



Sustainable Development Report 2018

PFNonwovens a.s. | 28 June 2019



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1

Business model



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 2018 annual production capacity, it has become one of the leading producers of spunmelt nonwovens in the EMEA region. The Group currently operates nine production lines in the Czech Republic and one production line in Egypt, which commenced commercial production in 2013. The total production capacity of the Group is currently up to 100 thousand tonnes of nonwoven fabric per annum in the Czech Republic and up to 20 thousand tonnes in Egypt.

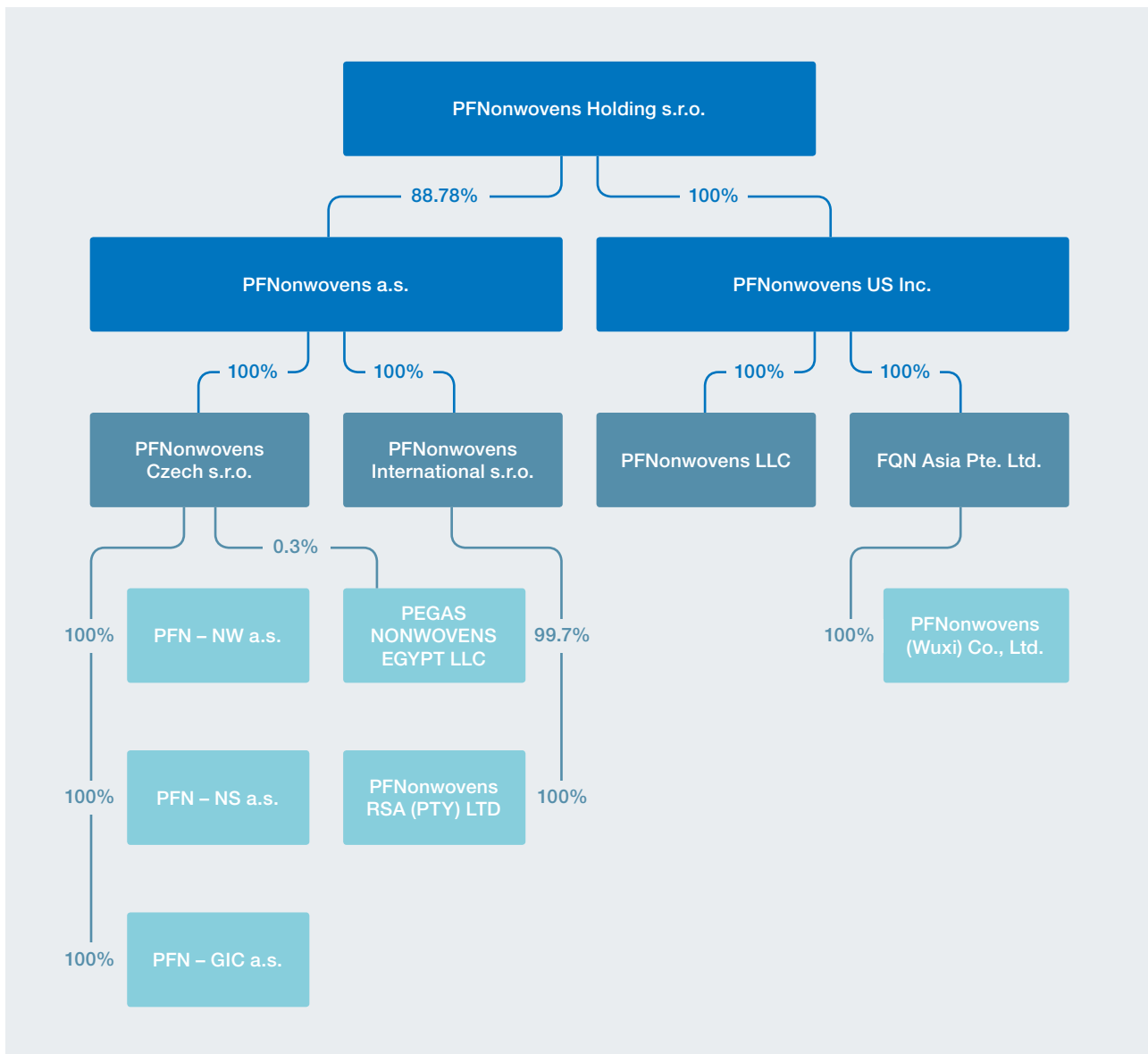
The Company is a member of the European Disposables and Nonwovens Association (EDANA).

1.1 Organisational Structure

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 subse-

quently PEGAS NONWOVENS 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 2018, the Group employed approximately 600 people.

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 2018:



1.2 Business environment

PFNonwovens focuses on the production of nonwoven 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.

1.2.1 Overview of the Company's Products

a) 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.

b) 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 against 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

c) 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.

d) 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

1.3 Market environment

The Group’s key market is geographically defined as EMEA – Europe (Western, Central and Eastern Europe, Russia and Turkey), Middle East and 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.

