**141,987**	**176,247**

j) Foreign exchange losses and other financial expenses

	2019	2018
Realised and unrealised foreign exchange losses	0	93,235
Revaluation of derivatives	0	54,328
Other financial expense	11,507	14,525
Total	**11,507**	**162,087**

Other financial expenses include mainly insurance and bank charges.

k) Interest income

	2019	2018
Interest income	3,406	4,206

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

l) Interest expense

	2019	2018
Interest and debt settlement expenses on loans and borrowings	113,946	176,516
Other	3,106	1,349
Total	**117,052**	**177,865**

No borrowing cost were capitalised in 2019 and 2018.

m) Income tax (expense)/income

	2019	2018
Current income tax	108,394	(106,483)
Deferred income tax	123,236	201,608
Total	**231,630**	**95,125**

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

Effective tax rate

	2019	% of total	2018	% of total
Profit before tax	**704,828**		**720,032**	
Income tax calculated using the enacted tax rate	133,917	19.0%	136,806	19.0%
Non-deductible tax items	(18,506)	(2.6%)	726	0.1%
Differences in tax rates of countries in which individual entities operate	24,436	3.5%	0	0%
Utilisation of accumulated tax losses not reported in deferred tax	(2,139)	(0.3%)	(23,405)	(3.3%)
Tax losses from actual period not reported in deferred tax	65,579	9.3%	13,684	1.9%
Initial reported effect of investment incentives on deferred tax	27,970	4.0%	(178,538)	(24.8%)
Utilisation of investment incentives initially not reported in deferred tax	0	0.0%	(42,784)	(5.9%)
Other effects	372	0.1%	(1,614)	(0.2%)
Total income tax/effective tax rate	**231,630**	**32.9%**	**(95,125)**	**(13.2%)**

PFN – NW a.s. started making use of the incentives in 2008, year 2017 was the last year, in which PFN – NW a.s. used the investment incentives. PFN – NW a.s. was granted additional investment incentives in 2016.
PFN – NS a.s. was granted an investment incentives in January 2009 and has started to utilise them in 2016.

PFN – GIC a.s. was granted an investment incentives in March 2018 and has not yet started to utilise them.

Maximum percentage of expended amount used as corporate tax relief is 48% for PFN – NW a.s., 30% for PFN – NS a.s. and 22% for PFN – GIC a.s.

Summary as of 31 December 2019

	Max. amount in million CZK	Unused amount as at 31 December 2019 in million CZK	Corporate tax relief for	First year of usage of corporate tax relief
PFN – NW a.s.*	148.1	148.1	10 years	n/a
PFN – NS a.s.	403.5	172.1	10 years	2016
PFN – GIC a.s.	212.6	212.6	10 years	n/a

Summary as of 31 December 2018

	Max. amount in million CZK	Unused amount as at 31 December 2018 in million CZK	Corporate tax relief for	First year of usage of corporate tax relief
PFN – NW a.s.*	148.1	148.1	10 years	n/a
PFN – NS a.s.	403.5	224.2	10 years	2016
PFN – GIC a.s.	212.6	212.6	10 years	n/a

*) commitment of investment incentives from the Ministry of Industry and Trade of the Czech Republic based on the decision from October 2016

Investment incentives are tax savings granted by the government provided that certain conditions are fulfilled (such as the level of incremental investments) by the Group. For this reason the intangible asset was recognised – deferred tax asset - arising from tax incentives and from corresponding income tax subsidies.

Since nearly all taxable income was generated from operating activities in the Czech Republic, the tax rate of 19% (19% in 2017) 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 2019 was based on the net profit attributable to equity holders and a weighted average number of ordinary shares in 2019. There were no changes in the number of shares in 2019.

Fully diluted earnings per share as at 31 December 2019 and 31 December 2018 are equal to basic earnings per share since the Company has no instruments issued that would potentially have a diluting effect on earnings.

Basic earnings per share

		2019	2018
Net profit attributable to equity holders	TCZK	473,198	815,157
Weighted average number of ordinary shares	Number	8,763,859	8,763,859
Basic earnings per share	**CZK**	**53.99**	**93.01**
Diluted earnings per share	**CZK**	**53.99**	**93.01**

Basic earnings per share and diluted earnings per share are calculated as net profit for the year attributable to equity holders of the Company divided by the weighted average of the number of shares existing each day in the given year.

o) Property, plant and equipment

	Land and buildings	Production machinery	Other equipment	Under Construction	Pre-payments	Total
Acquisition cost						
Balance at 31/12/2017	**2,201,624**	**6,383,249**	**563,339**	**43,006**	**173,175**	**9,364,393**
Additions	22,631	29,503	32,082	194,565	371,595	650,376
Disposals	(900)	(3,389)	(6,279)	0	0	(10,568)
Transfers	365	1,463	3,087	(4,915)	0	0
Reclassification	0	4,378	0	0	0	4,378
Exchange differences	40,860	69,877	1,248	(3,181)	(11,426)	97,378
Balance at 31/12/2018	**2,264,580**	**6,485,081**	**593,477**	**229,475**	**533,344**	**10,105,957**
Additions	25,244	1,091,785,	60,470	8,793	135,254	1,321,545
Disposals	0	(37,137)	(18,660)	0	0	(55,797)
Transfers	273,415	490,588	14,474	(231,842)	(546,635)	0
Reclassification	0	16,439	(16,439)	(3,891)	0	(3,891)
Exchange differences	5,593	10,045	186	7,168	13,447	36,440
Balance at 31/12/2019	**2,568,831**	**8,056,802**	**633,510**	**9,703**	**135,409**	**11,404,254**
Accumulated amortisation						
Balance at 31/12/2017	**483,577**	**3,671,999**	**291,248**	**0**	**0**	**4,446,824**
Depreciation expense	59,264	338,496	47,342	0	0	445,102
Disposals	(288)	(3,241)	(6,159)	0	0	(9,688)
Reclassification	0	2,286	0	0	0	2,286
Exchange differences	4,962	23,518	1,100	0	0	29,580
Balance at 31/12/2018	**547,515**	**4,033,058**	**333,530**	**0**	**0**	**4,914,103**
Depreciation expense	64,645	379,598	49,062	0	0	493,305
Disposals	0	(37,137)	(14,644)	0	0	(51,782)
Reclassification	0	0	0	0	0	0
Exchange differences	500	2,727	(1,598)	0	0	1,629
Balance at 31/12/2019	**612,660**	**4,378,245**	**366,350**	**0**	**0**	**5,357,255**
Net book value						
31/12/2017	**1,718,047**	**2,711,250**	**272,091**	**43,006**	**173,175**	**4,917,569**
31/12/2018	**1,717,065**	**2,452,023**	**259,947**	**229,475**	**533,344**	**5,191,854**
31/12/2019	**1,956,171**	**3,678,556**	**267,159**	**9,703**	**135,409**	**6,046,997**

The Group tested the the value of non-current tangible assets for impairment as at 31 December 2019 and 2018. Management decided that for the purposes of impairment testing of the value of non-current tangible assets, the subsidiaries of the Company are divided into three cash-generating units, i.e. subsidiaries of the Company in the Czech Republic (hereinafter “CGU CZ”), the subsidiary of the company in Egypt (hereinafter “CGU EG”) and the subsidiary of the Company in South Africa (hereinafter “CGU JAR”). In respect to the fact that CGU JAR commenced commercial operations only in the middle of 2019, the management believes that for the purpose of assessing the reduction in the value of non-current tangible assets of CGU JAR there is currently an insufficient amount of relevant information on the basis of which it would be possible to reliably calculate the potential impairment of non-current tangible assets. For this reason, CGU JAR was eliminated from further analysis.

Key assumptions used in the calculation of the value-in-use are the following:

- Customer demand – In the past, the Group has been able to sell 100% of production capacity of the units generating cash flows. The management believes that the planned almost full utilisation of production capacities in the upcoming years is realistically achievable.
- Planned gross margin – In 2020 and in subsequent years, the management conservatively expects a similar trend as in the past.

Projection of future cash flows

For the purpose of assessing whether a reduction of the value of non-current tangible assets has occurred, a value-in-use calculation was used for CGU CZ and CGU EG, which is based on the forecast cash flows according to the financial budgets approved by the management for each individual CGU for 2020, the realistic levels of these cash flows and the below-mentioned discount rates.

The cash flow forecasts for the period 2021-2033 are based on past experience, whilst it is conservatively assumed that during the course of this period:

- For CGU CZ – 1% year-on-year decrease in revenues and EBITDA
- For CGU EG – 0% year-on-year change in revenues and EBITDA

Cash flows for 2033 are calculated for all three CGU’s with a conservative assumption of 0% year-on-year change and the discount rates provided below.

Discount rates

The discount rates provided below have been set on the basis of an estimation of weighted costs of capital of the Group, increased by a risk surcharge for the individual countries in which the CGU’s are operated.

CGU	Discount rate used
CGU CZ	5.1%
CGU EG	9.2%

Booking the impairment of non-current tangible assets

On the basis of the above-mentioned calculations for the individual CGU’s, as at 31 December 2019 and 2018, no impairment of non-current tangible assets has been booked in relation to CGU CZ and CGU EG.

Value-in-use sensitivity analysis

The value-in-use of the individual CGU’s is sensitive primarily to changes in the discount rate and the EBITDA margin. The sensitivity analysis for the individual CGU’s is provided below.

		CGU CZ	CGU EG
Discount rate			
The impact of an increase in the discount rate by 1 pp. on the value-in-use of the CGU	thous. CZK	(1,973,820)	(93,423)
Discount rate threshold limit value at which the value-in-use of the CGU = 0	%	12%	10%
EBITDA margin			
The impact of a decrease in the EBITDA margin by 1 pp. on the value-in-use of the CGU	thous. CZK	(905,430)	(77,645)
EBITDA threshold limit value at which the value-in-use of the CGU = 0	%	12%	14%

p) Intangible assets and goodwill

	Goodwill	Software, capitalized development and other intangible assets	Intangible assets – research and development	Assets in progress	Total
Acquisition cost					
Balance at 31/12/2017	**2,320,127**	**34,577**	**174,663**	**281**	**2,529,648**
Additions	0	4,116	27,579	15,953	47,648
Disposals	0	(8,289)	0	0	(8,289)
Transfers	0	0	0	0	0
Exchange differences	0	0	0	0	0
Balance at 31/12/2018	**2,320,127**	**30,404**	**202,242**	**16,234**	**2,569,007**
Additions	0	574	29,611	6,541	36,726
Disposals	0	(79)	0	0	(79)
Transfers	0	585	0	(585)	0
Exchange differences	0	0	0	0	0
Balance at 31/12/2019	**2,320,127**	**31,484**	**231,854**	**22,190**	**2,605,654**
Accumulated amortisation					
Balance at 31/12/2017	**0**	**22,030**	**28,401**	**0**	**50,431**
Amortisation expense	0	3,403	19,018	0	22,421
Disposals	0	(8,235)	0	0	(8,235)
Exchange differences	0	0	0	0	0
Balance at 31/12/2018	**0**	**17,197**	**47,419**	**0**	**64,616**
Amortisation expense	0	4,101	32,097	0	36,199
Disposals	0	(79)	0	0	(79)
Exchange differences	0	0	0	0	0
Balance at 31/12/2019	**0**	**21,220**	**79,516**	**0**	**100,736**
Net book value					
31/12/2017	**2,320,127**	**12,547**	**146,262**	**281**	**2,479,217**
31/12/2018	**2,320,127**	**13,207**	**154,823**	**16,234**	**2,504,391**
31/12/2019	**2,320,127**	**10,265**	**152,337**	**22,190**	**2,504,918**