1.3.1 Competition

The Group’s competition can be defined as European, Middle Eastern and North African producers of spunmelt PP, PP/PE and carded 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.

1.3.2 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 81% share of total revenues in 2018 (82% in 2017). 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.

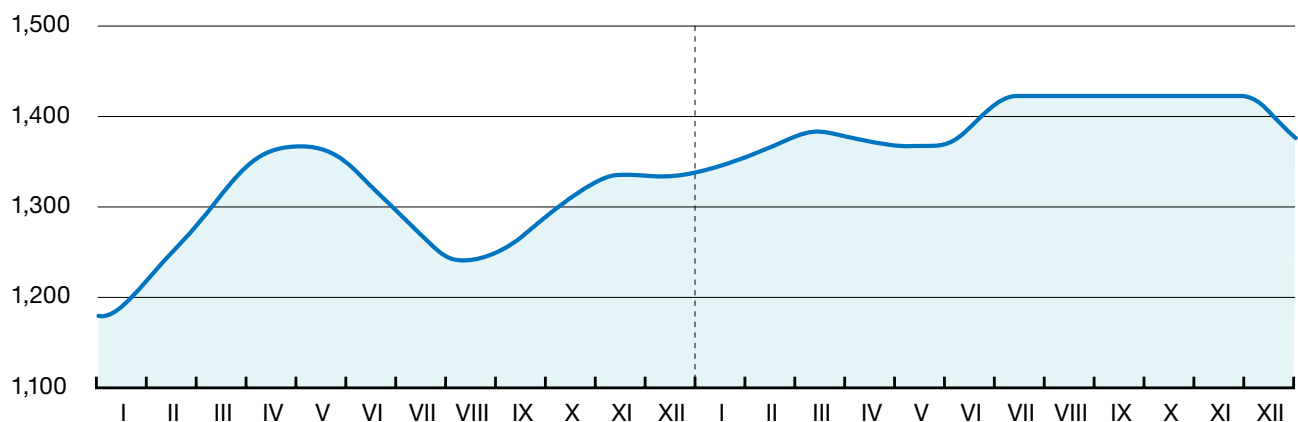
1.3.3 Suppliers of polymers

The main raw materials used for the production of spunmelt nonwovens are polymers, primarily polypropylene followed by polyethylene. During 2018, 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 2017 to 2018 is shown on the included graph.

DEVELOPMENT OF POLYMER PRICES 2017–2018



It is evident from the graph that compared to 2017, the prices of polymers gradually grew during the first half of 2018 and then remained at their maximum levels for the almost the entire second half of the year. The polymer price pass-through mechanism had a slightly positive effect on the Group due to the mildly increasing and later stable polymer prices.

1.4 Trends and influencing factors for further development

1.4.1 Population growth and growing average life expectancy

Current population development such as population growth and growing life expectancy, and the related increase in demand for disposable hygiene products, which are not only functional but also very comfortable and aesthetic, create an opportunity for existing nonwoven textile manufacturers as well as new entrants.

1.4.2 Growing accessibility to healthcare and higher hygiene requirements

Healthcare is becoming available to an ever increasing share of the population. Access to healthcare is growing primarily in the developing regions of Africa and Asia, which is resulting in an increased demand for products from nonwoven textiles utilised in medical applications, e.g. face masks, gowns, etc.

Apart from the increasing access to healthcare, growing demand for medical products from nonwoven textiles is also being affected by the constantly growing demands for hygiene, and not only directly from medical facilities, but also outside of them. People are buying these products for their own personal protection against risks of infection (e.g. increasing demand for respirator face masks during periods of higher occurrence of air-borne infections).

1.4.3 Guarantee of safe and harmless production

Demands of customers and end users are constantly increasing, especially demands for safety and non-toxicity of products, whether relating to the used raw materials, manufacturing processes, storage or transport. Customers require demonstrable certainty that products are harmless to health and meet all requirements.

These requirements already start with the demands placed on input raw materials. Customers demand

guarantees over and above the legal framework that confirm the safety of the processed raw materials. The same is also true for the production process, on which increasingly higher demands are being placed and which the nonwoven textile manufacturer must meet in order to meet the standard required by the customer.

The most strictly monitored area of nonwoven textiles is compliance with the complete process of production, warehousing and transport to the customer. Contamination of production by dust, insects or other undesirable substances is considered to constitute malpractice of the producer and can potentially lead to the loss of a customer.

1.4.4 Reducing basis weight, utilisation of input raw materials

A trend in the disposable hygiene product segment is the growing emphasis on reducing the basis weight of textiles. Customer demand for lighter materials is continuously increasing, however, these lighter materials must nevertheless meet high demands for absorption, air permeability, softness, etc., as well as softness, bulkiness and fluffiness. The Group is well aware of this trend and focuses its R&D on the development of lighter variants of existing products.

However, customer demand for materials with increasingly lower basis weights is not the only factor, the issue of responsible utilisation of input raw materials is also key. Production that consumes less raw materials improves the final product from the standpoint of environmental protection as well as better utilisation of non-renewable resources. Raw materials from renewable resources and natural materials are gaining an increasing foothold in commercial production.