The Group tested the possible impairment of goodwill as at 31 December 2019 and 2018. Due to the fact that goodwill was recognized in 2006, it relates only to Czech subsidiaries in the Group. The management therefore has determined that for goodwill testing purposes all subsidiaries in the Czech Republic are considered as one cash generating unit. The calculation of the recoverable amount of this single cash generating unit is based on cash flow projections derived from financial budget approved by management for the year 2020 with discount rates for the individual years of 5.1% p.a. (2018: 8.0% p.a.), which were set on the basis of an estimation of weighted average cost of capital. Cash flow projections for the period 2021–2033 are based on previous experience, while a 1% year-on-year decline in sales and operating profit EBITDA is conservatively assumed during this period. Cash flows after this period are calculated using a conservative expectation of 0% year-on-year decline and the aforementioned discount rates. The recoverable amount is sensitive primarily to changes in the discount rate, and the operating profit margin (EBITDA margin). An increase of the discount rate by 1 percentage point would lower the recoverable amount by approximately CZK 1,974 million and vice versa. The discount rate would need to reach approximately 12% for it to be necessary to book an impairment of goodwill. The degree of growth (development of demand from customers) used in the calculation is lower than the long term estimated growth of the nonwoven textile market in Europe. A decrease in the EBITDA margin by 1 percentage point would lower the recoverable amount by approximately CZK 905 million and vice versa. The EBITDA margin would need to reach approximately 12 % for it to be necessary to book an impairment of goodwill. According to the opinion of management a potential change in key assumptions on which the recoverable amount is based would not mean that the total accounting value of these cash generating units would exceed their total recoverable value.

The key assumptions used in the value-in-use calculations are as follows:

- Demand from the customers – In the past, the Group was able to sell 100% of its production capacity related to the cash generating unit. The management believes that the planned almost full utilisation of the production facilities for the next four years is reasonably achievable.
- Budgeted gross margin – For 2020 and onwards management conservatively expects in terms of margins a similar pattern as in the past.

Based on the above mentioned-calculation, no impairment of goodwill was recognised either in 2019 or in 2018.

q) Inventories

	2019	2018
Materials	389,252	315,777
Products	18,068	12,771
Semi-finished products	32,675	21,913
Spare parts	288,023	231,154
Other	48,478	24,290
Total	**776,496**	**605,905**

Spare parts include items with a turnover time shorter than one year or of immaterial individual value.

r) Current trade and other receivables

	2019	2018
Financial assets		
Trade receivables	1,120,217	1,399,919
Positive fair value of financial derivatives	22,143	947
Non-financial assets		
Other receivables	28,573	2,313
Contingent assets	69,862	92,385
Prepaid expenses	87,274	7,689
Advance payments	8,781	14,589
Other tax receivables	270,563	332,080
Total	**1,607,412**	**1,849,922**

Interest rate swaps

The Group did not have any open interest rate swaps as at 31 December 2018 or 31 December 2019.

Cross currency rate swaps

As at 31 December 2019, the Group held two open cross currency swaps.

The first swap that is, for the purposes of hedge accounting, booked as a derivative hedging the risk of change of variable interest rates (Pribor) and the currency risk connected with the receipt of foreign currency cash flows (revenues), was concluded in July 2015 with a total nominal value of CZK 678,000 thousand (receiving leg) against EUR 25,000 thousand (paying leg) for the purpose of hedging the currency risk of the CZK denominated private bond issue, which were issued by the subsidiary PFNonwovens Czech s.r.o., maturing on 14 July 2025 with a variable interest rate of 6M PRIBOR + 2.00% p.a. The swap bears a fixed interest rate of 3.39% p.a. At the same time, this swap hedges foreign currency risk for cash flows, revenues that the Group realizes in EUR. The economic relationship is defined as the expectation that the value of the hedging instrument and the value of the hedged item will be reversed in relation to the hedged risk. That is if interest rates rise, the value of the hedging instrument, the asset, will increase, as will increase also the value of the hedged issued bonds, the liability, and vice versa. In case of appreciation of CZK against EUR, the value of the hedging instrument will increase and at the same time the value of hedged item, EUR sales translated into CZK will decrease. The Group considers the hedging relationship to be effective due to the fact that the parameters of the hedging instrument's and the hedged items are identical (nominal, maturity dates for interest payments, stable sales in EUR). For this reason the net fair value of the hedging derivative was reported in equity, i.e. via other comprehensive income.

The second swap, which is intended for trading (ie it is not accounted for in hedge accounting), was concluded in July 2015 with a total nominal value of CZK 1,080,000 thousand (receiving leg) against EUR 39,852 thousand (paying leg) for the purpose of hedging the currency risk of the CZK-denominated private bond issue, which were issued by the holding company PFNonwovens a.s., maturing on 14 July 2022 with a fixed interest rate of 2.646% p.a. The swap bears a fixed interest rate of 3.15% p.a.

Fair value of the swaps as at 31 December 2019 and 2018 was as follows. A positive value represents a receivable of the Group, a negative value represents a payable of the Group.

Counterparty	2019	2018
ČSOB - EUR 25 mil. – hedging derivative	11,351	20,848
Česká spořitelna – EUR 39.852 mil. – derivative intended for trading	77	-13,672
Total	**11,428**	**7,176**

Fair value of the swaps is determined by the EUR and CZK yield curve at the balance sheet date and the discounted cash flow method. The inputs used in the fair value calculation are categorised in accordance with IFRS 7 into level 2 of fair value hierarchy.

SENSITIVITY OF THE FAIR VALUE OF CROSS CURRENCY SWAPS

The appreciation of CZK against EUR by 1% would, as at 31 December 2019, increase the fair value of the cross currency swaps by approximately CZK 16.5 million.

The depreciation of CZK against EUR by 1% would, as at 31 December 2019, decrease the fair value of the cross currency swaps by approximately CZK 16.5 million.

FX forwards

As at 31 December 2019 and 31 December 2018, the Group did not have any open FX forwards.

Foreign currency options

FOREIGN CURRENCY OPTION STRUCTURE I.

In July 2019, a foreign currency option structure expired this structure was concluded by the Group in March 2016. The objective of this foreign currency option structure was to hedge currency risk connected to revenues in EUR and their conversion to CZK in approximately the amount as the Group expends each month on the payment of wages and salaries.

FOREIGN CURRENCY OPTION STRUCTURE II.

In April 2018, the Group concluded a foreign currency option structure. The objective of this foreign currency option structure is to hedge currency risk connected to revenues in EUR and their conversion to CZK in approximately the amount as the Group expends each month on the payment of wages and salaries after the expiration to the aforementioned option structure from 2016. The foreign currency option structure consists of two independent transactions, a series of synthetic forwards and written (sold) options with a monthly expiration from August 2019 to July 2021.

The Company has implemented hedge accounting on a part of the foreign currency option structure, namely a series of monthly synthetic forwards. The economic relationship is defined as the expectation that the value of the hedging instrument and the value of the hedged item will move in the opposite direction with respect to the hedged risk. In case of appreciation of CZK against EUR, the value of the hedging instrument will increase and at the same time the value of the hedged item, sales, in EUR, will decrease. The Group considers the hedging relationship to be effective due to the fact that the parameters of the hedging instrument's and the hedged items are identical (nominal, maturity dates for interest payments, stable sales in EUR). For this reason, the entire fair value of the hedging derivative was recognized in equity, resp. other comprehensive result.

The Group accounts for the second part of the option structure, a series of monthly written options, outside hedge accounting, and accordingly the change in its fair value is booked in the profit and loss statement.

FOREIGN CURRENCY OPTION STRUCTURE III.

In March 2019, the Group concluded a foreign currency option structure. The objective of this foreign currency option structure is to hedge currency risk connected to revenues in EUR and their conversion to CZK in approximately the amount as the Group expends each month on the payment of wages and salaries after the expiration to the aforementioned option structure from 2018. The foreign currency option structure consists of two independent transactions, a series of synthetic forwards and written (sold) options with a monthly expiration from August 2021 to March 2022.

The Company has implemented hedge accounting on a part of the foreign currency option structure, namely a series of monthly synthetic forwards. The economic relationship is defined as the expectation that the value of the hedging instrument and the value of the hedged item will move in the opposite direction with respect to the hedged risk. In case of appreciation of CZK against EUR, the value of the hedging instrument will increase and at the same time the value of the hedged item, sales, in EUR, will decrease. The Group considers the hedging relationship to be effective due to the fact that the parameters of the hedging instrument's and the hedged items are identical (nominal, maturity dates for interest payments, stable sales in EUR). For this reason, the entire fair value of the hedging derivative was recognized in equity, resp. other comprehensive result.

The Group accounts for the second part of the option structure, a series of monthly written options, outside hedge accounting, and accordingly the change in its fair value is booked in the profit and loss statement.

The fair value of these foreign currency option structures (divided into hedging derivatives and derivatives intended for trading), as at 31 December 2019 and 2018, is presented in the following table. A positive value represents a receivable of the Group, a negative value a payable of the Group.

The fair value of derivative financial instruments is derived in accordance with the second level in the hierarchy of fair values according to IFRS 13.

	2019	2018
Foreign currency option structure I. – series of barrier options	—	34
Foreign currency option structure II. – series of listed options	(1,310)	(5,171)
Foreign currency option structure III. – series of listed options	(830)	—
Total	**(2,140)**	**(5,137)**

	2019	2018
Foreign currency option structure I. – series of synthetic forwards	—	6,259
Foreign currency option structure II. – series of synthetic forwards	7,254	(7,351)
Foreign currency option structure III. – series of synthetic forwards	3,462	—
Total	**10,716**	**(1,092)**

Overview of the total nominal value of hedging within the cash flow hedging structure according to the payment terms as at 31 December 2019 is provided in the following table.

Term of payment	Nominal value of the hedge in EUR '000	Nominal value of the hedge in CZK '000
2020	(14,400)	376,728
2021	(13,900)	367,543
2022	(3,300)	88,671
Total	**(31,600)**	**832,942**

Overview of the total nominal value of hedging within the cash flow hedging structure according to the payment terms as at 31 December 2018 is provided in the following table.

Term of payment	Nominal value of the hedge in EUR '000	Nominal value of the hedge in CZK '000
2019	(13,700)	362,406
2020	(14,400)	376,728
2021	(8,400)	219,758
Total	**(36,500)**	**958,892**

SENSITIVITY OF THE FAIR VALUE OF THE FOREIGN CURRENCY OPTION STRUCTURE II.

The appreciation, resp. depreciation of CZK against EUR by 5% would, as at 31 December 2019, increase, resp. decrease the fair value of the foreign currency option structure by approximately CZK 29.0 million.

SENSITIVITY OF THE FAIR VALUE OF THE FOREIGN CURRENCY OPTION STRUCTURE III.

The appreciation, resp. depreciation of CZK against EUR by 5% would, as at 31 December 2019, increase, resp. decrease the fair value of the foreign currency option structure by approximately CZK 14.0 million.

s) Income tax receivables

As at 31 December 2019 and 2018, the Group had no income tax receivables.

t) Cash and cash equivalents

	2019	2017
Cash in hand	488	475
Current accounts	202,046	399,659
Total	**202,534**	**400,134**

The credit quality of bank balances on the basis of the Moody's rating as at 31 December 2019 and 2018 is provided in part 4 Credit risk.

u) Share capital

The total number of shares as at 31 December 2018 and as at 31 December 2019 was 8,763,859 shares at EUR 1.24 per share. The Company held 0 pieces of own shares as at 31 December 2018 and as at 31 December 2019.

As at 31 December 2018, the shares of the Company consist of 8,763,859 shares with a nominal value of EUR 1.24 per share.

No new shares were issued during the course of 2019 or 2018.

v) Legal and other reserves

	2019	2018
Legal reserves	29,443	29,443
Other reserves	57,258	57,258
Total	**86,701**	**86,701**

Legal reserves are created in the amount of 10% of the Company's share capital. This reserve is not available for dividend distribution.

Other reserves include mainly dividends not paid on own shares and are distributable to shareholders.

w) Short-term bank loans

On 6 October 2015, the Group concluded a contract for an overdraft facility. The overdraft is secured by a guarantee from the parent company on behalf of its subsidiary which is a party to the contract with the bank. No covenants are attached to the overdraft facility.

The outstanding balances of the overdraft facilities as at 31 December 2019, respectively as at 31 December 2018 are shown below.

2019	Drawdown limit in mil. EUR	Liability as at 31/12/2019 in thous. CZK	Current	Non-current	Interest rate	Interest rate at 31/12/2019
Overdraft	25.0	411,638	411,638	–	1D EURIBOR + 0.75%	0.75%
Overdraft	30.0	452,584	452,584	–	1D EURIBOR + 0.40%	0.40%
Overdraft	10.0	224,926	224,926	–	1D EURIBOR + 0.65%	0.65%
Bank current liabilities total		**1,089,148**	**1,089,148**	**–**		

2018	Drawdown limit in mil. EUR	Liability as at 31/12/2018 in thous. CZK	Current	Non-current	Interest rate	Interest rate at 31/12/2018
Overdraft	25.0	249,495	249,495	–	1D EURIBOR + 0.75%	0.75%
Overdraft	30.0	659,277	659,277	–	1D EURIBOR + 0.40%	0.40%
Overdraft	10.0	244,596	244,596	–	1D EURIBOR + 0.65%	0.65%
Bank current liabilities total		**1,153,368**	**1,153,368**	**–**		

The carrying amount of the bank loans approximates their fair value. The overdraft facility is treated as a bank current liability.

x) Deferred tax

Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Property, plant and equipment	0	0	(577,779)	(505,986)	(577,779)	(505,986)
Inventories	6,443	6,149	0	0	6,443	6,149
Investment incentives and tax losses	105,091	179,043	0	0	105,091	179,243
Other	0	0	(3,816)	(3,958)	(3,816)	(3,958)
Deferred tax asset/(liability)	**111,534**	**185,392**	**(561,595)**	**(509,944)**	**(450,061)**	**(324,552)**
Offset of deferred tax assets and liabilities	(111,534)	(185,392)	111,534	185,392	–	–
Deferred tax asset/(liability)	**–**	**–**	**(450,061)**	**(324,552)**	**(450,061)**	**(324,552)**

In accordance with the accounting policy described in Note 3g), the deferred tax was calculated using the tax rates applied for the years in which the tax asset will be realised or the tax liability will be settled, i.e. at 19% for year 2019 onward in the Czech Republic, 25% in Egypt and 28% in the Republic of South Africa (2018 – 19% in the Czech Republic, 25% in Egypt and 28% in the Republic of South Africa).

y) Bonds

On 14 June 2015, the Group issued three private issues of unsecured senior bonds in the total nominal value of approximately EUR 100 million, which are reported in Other non-current liabilities.

The first issue in the amount of CZK 678,000,000 (six hundred and seventy-eight million Czech crowns) with an offer price of 100% matures on 14 July 2025 and bears a variable interest rate of 6M PRIBOR + 2.00% p.a.

The second issue in the amount of EUR 35,000,000 (thirty-five million euro) with an offer price of 100% matures on 14 July 2025 and bears a fixed interest rate of 3.39% p.a.

The manager of the first and second issue was Československá obchodní banka.

The third issue in the amount of CZK 1,080,000,000 (one billion and eighty million Czech crowns) with an offer price of 101.594% matures on 14 July 2022 and bears a fixed interest rate of 2.646% p.a. The manager of the issue was Česká spořitelna.

Both of the issues denominated in Czech crowns were hedged against foreign exchange risks using cross-currency swaps. The Group is thus effectively a fixed rate payer in EUR.

On 20 January 2017, the Group issued the fourth private bond issue in the amount of EUR 50,000,000 (fifty million euro) with an offer price of 99.637% which matures on 20 January 2024 and bears a fixed interest rate of 1.875% p.a. The manager of the issue was Česká spořitelna.

Issuance costs include amounts paid in connection with the bond issues for legal, accounting and other services as well as the bond nominal discount/premium. These amounts are amortised over the term of the bond issue on an effective interest rate basis.

Long-term bonds

	as at 31/12/2019	as at 31/12/2018
Bond nominal	3,908,939	3,935,683
Issuance costs related to the bond issue	(10,213)	(12,415)
Total long-term bonds	**3,898,726**	**3,923,267**

Short-term bonds

	as at 31/12/2019	as at 31/12/2018
Interest accrued on issued bonds	63,396	60,795
Total short-term bonds	**63,396**	**60,795**

z) Current trade and other payables

	2019	2017
Financial liabilities		
Trade payables	230,944	262,435
Negative fair value of financial derivatives	2,140	0
Other payables	9,214	9,205
Non-financial liabilities		
Liabilities to employees	28,117	37,912
Contingent liabilities	299,359	81,348
Deferred income	12,504	13,118
Advances received	664	193
Total	**582,943**	**404,211**

aa) Tax liabilities

	2019	2017
Employment tax	3,893	3,252
Corporate income tax payable	7,502	14,031
Total	**11,395**	**17,283**

As at 31 December 2019 the corporate income tax liability amounted to 7,502 TCZK based on difference between advances paid and estimate for the corporate income tax expense for 2019.

bb) Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values of the financial instruments of the Group are based on fair value statements prepared by the banks or determined based on cash flow models.

The fair value valuation is analysed according to the level in the fair value hierarchy as follows: (i) The first level is valuation on the basis of quoted prices (unadjusted) from active markets for the same types of assets or liabilities, (ii) second-level valuations consists of valuation techniques where all important inputs are observed for an asset or liability, either directly (i.e. using price) or indirectly (i.e. derived from prices), and (iii) third-level valuations are valuations which are not based solely on observation of market information (meaning that valuation requires significant unobservable inputs). The management of the Company utilises judgement in the categorisation of financial tools utilizing a fair value hierarchy. When the measurement of fair value utilises observable inputs, which require significant adjustment, then this measurement is assumed to be level 3.

Continuous valuations using fair value are those that are required or permitted by accounting standards on the balance sheet at the end of every reporting period.

The following methods and assumptions are used by the Group to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, current investments

The carrying amount of cash and other current financial assets approximates fair value due to the relatively short-term maturity of these financial instruments.

Short-term receivables and payables

The carrying amount of receivables and payables approximates fair value due to the short-term maturity of these financial instruments.

Short-term loans

The carrying amount approximates fair value because of the short period to maturity of those instruments.

Long-term debt

The fair value of long-term debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The carrying amount of long-term debt and other payables with variable interest rates approximates their fair values. The fair value of long term debts was estimated using discounted cash flow models in accordance with the third level in the hierarchy for setting fair values.

Derivatives

The fair value of derivatives is based on the fair value statements prepared by the banks, for this reason it falls into the second level in the fair value hierarchy.

Carrying amounts and the estimated fair values of financial assets at 31 December 2019 and 2018 are as follows (in CZK thousands):

Category	2019		2018	
	Book value	Fair value	Book value	Fair value
ASSETS				
Current assets				
Trade and other receivables	1,607,412	1,607,412	1,849,922	1,849,922
Cash and cash equivalents	202,534	202,534	400,134	400,134
OUTSIDE RESOURCES				
Non-current liabilities				
Non-current bonds	3,898,726	3,988,682	3,923,267	3,997,475
Current liabilities				
Trade and other payables	582,943	582,943	404,211	404,211
Tax liabilities	11,395	11,395	17,283	17,283
Current bank loans	1,089,148	1,089,148	1,153,368	1,153,368
Current bonds	63,396	63,396	60,795	60,795
DERIVATIVES				
Short-term receivables	0	0	6,293	6,293
Long-term receivables	22,143	22,143	21,290	21,290
Current liabilities	0	0	0	0
Non-current liabilities	(2,140)	(2,140)	(26,636)	(26,636)

cc) Entities

To translate the registered capital of subsidiaries, the USD/CZK 22.621 and ZAR/CZK 1.611 rate of exchange effective on 31 December 2019 was used.

Subsidiaries included in the consolidated entity

Company	Acquisition date	Share in the subsidiary	Registered capital TCZK/ TUSD/TZAR	Registered capital TCZK	Number and nominal valueof shares
PFNonwovens Czech s.r.o.*	5/12/2005	100%	TCZK 3,633	3,633	100% participation of TCZK 3,633
PFN – NW a.s.	14/12/2005	100%	TCZK 650,000	650,000	64 shares at TCZK 10,000 per share and 10 shares at TCZK 1,000 per share
PFN – NS a.s.	3/12/2007	100%	TCZK 650,000	650,000	64 shares at TCZK 10,000 per share and 10 shares at TCZK 1,000 per share
PFN – GIC a.s.	11/9/2017	100%	TCZK 2,000	2,000	2 registered shares in paper form at TCZK 1,000 per share
PFNonwovens International s.r.o.**	18/10/2010	100%	TCZK 200	200	100% participation of TCZK 200
PFNonwovens EGYPT LLC***	6/6/2011	100%	TUSD 43,000	972,703	100% participation of TUSD 43,000
PFNONWOVENS RSA (PTY) LTD****	11/7/2016	100%	TZAR 30,000	120,825	100% participation of TZAR 75,000

*) PFNonwovenss Czech 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. At the end of year 2017, it changed its name to PEGAS NONWOVENS Czech s.r.o. and then in September 2018 to PFNonwovens Czech s.r.o. PEGAS a.s., the subsidiary of PFNonwovens Czech s.r.o., was established in 1990. It merged with PFNonwovens Czech 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 PFNonwovens Czech s.r.o. with effect from 1 January 2007 and was deleted from the Commercial Register on 20 August 2007. PEGAS – DS a.s., former subsidiary of PFNonwovens Czech s.r.o., ceased to exist following its merger with PFNonwovens Czech s.r.o. with effect from 1 January 2011. PEGAS-NT a.s., its former subsidiary, merged with the company PFNonwovens Czech s.r.o. as a successor company (with effect from 1 January 2017).

**) PFNonwovens International s.r.o. serves as a special purpose vehicle established for the purpose of making potential future investments.

***) PFNonwovens Egypt LLC was established for the purpose of executing the construction and operation of a new production plant in Egypt.

****) PFNonwovens RSA (PTY) LTD was established for the purpose of realisation of the investment project in the Republic of South Africa.

dd) Related parties transactions

Below are provided the transactions with related parties outside the Group, i.e. excluding the companies included in the consolidated entity, and their impact on the individual items of the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position.

'000 CZK	2019	2018
Revenues	2,360	1,529
Other operating incomes	4,711	0
Raw materials and consumables used	32,140	148
Other operating costs	58,346	0
Total	**97,557**	**1,677**

'000 CZK	as at 31/12/2019	as at 31/12/2087
Trade and other receivables	9,997	6,000
Trade and other payables	23,364	19
Total	**33,361**	**6,019**

6. Contingencies and commitments

As at 31 December 2019, the Group had contracted future commitments amounting to EUR 7,2 million, i.e. CZK 182 million (CZK 1,191 million as at December 31, 2018) not reported in the statement of financial position, which relate to the completion of the investment into the new production line in Znojmo-Přímětice.

The Group has no material contingencies or commitments.

7. Subsequent events

At the beginning of 2020, the existence of the novel corona virus (Covid-19) was confirmed, which then spread throughout China and outside its borders, including to the Czech Republic, and caused interruption to many business and economic activities. The Group considers the outbreak of this epidemic to be a subsequent event that, nevertheless, did not have a significant impact on the operations/finances of the Group as at the date that the financial statements were issued, and as such will not lead to modifications in these financial statements. The Group produces nonwoven textiles that are as a result of this epidemic in high demand and, therefore, this situation is rather an opportunity for the Group. The production capacities of the Group continue to be utilised 100% and production has not been significantly impacted by the epidemic. Nevertheless, despite the aforementioned, the situation is unstable and is developing rapidly, and, therefore, it is currently not possible to make an estimation of its potential impact on the Group. Any actual impacts shall be reflected in the financial statements for 2020.

On 17 April 2020, the Company announced that Mr. František Klaška decided to resign from the Board of Directors of the Company and from all executive positions within the PFNonwovens Concern effective as of 1 May 2020. Effective as of 1 May 2020, Mr. Tonny de Beer shall be appointed to the Company's Board of Directors and shall also replace Mr. František Klaška in all executive positions including the position of Chief Technical Officer.

The management of the Group is not aware of any other events that have occurred since the balance sheet date that would have any material impact on the consolidated financial statements as at 31 December 2019.

Signature of the authorised representatives:

Date:

30 April 2020

František Klaška
Member of the Board of
PFNonwovens a.s.

Marian Rašík
Member of the Board of
PFNonwovens a.s.

9

Non-consolidated Financial Statements

Statement of Financial Position of PFNonwovens a.s.

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
As at 31 December 2019

in thousands of CZK	Note	31/12/2019	31/12/2018
ASSETS			
Shares in subsidiaries	5i)	290,159	790,264
Long-term loans to subsidiaries	5j)	1,736,112	1,939,939
Total non-current assets		**2,026,271**	**2,730,203**
Trade and other receivables	5k)	37,271	38,041
Cash and cash equivalents	5l)	6,288	229,335
Total current assets		**43,559**	**267,376**
Total assets		**2,069,830**	**2,997,579**
EQUITY AND LIABILITIES			
Share capital	5t)	299,857	299,857
Share premium		148,419	148,419
Legal and other reserves	5v)	83,461	83,461
Retained earnings	5u)	(260,829)	228,019
Total share capital and reserves		**270,908**	**759,756**
Long-term bonds	5m)	1,085,998	1,088,358
Long-term loans from subsidiaries	5n)	693,771	1,111,819
Total non-current liabilities		**1,779,769**	**2,200,177**
Short-term bonds	5o)	13,256	13,256
Trade and other payables	5p)	2,383	16,661
Tax liabilities	5q)	4	33
Reserves	5r)	3,510	7,696
Total current liabilities		**19,153**	**37,646**
Total liabilities		**1,798,922**	**2,237,823**
Total equity and liabilities		**2,069,830**	**2,997,579**

The Notes are an integral part of the financial statements.

Statement of Comprehensive Income of PFNonwovens a.s.

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
For the year ended 31 December 2019

in thousands of CZK	Note	2019	2018
Raw materials and consumables used	5a)	(4,556)	(6,263)
Staff costs	5b)	(6,610)	(12,426)
Provisions	5i)	(500,104)	0
Other operating income		0	1,556
Other operating expense	5c)	(1,548)	(1,599)
Foreign exchange gains and other financial income	5d)	15,753	42,488
Foreign exchange losses and other financial expenses	5e)	(15,230)	(48,469)
Interest income	5f)	58,907	62,608
Interest expense	5g)	(35,460)	(99,713)
Profit before tax		**(488,848)**	**(61,819)**
Net profit after tax		**(488,848)**	**(61,819)**
Other comprehensive income			
Total comprehensive income for the year		**(488,848)**	**(61,819)**
Net profit attributable to:			
Equity holders of the company		(488,848)	(61,819)
Total comprehensive income attributable to:			
Equity holders of the company		(488,848)	(61,819)
Net earnings per share	5t)		
Basic net earnings per share		(55.78)	(0.01)
Diluted net earnings per share		(55.78)	(0.01)

The Notes are an integral part of the financial statements.

Statement of Cash Flows of PFNonwovens a.s.

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
For the year ended 31 December 2019

in thousands of CZK	2019	2018
Profit / (loss) before tax	**(488,848)**	**(61,819)**
Adjustment for:		
Exchange rate changes	14,477	(41,900)
Interest expense	35,460	99,713
Interest income	(58,907)	(62,608)
Other non-cash transactions	486,054	0
Cash flows from operating activities		
Decrease / (increase) in receivables	0	187,634
Increase / (decrease) in payables	(4,230)	1,698
Net cash from operating activities	**(15,993)**	**122,719**
Cash flows from investment activities		
Net cash flows from investment activities	**0**	**0**
Cash flows from financing activities		
Increase / (decrease) in short-term bonds	0	(2,304,032)
Increase / (decrease) in long-term bonds	0	(2,367)
Increase / (decrease) in long-term loans from subsidiaries	(413,973)	1,114,722
(Increase) / decrease in long-term and short-term loans to subsidiaries	204,153	75,064
Interest received	35,319	275
Interest paid	(32,264)	(94,184)
Net cash flows from financing activities	**(206,764)**	**(1,210,522)**
Net increase (decrease) in cash and cash equivalents	**(222,757)**	**(1,087,803)**
Cash and cash equivalents at the beginning of the period	229,335	1,298,482
Effect of exchange rate fluctuations on cash held	(290)	18,656
Cash and cash equivalents at the end of the period	**6,288**	**229,335**

The Notes are an integral part of the financial statements.

Statement of Changes in Equity of PFNonwovens a.s.

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union
For the year ended 31 December 2019

in thousands of CZK	Share capital	Share premium	Legal and other reserves	Retained earnings	Total equity attributable to equity holders of the Company
At 1 January 2018	**299,857**	**148,419**	**83,461**	**289,838**	**821,574**
Net profit for the year	0	0	0	(61,819)	(61,819)
Rounding	0	0	0	1	1
At 31 December 2018	**299,857**	**148,419**	**83,461**	**228,019**	**759,756**
At 1 January 2019	**299,857**	**148,419**	**83,461**	**228,019**	**759,756**
Net profit for the year	0	0	0	(488,848)	(488,848)
At 31 December 2019	**299,857**	**148,419**	**83,461**	**(260,829)**	**270,908**

The Notes are an integral part of the financial statements.

Notes to the non-consolidated financial statements

prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

For the year ended 31 December 2019

(in thousands of CZK)

1. General information and definition of the consolidated entity

Description and principal activities

The Company was incorporated in Luxembourg as a public limited liability company (société anonyme) for an unlimited duration on 18 November 2005, under the name Pamplona PE Holdco 2 SA and was registered with the Luxembourg trade and companies register under number B 112.044. In 2006, the Company changed its name to PEGAS NONWOVENS SA.

On 18 December 2017, the Extraordinary General Meeting of the Company resolved to transfer the head office to the Czech Republic and to change the nationality (status) of the Company from Luxembourg nationality to Czech nationality. Concurrently, the Extraordinary General Meeting resolved to accept a new wording of the Articles of Association and to change the name of the Company to PEGAS NONWOVENS a.s. Luxembourg company PEGAS NONWOVENS SA did not cease to exist as a result of the transfer of the head office of the Company nor did a new legal entity come into existence, but rather its legal form was changed to a joint stock company according to Czech law. PEGAS NONWOVENS a.s. was recorded in the Czech commercial register with effect from 1 January 2018. On 15 June 2018, the Annual General Meeting resolved to change the name of the Company to PFNonwovens a.s. The new name was recorded in the Czech commercial register with effect from 19 June 2018. The head office of the Company is Hradčanské náměstí 67/8, Hradčany, 118 00 Prague 1, Czech Republic. The head office and principal place of business of the main operating and trading company, PFNonwovens Czech s.r.o., is at Přímětická 3623/86, 669 02 Znojmo, Czech Republic.

PFNonwovens a.s. is a holding company and owns a 100% share in the main operating company PFNonwovens Czech s.r.o. and in the company PFNonwovens International s.r.o.

PFNonwovens Czech s.r.o. was incorporated in the Czech Republic. Its registered office is located in Znojmo, Přímětická 86, 669 02 and its subsidiaries (PFN – NW a.s., PFN – NS a.s. a PFN – GIC a.s.) are engaged in the production of nonwoven textiles.

Within the scope of international expansion was established PFNonwovens International s.r.o. in 2010 and in June 2016 was established PFNonwovens Egypt LLC, which invests in the Egyptian production capacity. In July 2016, a subsidiary PFNonwovens RSA (PTY) LTD was established for the purpose of realisation of the investment project in the Republic of South Africa.

The sole shareholder of PFNonwovens Holding s.r.o. and the ultimate controlling party as at 31 December 2018 is R2G Rohan Sàrl, registered at 2540 Luxembourg, rue Edward Steichen 14, Grand Duchy of Luxembourg, registration number: B 210733. Subsequently, R2G Rohan Sàrl is currently owned by several Czech individuals and the Liechtenstein Family Foundation. Except for PFNonwovens Holding s.r.o., company R2G Rohan Sàrl does not control any other company.

2. Basis of preparation

a) Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 30 April 2020.

b) Presentation and functional currency

The functional currency of the Company and the currency in which the financial statements are presented is the Czech Koruna (CZK).

c) Rounding of financial amounts

When preparing financial statements, the Company uses CZK 1,000 as the minimum reporting unit. All reported figures were rounded off and for this reason some additions may not add up.

d) Basis of measurement

The nonconsolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and share based payments which are measured at fair value.

e) Use of estimates and judgments

The preparation of financial statements in compliance with IFRS requires management to make judgments, 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 judgments 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 on-going basis. Revisions to accounting estimates are recognised 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 to classify bank loans and loans granted to/received from subsidiaries into short and long term. A significant estimate is also the use in determining the value in use of subsidiaries.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these nonconsolidated financial statements and have been applied consistently by Group entities.

a) Foreign currencies

When preparing the Company's financial statements, a fixed rate is used to convert transactions in currencies other than the functional currency. This rate is determined on the basis of the daily exchange rate announced by the central bank on the last business day of the calendar month and is used for accounting transactions accounted for in the following month.

During the year, only realized foreign exchange gains and losses are recognized. Monetary assets and liabilities denominated in a foreign currency are translated at the balance sheet date at the exchange rate prevailing on that date. All exchange differences (realized and unrealized) are recognized in the income statement.

b) Shares in subsidiaries

Shares in subsidiaries are accounted for at historical cost. An impairment loss is recognized when the value of the asset is irreversibly reduced according to the opinion of the management. Other value adjustments are not continued if the reasons for doing so are no longer present.

c) Borrowing costs

Borrowing costs other than stated below are recognised in the income statement in the period to which they relate.

Borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale are capitalised as part of the cost of such assets.

d) 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 Company's liability for current tax is calculated using tax rates that have been enacted under local legislation by the balance sheet date.

Deferred tax

A deferred tax liability or a deferred tax asset is accounted for using the balance sheet liability method and results from differences between the carrying amount of assets and liabilities and the corresponding tax base of those assets and liabilities used to calculate the tax. Deferred tax liabilities are generally based on all temporary differences. Deferred tax assets are recognized when it is probable that future taxable profits will be available against which the deferred tax asset can be utilized.

e) Financial instruments

A financial asset is mainly cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset. A financial liability is mainly a contractual obligation to deliver cash or another financial asset.

Financial liabilities and assets are presented as current (short-term) or non-current (long-term). Financial assets are presented as current when the Company expects to realize them within 12 months of the balance sheet date or if there is no reasonable certainty that the Company will hold the financial assets for more than 12 months of the balance sheet date.

Financial liabilities are presented as current when they are due within 12 months of the balance sheet date.

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Financial liabilities

Financial liabilities are valued in the category "amortised value" with the exception of i) financial liabilities booked against expenses and gains: this classification is applied to derivatives, financial liabilities including for trading (e.g. short positions in securities) and other financial liabilities that have been classified as such at initial recognition.

Financial liabilities are booked when extinguished (i.e. at the point in time when the obligation that is specified in the contract is completed, cancelled or has expired).

Financial assets

Financial assets are classified into two main categories (a) at amortized cost (which include mainly trade receivables) and (b) at fair value through profit or loss. Classification into these categories is similar to the financial liabilities above.

The Company categorises financial assets such as financial assets in amortised value only when the following criteria are met:

- the asset is held on the basis of a business model, the objective of which is to collect contractual financial flows and concurrently
- financial flows that arise on the basis of contractual conditions, are only payments of principal and interest

Impairment of financial assets

Impairment of financial assets by applying the IFRS 9 requirements is based on expected credit loss (ECL) model.

The Company has financial receivables to credible financial institutions and to subsidiaries. Impairment of financial assets due to ECL is immaterial and the Company therefore decided not to account for it.

Derivative financial instruments

The Company's operating activities are primarily exposed to financial risks such as changes in foreign exchange rates and interest rates. Where necessary, the Company uses derivative financial instruments to cover these risks.

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

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Hedge accounting – cash flow hedges

The Company does not have derivatives that it would account for in accordance with hedge accounting requirements.

Other derivatives

Certain derivative instruments are not designated for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

f) Stock option plan

The Company concluded a stock option plan, which is realized through phantom options, the value of which is derived from the actual share price of the Company.

The Company measures the liability arising from the stock option plan at fair value at the balance sheet date. Changes in the fair value of these liabilities are recognised in the statement of comprehensive income for the period.

Fair value is calculated as the intrinsic price of an option, i.e. the difference between the current market price of the Company's shares and the phantom share strike price. The time value of an option is not taken into consideration.

g) 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.

h) Long-term liabilities

Long-term liabilities, such as long-term bank loans and bonds, are initially measured in the amount of the cash-flow received upon issuance of such a debt instrument reduced by the related transaction costs. Subsequently the liabilities are measured at amortized cost using the effective interest rate method. The difference between the nominal value and the initial measurement of the debt is amortised through the income statement over the maturity of the debt.

The issuance costs and discount below, resp. premium above the nominal value, are treated as a reduction of, resp. increase in the nominal value of the instrument issued. These amounts are included in the amortization using the effective interest rate method.

i) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company 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.

j) Own shares

Treasury shares are presented in the balance sheet as a deduction from equity in the amount equal to their acquisition cost. The acquisition of treasury shares is recorded based on the trade date and presented in the statement of changes in equity as a reduction in equity.

k) Adoption of new and revised standards

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period for the first time:

- **IFRS 16 Leasing** – effective for annual periods beginning on or after 1 January 2019.

The new IFRS 16 Leasing standard replaces all existing international accounting directives relating to leasing accounting for both the lessee and the lessor. According to this standard, the lessee will book the majority of leasing items on the balance sheet. For the lessor, the booking method remains practically unchanged. This model will be used for leasing, with the exception of short-term rentals and leases, where the underlying asset has a low value. The standard is binding from the regular accounting period starting 1 January 2019 and the Company has implemented this standard to this date.

The inclusion of this standard had no impact on the Company's financial results due to the fact that the Company has no leases, which would meet IFRS 16 criteria for capitalisation of leased assets and the associated financial liability on the balance sheet.

- **Amendments to IFRS 9 Financial instruments** – Subscription feature with negative compensation – effective for annual periods beginning on or after 1 January 2019,
- **Amendments to IAS 19 Employee Benefits** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 Investments in Associates and Joint Ventures** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 Uncertainty over Income Tax Treatments** (effective for annual periods beginning on or after 1 January 2019).

The adoption of these standards did not have an impact on the Company's financial statements.

Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019).

New standards

Certain new standards and interpretations have been issued that are compulsory for the financial period starting 1 January 2020 or later and that the Company already implemented earlier. To the approval date of this financial statement, the International Accounting Standards Board (IASB) has issued the following new standards, amendments to the existing standards and interpretations accepted by the European Union, which have not yet come into effect:

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).
- **Amendment to IFRS 3 Business Combinations** (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** (effective for annual periods beginning on or after 1 January 2020),
- **IFRS 17 Insurance Contracts** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments IFRS 9, IAS 39 and IFRS 7 Benchmark rate reform** (effective for annual periods beginning on or after 1 January 2020),
- **Amendment IAS 1 – Presentation and publication of financial statements: Classification of liabilities as short term, resp. long term** (effective for annual periods beginning on or after 1 January 2022).

The Company does not expect to apply any of the above standards, revisions or amendments before their effective date. The Company anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Company in the period of initial application.

4. Financial risks, investments risks and capital management

The Company is a holding company and in this respect is exposed to the following financial risks:

- credit risk in connection with funds deposited with financial institutions, banks
- liquidity risk, with particular reference to the availability of funds and access to the credit market;

- market risk (primarily relating to foreign exchange and interest rates), since the Company operates at an international level in different currencies.

When managing its financial risks, the Company 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 credit quality of bank balances can be summarized based on Moody's ratings as at 31 December 2019 and 2018 as follows:

	31 December 2019	31 December 2018
Aa3	6,241	35,835
A1	47	193,500
Total	**6,288**	**229,335**

Explanation of the Moody's rating:

Aa3 – very high quality with very low credit risk

A1 – A2 assessed as high quality with low credit risk.

A3 – assessed as medium quality at a higher level with a low credit risk.

Baa1 – Baa3 – assessed as medium quality with a certain degree of a speculative level and a medium credit risk.

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 Company'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 Company can be required to pay. The financial liabilities part of the table includes both interest and principal cash flows.

2019	Interest rate as at 31 December	Less than 6 months	6 months – 1 year	1 year – 2 years	2 years – 5 years	5+ years	Total
Financial assets:							
Loans to subsidiaries	3.50%	0	0	0	1,736,112	0	1,736,112
Financial liabilities:							
Fixed interest rate bonds	2.646%	0	28,577	28,577	1,108,577	0	1,165,730
Loans from subsidiaries	3.50%	0	0	0	693,771	0	693,771
Cross currency rate swaps		0	3,322	3,322	(64,02)9	0	(57,386)
Total		**0**	**31,898**	**31,898**	**1,738,319**	**0**	**1,802,116**

2018	Interest rate as at 31 December	Less than 6 months	6 months – 1 year	1 year – 2 years	2 years – 5 years	5+ years	Total
Financial assets:							
Loans to subsidiaries	3.50%	0	0	0	1,939,939	0	1,939,939
Financial liabilities:							
Fixed interest rate bonds	2.646%	0	28,577	28,577	1,137,154	0	1,194,307
Loans from subsidiaries	3.50%	0	0	0	1,111,819	0	1,111,819
Cross currency rate swaps		0	3,717	3,717	(47,363)	0	(39,929)
Total		**0**	**32m294**	**32,294**	**2,201,609**	**0**	**2,346,055**

The Company did not change any objectives, policies and processes for managing the liquidity risk in 2019.

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 rates.

Currency risk

Financial activity

The Company is exposed to unrealized foreign exchange gains/losses from the revaluation of balance sheet items (bank loans, bonds, intra-company loans, cash, trade receivables and trade payables). Unrealized foreign exchange gains and losses do not have an effect on the cash flows of the Company.

The Company is exposed to a currency risk primarily resulting from changes to the following currency pairs:

- CZK/EUR – The currency risk is mainly due to the balance of loans provided to subsidiaries and loans received from subsidiaries denominated in EUR. The bonds issued by the Company are denominated in CZK. The Company has no other significant assets or liabilities in currencies other than CZK. Given the positive balance (net receivable) of loans provided to subsidiaries, the appreciation of CZK against EUR has a negative impact on the financial result, as the CZK appreciation leads to a reduction in the net loan receivable of the subsidiaries expressed in CZK. The depreciation of CZK against EUR has the opposite effect.

Changes in other currency exchange rates should have no fundamental impact on the results of the Company.

Impact of changes in foreign currency exchange rates	2019	2018
Appreciation of CZK against EUR by 5%	(40,076)	(30,283)
Depreciation of CZK against EUR by 5%	40,076	30,283

‘000 CZK

The Company did not change any objectives, policies and processes for managing the currency risk in 2019.

Interest rate risk

The Company is not exposed to interest rate risk because the loans granted to subsidiaries resp. the loans received from subsidiaries have a fixed interest rate. Also, the bonds issued bear a fixed interest rate.

The Company did not change any objectives, policies and processes for managing the interest rate risk in 2019.

Investment risks

The Company holds shares in subsidiaries and provides them with loans for the financing of investment projects in Egypt and South Africa. In general, investments of this kind carry a higher degree of risk than investments in more developed countries. These higher risks include among others changes in the political environment, revenue transfers, nationalization, or politically motivated violent damage.

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. The Company considers equity and proceeds from the bond issues as capital. 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 the necessary level of capital, however management closely monitors the risks in connection with capital inadequacy and is prepared to change the level of capital as stated above.

In accordance with the terms of the bonds issued by the Company, the Company has to keep the ratio of consolidated net debt to consolidated EBITDA below 4.50. As of 31 December 2019, this ratio was 3.93.

5. Notes to the non-consolidated financial statements

a) Raw materials, consumables and services used

'000 CZK	2019	2018
Expenses on external services	4,556	6,263
Total raw materials and consumables used	**4,556**	**6,263**

b) Staff costs

'000 CZK	2019	2018
Remuneration of Board members	8,531	10,367
Other wages	240	240
Social and health insurance	2,025	2,730
Expenses/(income) from the revaluation of the option plan	(4,186)	-911
Total staff costs	**6,610**	**12,426**

c) Other operating expense

'000 CZK	2019	2018
Insurance expense	1,508	1,579
Other operating expense	40	20
Total other operating expense	**1,548**	**1,599**

Insurance expenses represent the cost of liability insurance of the members of the Board of Directors.

d) Foreign exchange gains and other financial income

'000 CZK	2019	2018
Foreign exchange gains	1,702	42,488
Revaluation of derivatives	14,051	0
Foreign exchange gains and other financial income	**15,753**	**42,488**

e) Foreign exchange losses and other financial expenses

'000 CZK	2019	2018
Foreign exchange losses	15,207	344
Bank fees	23	39
Revaluation of derivatives	0	48,086
Foreign exchange losses and other financial expenses	**15,230**	**48,469**

f) Interest income

'000 CZK	2019	2018
Interest income on term deposits	1,333	275
Interest income on loans provided to subsidiaries	57,574	62,334
Interest income	**58,907**	**62,608**

g) Interest expense

'000 CZK	2019	2018
Interest expense from issued bonds	29,884	94,022
Interest expenses on loans received from subsidiaries	5,576	5,691
Interest expense	**35,460**	**99,713**

h) Income tax

The Company does not generate tax profits and consequently no tax payable is accounted for.

Potential deferred tax assets arising from accumulated tax losses from previous periods have not been recognized because of its potential utilization in the future is unlikely.

i) Shares in subsidiaries

'000 CZK	% ownership	Share capital	31/12/ 2019	31/12/ 2018
PFNonwovens Czech s.r.o.	100%	3,633	9,803	9,803
PFNonwovens International s.r.o.	100%	200	280,356	780,461
Shares in subsidiaries			**290,159**	**790,264**

The Company tested its shares in the subsidiaries for impairment as at 31 December 2019. Management decided that for the purposes of testing the reduction of value of its shares in the subsidiaries, the subsidiaries of the Company are divided into three cash-generating units, i.e. subsidiaries of the Company in the Czech Republic (hereinafter “CGU CZ”), the subsidiary of the Company in Egypt (hereinafter “CGU EG”) and the subsidiary of the Company in South Africa (hereinafter “CGU JAR”).

For the assessment of the reduction of value of its share in PFNonwovens Czech s.r.o., the accounting value of the share is compared to the valuation of CGU CZ. The valuation of CGU CZ consists of the calculated value-in-use increased by the value of CGU CZ cash and decreased by the value of non-current long term liabilities as at 31 December 2019.

For the assessment of the reduction of value of its share in PFNonwovens International s.r.o the accounting value of the share is compared to the sum of the valuations of CGU EG and CGU JAR. The valuation of CGU EG consists of the calculated value-in-use increased by the value of CGU EG cash and decreased by the value of non-current long term liabilities as at 31 December 2019. In respect to the fact that CGU JAR commenced commercial operations only in the middle of 2019, the management believes that for the calculation of the value of value-in-use of CGU JAR there is currently an insufficient amount of relevant information. For this reason, the valuation of CGU JAR was set as the sum of the accounting value of the investment into equity and intra-company loans provided to CGU JAR in connection with the construction of the production plant in South Africa.

Key prerequisites used in the calculation of the value-in-use are the following:

- Customer demand – In the past, the Company has been able to sell 100% of production capacity of the unit generating cash flows. The management believes that the planned almost full utilisation of production capacities in the upcoming years is realistically achievable.
- Planned gross margin – In 2020 and in subsequent years, the management conservatively expects a similar trend as in the past.

Projection of future cash flows

For the purpose of assessing whether a reduction of the value of the shares has occurred, a value-in-use calculation was used for CGU CZ and CGU EG, which is based on the forecast cash flows according to the financial budgets approved by the management for each individual CGU for 2020, discounted by the below-mentioned discount rates.

The cash flow forecasts for the period 2021-2033 are based on past experience, whilst it is conservatively assumed that during the course of this period:

- For CGU CZ – 1% year-on-year decline in revenues and EBITDA.
- For CGU EG – 0% year-on-year change in revenues and EBITDA.

Cash flows for 2033 are calculated for both the CGU's with a conservative presumption of 0% year-on-year change and the discount rates provided below.

Discount rates

The discount rates provided below have been set on the basis of an estimation of weighted costs of capital of the Group, increased by a risk surcharge for the individual countries in which the CGU's are operated.

CGU	Used discount rate
CGU CZ	5.1%
CGU EG	9.2%

Booking of the reduced value of the share

On the basis of the above-mentioned calculations, impairment was booked with respect to the accounting value of the share in PFNonwovens International s.r.o as at 31 December 2019 in the amount of CZK 500,104 thousand.

In relation to the share in PFNonwovens Czech s.r.o., as at 31 December 2019, no impairment of the share value was not booked.

Sensitivity analysis

The valuation of the individual CGU's is sensitive primarily to changes in the discount rate.

An increase in the discount rate for CGU CZ by 1 pp. would reduce the value of the valuation of CGU CZ by CZK 1,973,820 thousand. Impairment of the value of the share in PFNonwovens Czech s.r.o. would be booked only when using a discount rate of 28% for CGU CZ or greater.

An increase in the discount rate for CGU EG by 1 pp. would reduce the valuation of CGU EG by CZK 93,423 thousand. Impairment of the value of the share in PFNonwovens International s.r.o. would not be booked when using a discount rate of 5.9% for CGU EG or smaller.

j) Long-term loans to subsidiaries

'000 CZK	31/12/2019	31/12/2018
PFNonwovens International s.r.o. – nominal	1,487,590	1,711,832
PFNonwovens International s.r.o. – accrued interest	248,522	228,107
Long-term loans to subsidiaries	**1,736,112**	**1,939,939**

Loans to subsidiaries principally consist of loans granted to PFNonwovens International s.r.o. in connection with investment projects abroad.

As at 31 December 2019, the Company has provided to PFNonwovens International s.r.o. in connection with an investment project in Egypt, a loan with a nominal value of EUR 49.9 million (EUR 57.9 million as at 31 December 2018) maturing in 2024, which bears a fixed interest rate of 3.5% p.a.

As at 31 December 2019, the Company has provided to PFNonwovens International s.r.o. in connection with an investment project in South Africa, loans with a nominal value of EUR 8.6 million (EUR 8.6 million as at 31 December 2018) maturing in 2022, which bear a fixed interest rate of 3.5% p.a.

k) Trade and other receivables

'000 CZK	31/12/2019	31/12/2018
Non-financial assets		
Positive fair value of financial derivatives	77	0
Operating advances granted	0	290
Other receivables from subsidiaries	37,194	37,751
Trade and other receivables	**37,271**	**38,041**

Financial derivatives and their fair value are disclosed in Note 5 (p) Trade and other payables.

l) Cash and cash equivalents

'000 CZK	31/12/2019	31/12/2018
Cash in hand	0	193,447
Current accounts	6,288	35,888
Cash and cash equivalents	**6,288**	**229,335**

The credit quality of bank balances based on Moody's rating as at 31 December 2019 and 2018 is presented in Part 4 Credit risk.

m) Long-term bonds

'000 CZK	31/12/2019	31/12/2018
Private bond issue 2.646/2022 – nominal	1,080,000	1,080,000
Private bond issue 2.646/2022 – amortization of costs	5,998	8,358
Long-term bonds	**1,085,998**	**1,088,358**

On 14 June 2015, the Company issued the bonds (ISIN CZ0000000658) with the total nominal value of CZK 1,080,000,000.00 with a fixed interest rate of 2.646% p.a. The bond matures on 14 June 2022.

The cost of bond issues is amortized over the maturity of the bond.

n) Long-term loans from subsidiaries

'000 CZK	31/12/2019	31/12/2018
PFNonwovens Czech s.r.o. – nominal	686,070	1,106,175
PFNonwovens Czech s.r.o. – accrued interest	7,701	5,644
Long-term loans from subsidiaries	**693,771**	**1,111,819**

Subsidiary PFNonwovens Czech s.r.o. provided loans to the Company in November 2018 in connection with the repayment of the public bond (ISIN CZ0000000559). The loans with the total nominal value of EUR 43.0 million bear a fixed interest rate of 0.6%.

During 2019, the Company repaid the nominal amount of these loans in the amount of EUR 16.0 million. The outstanding nominal as at 31 December 2019 thus amounted to EUR 27.0 million.

o) Short-term bonds

'000 CZK	31/12/2019	31/12/2018
Interest accrued on issued bonds	13,256	13,256
Short-term bonds	**13,256**	**13,256**

p) Trade and other payables

'000 CZK	31/12/2019	31/12/2018
Financial liabilities		
Trade payables to subsidiaries	1,388	1,928
Negative fair value of financial derivatives	0	13,672
Contingent liabilities	970	968
Trade and other payables	25	93
Trade and other payables	**2,383**	**16,661**

Financial derivatives

On 9 July 2015, the Company entered into a cross currency swap agreement with the financial institution (hereinafter referred to as "Swap 1"), in which it exchanged funds obtained from Bond 1 in CZK for financial means in EUR.

Under this swap agreement, the Company is a payer of the EUR fixed rate of 3.15% and the recipient of the CZK fixed rate of 2.646%. On the maturity date of Bond 1, on July 14, 2022, the Company will receive the nominal value of the swap of CZK 1,080,000,000.00 and pay the nominal value of the swap of EUR 39,852,398.52.

Fair value of the swaps as at 31 December 2019 and 2018 was as follows. A positive value represents a receivable of the Company, a negative value represents a payable of the Company. Swap 1 do not meet the criteria for hedging derivatives and changes in their fair value are therefore recognized in the income statement.

'000 CZK	31/12/2019	31/12/2018
Swap 1 – derivate inducted for trading	77	(13,672)
Total	**77**	**(13,672)**

q) Tax liabilities

Tax liabilities of CZK 4 thousand as at 31 December 2019 (CZK 32 thousand as at 31 December 2018) represent liabilities from income tax from dependent activity.

r) Reserves

The provision as at 31 December 2019 of CZK 3,510 thousand (CZK 7,696 thousand as at 31 December 2018) represents the fair value of the Company's potential liability in respect of the share options programs from 2007 and 2010.

Information on share options programs

The information below relates to share option programs from 2007 and 2010 for which as at 31 December 2018 and as at 31 December 2017 there remained 60,304 phantom share options to be exercised. All the issued share options/warrants from share option programs in 2014 and 2017 have been exercised.

The Annual General Meeting held on 15 June 2007 approved the grant of an aggregate amount of 230,735 phantom options. 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 PFNonwovens a.s. (the IPO price). Of the originally granted 230,735 phantom options, 44,840 phantom options are currently held by former executive managers and non-executive directors.

The Annual General Meeting held on June 15, 2010 approved the grant of an aggregate amount of 230,735 phantom options. Each phantom option, when exercised, will grant the director the right to receive in cash an amount equal to the difference between CZK 473.00 representing the Company's share price on the PSE as of 15 December 2009 increased by 10%, and the closing price of one Company's share on the day preceding the day of exercise of the phantom option on the PSE. Of the originally granted 230,735 phantom options, 15,464 phantom options are currently held by former executive managers and non-executive directors.

Summary of the contractual terms of the phantom option as at 31 December 2019:

Grant date	Strike price	Number of granted options	Fair value of granted options
	(CZK)	(pcs)	(TCZK)
24/05/2007	749.20	44,840	0
15/06/2010	473.00	15,464	3,510
Total		**60,304**	**3,510**

Summary of the contractual terms of the phantom option as at 31 December 2018:

Grant date	Strike price	Number of granted options	Fair value of granted options
	(CZK)	(pcs)	(TCZK)
24/05/2007	749.20	44,840	2,547
15/06/2010	473.00	15,464	5,150
Total		**60,304**	**7,696**

The fair value of the phantom options as at 31 December 2019 was TCZK 3,510 (TCZK 7,696 as at 31 December 2018). The current management of the Company did not hold any phantom option as at 31 December 2019 and as at 31 December 2018.

The fair value of phantom options was calculated as a difference between the Company's closing share price on the PSE of CZK 700 as at 31 December 2019 (CZK 806 as at 31 December 2018) and the strike price of the phantom options.

s) Earnings per share

The calculation of basic earnings per share as at 31 December 2019 was based on the net profit attributable to equity holders and a weighted average number of ordinary shares in 2019. There were no changes in the number of shares in 2019.

Fully diluted earnings per share as at 31 December 2019 and 31 December 2018 are equal to basic earnings per share since the Company has no instruments issued that would potentially have a diluting effect on earnings.

Basic earnings per share

		2019	2018
Net profit attributable to equity holders	TCZK	(488,848)	(61,819)
Weighted average number of ordinary shares	Number	8,763,859	8,764,538
Basic earnings per share	**CZK**	**(55.78)**	**(7.05)**
Diluted earnings per share	**CZK**	**(55.78)**	**(7.05)**

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

t) Share capital

The total number of shares as at 31 December 2018 was 8,763,859 shares at EUR 1.24 per share. The Company held 0 pieces of own shares as at 31 December 2018.

The total number of shares as at 31 December 2019 was 8,763,859 shares at EUR 1.24 per share. The Company held 0 pieces of own shares as at 31 December 2019.

As at 31 December 2019, the share capital of the Company amounts to EUR 10,867,185.16.

No new shares were issued during the course of 2019 or 2018.

u) Retained earnings

In 2019, the annual general meeting decided to cover the loss from retained profits from previous years.

In 2018, the annual general meeting of the Company resolved to transfer the profit for 2017 to the account of retained profits from previous years.

v) Legal and other reserves

'000 CZK	31/12/2019	31/12/2018
Legal reserves	29,070	29,070
Other reserves	54,390	54,390
Legal and other reserves	**83,461**	**83,461**

Legal reserves are created in the amount of 10% of the Company's share capital. This reserve is not available for dividend distribution.

Other reserves include mainly dividends not paid on own shares and are distributable to shareholders.

w) Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values of the financial instruments of the Company are based on fair value statements prepared by the banks or determined based on cash flow models.

The fair value valuation is analysed according to the level in the fair value hierarchy as follows: (i) The first level is valuation on the basis of quoted prices (unadjusted) from active markets for the same types of assets or liabilities, (ii) second-level valuations consists of valuation techniques where all important inputs are observed for an asset or liability, either directly (i.e. using price) or indirectly (i.e. derived from prices), and iii) third-level valuations are valuations which are not based solely on observation of market information (meaning that valuation requires significant unobservable inputs). The management of the Company utilises judgement in the categorisation of financial tools utilizing a fair value hierarchy. When the measurement of fair value utilises observable inputs, which require significant adjustment, then this measurement is assumed to be level 3.

Continuous valuations using fair value are those that are required or permitted by accounting standards on the balance sheet at the end of every reporting period.

The following methods and assumptions are used by the Company to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, current investments

The carrying amount of cash and other current financial assets approximates fair value due to the relatively short-term maturity of these financial instruments.

Short-term receivables and payables

The carrying amount of receivables and payables approximates fair value due to the short-term maturity of these financial instruments.

Short-term loans

The carrying amount approximates fair value because of the short period to maturity of those instruments.

Long-term debt

The fair value of long-term debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The carrying amount of long-term debt and other payables with variable interest rates approximates their fair values. The fair value of long term debts was estimated using discounted cash flow models in accordance with the third level in the hierarchy for setting fair values.

Derivatives

The fair value of derivatives is based on the fair value statements prepared by the banks for this reason, it falls into the second level in the fair value hierarchy.

Carrying amounts and the estimated fair values of financial assets (except for derivatives) at 31 December 2019 and 2018 are as follows (in CZK thousands):

Category	2019		2018	
	Book value	Fair value	Book value	Fair value
ASSETS				
Current assets				
Long-term loans to subsidiaries	1,736,112	1,736,112	1,939,939	1,939,939
Trade and other receivables	37,271	37,271	38,041	38,041
Cash and cash equivalents	6,288	6,288	229,335	229,335
OUTSIDE RESOURCES				
Non-current liabilities				
Long term bonds	(1,085,998)	(1,060,289)	(1,088,358)	(1,059,126)
Current liabilities				
Short-term loans from subsidiaries	(693,771)	(693,771)	(1,111,819)	(1,111,819)
Short-term bonds	(13,256)	(13,256)	(13,256)	(13,256)
Trade and other payables	(2,383)	(2,383)	(16,661)	(16,661)
DERIVATIVES				
Short-term receivables	0	0	0	0
Long-term receivables	77	77	0	0
Current liabilities	0	0	0	0
Non-current liabilities	0	0	(13,672)	(13,672)

x) Related parties transactions

The following are related party transactions and their impact on the consolidated statement of comprehensive income and the consolidated statement of financial position.

'000 CZK	2019	2018
Other operating oncome	0	1,529
Interest income	57,574	62,334
Interest expense	(5,576)	(5,691)
Total	**51,998**	**58,172**

'000 CZK	31/12/2019	31/12/2018
Assets		
Long-term loans to subsidiaries	1,736,112	1,939,939
Other receivables from subsidiaries	37,194	37,751
Total assets	**1,773,306**	**1,977,690**
Liabilities		
Short-term loans from subsidiaries	693,771	1,111,819
Trade and other payables	1,388	1,928
Total liabilities	**695,159**	**1,113,747**

6. Contingencies and commitments

On 6 October 2015, the Company issued a corporate guarantee of up to EUR 30 million (CZK 762.3 million), which guarantees the repayment of all liabilities related to the overdraft facility provided by Česká spořitelna, a.s., to PFNonwovens Czech s.r.o.

The Company's management is not aware of any other contingent liabilities of the Company as at 31 December 2019.

7. Subsequent events

At the beginning of 2020, the existence of the novel corona virus (Covid-19) was confirmed, which then spread throughout China and outside its borders, including to the Czech Republic, and caused interruption to many business and economic activities. The Company considers the outbreak of this epidemic to be a subsequent event that, nevertheless, did not have a significant impact on the operations/finances of the companies in the group as at the date that the financial statements were issued, and as such will not lead to modifications in these financial statements.

On 17 April 2020, the Company announced that Mr. František Klaška decided to resign from the Board of Directors of the Company and from all executive positions within the PFNonwovens Concern effective as of 1 May 2020. Effective as of 1 May 2020, Mr. Tonny de Beer shall be appointed to the Company's Board of Directors and shall also replace Mr. František Klaška in all executive positions including the position of Chief Technical Officer.

The management of the Company is not aware of any other events that have occurred since the balance sheet date that would have any material impact on the non-consolidated financial statements as at 31 December 2019.

Date:

Signature of the authorised representatives:

30 April 2020

František Klaška
Member of the Board of
PFNonwovens a.s.

Marian Rašík
Member of the Board of
PFNonwovens a.s.

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Independent Auditor’s Report

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Independent auditor's report

to the shareholder of company PFNonwovens a.s.

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of PFNonwovens a.s., with its registered office at Hradčanské náměstí 67/8, Praha 1 („the Company") and its subsidiaries (together "the Group") as at 31 December 2019, of their consolidated financial performance and their consolidated cash flows for the year ended 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the European Union ("EU").
- the accompanying separate financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2019, of its financial performance and its cash flows for the year ended 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU.

What we have audited

The Group's consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2019;
- The consolidated statement of comprehensive income for the year ended 31 December 2019;
- The consolidated statement of cash flows for the year ended 31 December 2019;
- The consolidated statement of changes in equity for the year ended 31 December 2019; and
- The notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

The Company's separate financial statements comprise:

- The statement of non-consolidated financial position as at 31 December 2019;
- The statement of non-consolidated comprehensive income for the year ended 31 December 2019;
- The statement of non-consolidated cash flows for the year ended 31 December 2019;
- The statement of non-consolidated changes in equity for the year ended 31 December 2019; and
- The notes to the separate financial statements, which include significant accounting policies and other explanatory information.

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Shareholder of PFNonwovens a.s.
Independent auditor’s report

Basis for opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council (“the EU Regulation”) and Standards on Auditing of the Chamber of Auditors of the Czech Republic (together “Audit regulations”). These standards consist of International Standards on Auditing (ISAs) as supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Company in accordance with the Act on Auditors, EU Regulation and International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants accepted by the Chamber of Auditors of the Czech Republic (together “Ethic regulations”), and we fulfilled our other ethical responsibilities in accordance with the Ethic regulations.

Our audit approach

Overview

The total group materiality level for the consolidated financial statements is CZK 65,414 thousand.

The overall materiality level for individual financial statements is CZK 20,698 thousand.

- We have identified eight entities that, in our opinion, require full audit coverage based on their size or risk.
- The audit of all the above mentioned companies was conducted by the group audit team.
- Companies that are part of a consolidated group that have been audited for these purposes account for 100% of the Group's total revenues. The scope of the audit procedures provides a sufficient and appropriate basis for our opinion.

- Impairment test of assets held by the subsidiary PFNonwovens Egypt LLC and of investment in PFNonwovens Egypt LLC.

As part of designing our audit, we determined the materiality and assessed the risks of material misstatement in the consolidated and separate financial statements (together the “financial statements”). In particular, we considered where management made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance as to whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Shareholder of PFNonwovens a.s.
Independent auditor's report

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for each set of financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on each set of financial statements.

Overall Group materiality	CZK 65,414 thousand (CZK 51,878 thousand for the previous period)
Overall materiality for the Company standing alone	CZK 20,698 thousand (CZK 23,981 thousand for the previous period)
How we determined it	Materiality for the Group and the Company was determined as 1% of the Group's total revenues. Materiality for the Company was determined as 1% of the Company's total assets.
Rationale for the materiality benchmark applied	The use of total revenues as a basis for determining the materiality is one of consistent audit practice.We initially considered using profit before tax, but because of fluctuating earnings, we considered total sales revenues as the most stable basis. We have decided to use revenues due to Group's strong focus on monitoring and increasing revenues. Revenues are one of key indicators, which are monitored by the Group management. The company also aims to increase its market share as measured by total revenues. The company is a holding type and generates income through management fees, interest on loans and dividends. The Company's primary objective is to maintain and enhance investments in its subsidiaries. Based on these facts, we decided to use the Company's total assets as a basis for determining materiality.

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Shareholder of PFNonwovens a.s.
Independent auditor's report

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of each set of financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment test of assets held by subsidiary PFNonwovens Egypt LLC in the consolidated financial statements (see accounting policies and Note 5o in the consolidated financial statements) and investment in the subsidiary PFNonwovens Egypt LLC in the separate financial statements of the Company (see accounting policies and Note 5i in the Company's separate financial statements). **Description of the key audit matter** The Group holds assets in the total amount of CZK 1,442,531 thousand belonging to the subsidiary PFNonwovens Egypt LLC reported in the consolidated statement of financial position as at 31 December 2019. The share in PFNonwovens Egypt LLC is owned via a direct subsidiary of PFNonwovens International s.r.o. Value of tested investment was amounted to CZK 780,461 as of 31 December 2019. The egyptian company is producing the same products as the Group and supplies both foreign markets and local customers in Egypt. A high level of management estimates is needed to assess the potential impairment of the assets of the egyptian subsidiary and the related investment. A discounted cash flow model was used to determine the realizable value and to perform the impairment test of assets and the impairment test of the investment in the egyptian subsidiary. The results of the performed impairment tests of these assets and investment are dependent on key inputs, especially in the following areas: - Assumption of growth of future cash flows in current budgets and plans approved by the Group's management and the subsequent growth rates included in the business plan. The business plan reflects the Group's intentions to use the full production capacity of the production plant in Egypt;	Our audit procedures include, in particular a critical assessment of the assumptions and estimates used by the Company to determine the recoverable amount of assets and of the investment in the subsidiary. This assessment included: - an assessment of the macroeconomic assumptions applied by the Company, including those that apply to discount rates, - an assessment of the financial plans prepared by the Company, including detailed discussions with the Company's management on the robustness and probability of fulfilment of the plans, - conduct a sensitivity analysis of significant model parameters to the change in the realizable value of assets and investments in the subsidiary, - analysis of accounting for impairment of assets and investments in the subsidiary, - back testing the accuracy of estimates made by management of the Company in prior periods to determine the reliability of estimates and judgments by management, - an assessment of the completeness and adequacy of the information disclosed in the notes to the consolidated and separate financial statements (see Note 5o in the Group's consolidated financial statements and Note 5i in the Company's separate financial statements).

- The discount rates used to determine the present value of future cash flows for a company operating in a given geographical location.

The tests performed in this way did not reveal any impairment of assets belonging to the subsidiary PFNonwovens Egypt LLC in the consolidated financial statements of the Group (see Note 5o in the consolidated financial statements).

The value of the investment in the Company's separate financial statements was decreased by the value of CZK 500,104 thousand (see Note 5i in the Company's separate financial statements).

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on each set of financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, the share of individual subsidiaries on the Group financial position and performance and specifics of the industry in which the Group and the Company operate.

Group financial statements consist of the eight accounting entities, including the Group's production and business activities and the control unit function. In developing the Group-wide audit approach, we have identified the type of work that must be performed on each entity by us as a group auditor. Accordingly, we conducted an audit of the complete financial information of all eight entities. This, together with other Group procedures, gives us the assurance we need for our opinion on the consolidated financial statements as a whole.

Other information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the Annual Report but it does not include both of the financial statements and our auditor’s report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Group and the Company obtained in the audit or otherwise appears to be materially misstated. In addition, we assessed whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, in our opinion:

- the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and

Shareholder of PFNonwovens a.s.
Independent auditor's report

- the other information is prepared in compliance with with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group and the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Board of Directors, Supervisory Board and Audit Committee of the Company for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board of the Company is responsible for overseeing the financial reporting process.

The Audit Committee of the Company is responsible for monitoring of the financial statements preparation process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above-stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal controls relevant to the audit 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 Group and the Company's internal controls.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future

events or conditions may cause the Group or the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors, Supervisory Board and Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement showing that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board and Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In compliance with Article 10(2) of the EU Regulation, we provide the following information, which is required in addition to the requirements of International Standards on Auditing:

Consistency of the audit opinion with the additional report to the Audit Committee

We confirm that the audit opinion expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued today in accordance with Article 11 of the EU Regulation.

Appointment of auditor and period of engagement

We were appointed as the auditors of the Group and the Company for year 2019 by the General Meeting of Shareholders of the Company on 14 June 2019. Our uninterrupted engagement as auditors of the Group and the Company has lasted for 2 years.

Provided non-audit services

The non-audit services are disclosed on page 46 of the Annual Report.

PwC Network did not provide prohibited services referred to in the Article 5 of the EU Regulation.

Shareholder of PFNonwovens a.s.
Independent auditor's report

30 April 2020

represented by

Václav Prýmek	Petra Jirková Bočáková Statutory Auditor, Licence No. 2253

Translation note

This version of our report is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over this translation.

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Glossary

6th October City – is a satellite city near Cairo, Egypt. The city has a population of approximately half a million people and many companies have their regional headquarters located there.

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 the Group), islands in the sea, etc.

Bučovice – A city in Moravia in the Vyškov District with approximately 6,500 inhabitants. The Company operates three of its production lines here.

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.

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.

EGAP – is the Export Guarantee and Insurance Corporation founded in June 1992 as a state-owned export credit agency, insuring credits connected with exports of goods and services from the Czech Republic against political and commercial risks. EGAP, now part of the state export support programme, provides insurance services to all exporters of Czech goods.

EMEA – Europe, the Middle East and Africa.

IFRS – International Financial Reporting Standards.

IPO – Initial Public Offering.

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

Meltblown Process – Technological process of producing nonwovens. A 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.

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.

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. The Company operates its main production facilities there.

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.

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.

1. Alternative performance measures

In accordance with the ESMA (European Securities and Markets Authority) directives regarding transparency for the protection of investors in the European Union, this glossary includes the ALTERNATIVE PERFORMANCE MEASURES (APMs), which correspond to those financial measures that are used but not defined or explained in the applicable financial information framework. The definition of these measures establishes equivalences with accounting items used, facilitating the interpretation of the information, where appropriate.

Performance measure	Definition	Purpose	Reconciliation with financial accounts
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.	Used as a benchmark number for performance evaluation in the management bonus scheme.	See Corporate Governance Report: Set as a qualified estimate of the Company's management.
CAPEX	Capital expenditure in intangible assets and property, plant and equipment, including capital expenditure financed by leasing.	Displays the amount of funds invested in the operations to secure the long-term earning power.	See Consolidated Statement of Casch Flows (row Net Cash flows from investment activities).
EBIT (Profit from operations) **– 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 amortisation.	Used to present the Company's operating result while eliminating the effects of differences among local taxation systems and different financing activities.	See Consolidated Statement of Comprehensive Income.
EBITDA **– Earnings Before Interest, Taxes, Depreciation and Amortisation**	A financial indicator which determines the operating margin of a company prior to deducting interest, taxes, impairments, restructuring costs, and amortisation. Calculated as Net profit before income tax, interest expense, interest income, foreign exchange changes, other financial income/expense and depreciation and amortisation, thus Profit from operations + restructuring costs and amortization.	Since it does not include financial and tax indicators or accounting expenses not involving cash outflow, it is used by Management to evaluate the Company's results over time.	See Year 2019 in Brief, in thousand of CZK: 2019: 687,995 + 529,503 = 1,217,498 2018: 879,531 + 467,523 = 1,347,054

Performance measure	Definition	Purpose	Reconciliation with financial accounts
EBIT Margin	Percentage margin calculated as EBIT / Revenues.	Used to assess the Company's operating performance.	See Year 2019 in Brief, in thousand of CZK: 2019: 687,995 / 6,541,444 = 10.5% 2018: 879,531 / 6,484,793 = 13.6%
EBITDA Margin	Percentage margin calculated as EBITDA / Revenues.	Intends to display the profitability of the business.	See Year 2019 in Brief, in thousand of CZK: 2019: 1,217,498 / 6,541,444 = 18.6% 2018: 1,347,055 / 6,484,793 = 20.8%
Net Debt	A financial indicator calculated as the sum of Current and Non-current bank loans and Other non-current liabilities reduced by Cash and Cash Equivalents.	The indicator shows the level of company's financial debt, i.e. the nominal amount of debt less cash and cash equivalents held by the Company. The indicator is primarily used to assess the overall appropriateness of the Company's level of debt, i.e. for example in relation to profitability or balance sheet indicators.	See Year 2019 in Brief, in thousand of CZK: 2019: 3,898,726 + 1,089,148 – 202,534 = 4,785,340 2018: 3,923,267 + 1,153,368 – 400,134 = 4,676,501
Net Debt / EBITDA	Net Debt / EBITDA. Where EBITDA is the running total for the past 12 months.	This ratio indicates the Company's capability to decrease and pay back its debt as well as its ability to take on additional debt to grow its business. The indicator shows approximately how long it would take for a company to pay back its debt out of its primary source of operating cash flows.	See Year 2019 in Brief, in million of CZK: 2019: 4,785.3 / 1,217.5 = 3.93 2018: 4,676.5 / 1,347.1 = 3.47
Net Profit Margin	Net profit after tax divided by total revenues.	Used to show the Company's capability to convert revenue into profits available for shareholders.	See Year 2019 in Brief, in thousand of CZK: 2019: 473,198 / 6,541,444 = 7.2% 2018: 815,157 / 6,484,793 = 12.6%

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Statements of Responsible Persons

František Klaška, Member of the Board of PFNonwovens a.s.

Marian Rašík, Member of the Board of PFNonwovens a.s.

hereby declare that, to the best of their knowledge, the consolidated financial report provides a true and fair view of the financial position, business activities and financial results of the issuer and the consolidated group for the year 2019 and about the prospects for future development of the financial position, business activities and financial results of the issuer and the consolidated group.

In Prague on 30 April 2020

František Klaška
Member of the Board of
PFNonwovens a.s.

Marian Rašík
Member of the Board of
PFNonwovens a.s.

Notes

Notes

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