The Group also focuses on development and innovation in the production of materials, which use raw materials from renewable sources and natural materials (e.g. cotton).

1.5 Objective and Strategy

The Group's strategy into the future is to:

1. develop and take advantage of growth opportunities to strengthen its market position,
2. maintain and extend technological excellence in spunmelt nonwoven textiles for disposable hygiene products in the EMEA region.

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 in Znojmo was put into operation in the second quarter of 2017. A strategically very important project is the installation of the semi-commercial production line RF5 Bico FHL R&D 2F.

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.

1.6 Vision and mission

COMPANY'S VISION:

Our vision is to continue in building a state-of-the-art nonwoven manufacturing company with an emphasis on every single detail and achieving outstanding product quality that will make us the preferred partner for innovative development, commercialisation and global roll-out of new products.

COMPANY'S MISSION:

→ Development

- ↳ new production capacity added every two to three years with the possibility of producing new technologically advanced materials,



- ↳ participation in the development of key markets,
 - ↳ expansion into fast-growing developing markets through local investments.
-
- Solid financial performance
-
- ↳ maintaining strong operating profitability,
 - ↳ utilisation of cash flows for further expansion,
 - ↳ long term cost effectiveness.
-
- Leading position in the area of technology and quality
-
- ↳ technological leadership thanks to cooperation with technology suppliers and key customers,
 - ↳ strong focus on technologically advanced products,
 - ↳ timely implementation of new nonwoven textile technologies,
 - ↳ long-term quality system improvement



2

Policies and due diligence

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 ČSN EN ISO 9001:2016 and ČSN EN ISO 14001:2016 certificates from CQS, IQNet since 1997. Recertification of the system according to the new EN ISO 9001:2015 and EN ISO 14001:2015 norms occurred in December 2017 with certificates being valid until 2020. The production plant in Egypt is certified according to ISO 9001:2015, in this case by TÜV Nord with certificate valid until 2020.

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 over-pressure air control to eliminate the risk of insects contaminating textiles. 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.

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.

Quality Policy and Environmental Responsibility
(wording is effective at the publishing date of the Sustainable Development Report 2018)

PFNonwovens Group is committed to meeting or exceeding the expectations of our customers by:

- Promoting awareness and attention to safety, quality and environment protection in all aspects of our operations.
- Mitigating risks related to all our activities.

- Assuring compliance with customer, industry, and regulatory requirements.
- Focusing on long-term relationships with suppliers and customers.
- Responding to customer needs with exceptional service and cost effective products.
- Continually improving the effectiveness of our processes through assessment, maintenance, and reinvestment for managing quality to drive to zero repeat complaints and zero contamination.
- Demonstrating respect for our team members, customers, consumers, suppliers, society and the environment.
- Continuously developing skills of all our employees, both professional qualifications as well as skills in the quality management and environmental systems.

3

Main risks and their management



With the goal of fulfilling the Company’s strategy, internal and external aspects and matters derived from the legal, technological, competitive, market, cultural, social and economic environment and from the environmental area are thoroughly assessed.

To have the ability to continuously provide products that meet customers’ requirements and respective laws and regulations, which do not negatively impact the environment, the stakeholders and their requirements have been clearly defined.

For the internal and external aspects and likewise for all stakeholders, a risk analysis has been drawn up, measures have been set for their minimisation and opportunities for further development have been identified.

With respect to the make-up of the hygiene market, which is divided between a small number of players with large market shares, the greatest risk faced by the Group is the loss of a customer or a decline in their order volumes. The top five customers represented an 81% share of total revenues in 2018 (82% share in 2017). The Group maintains and solidifies its relationships with existing customers and

attempts to also reduce the aforementioned risk by expanding the customers’ portfolio by means of new products and projects aimed at gaining new market shares on the existing market and likewise in new markets.

A very significant risk is also the loss of a customer resulting from his potential loss of end consumers. The Group attempts to mitigate this risk to the greatest degree possible by means of a set of measures identified in customer audits, assessments of customers, complaints and quality alerts as well as by maintaining close contact with customers by means of personal meetings and regular telephone conferences.

The main input raw materials of the Group are polypropylene and polyethylene. There are a limited number of suppliers of these raw materials present in the market. The risk derived from a potential outage in the deliveries of these strategic raw materials is reduced by the Group by setting advantageous conditions, such as maintaining safety stock, contractual supplier obligations, qualification alternatives, etc. The Group regularly carries out an assessment of its suppliers.



4

Process for selecting key areas and
key performance indicators

The Group regularly sets goals and extraordinary projects for further improvement in both quality and the environment aspects, and assess their results.

When setting goals for further development, the Group's Quality Policy and Environmental Responsibility fundamental principles are always adhered to, with the following also considered:

- current and future needs of the organisation and the market,
- results of quality management system audits,
- competitor analysis, benchmarking,
- resources necessary for achieving these goals.

All goals that are set should help in achieving the main goals and strategies of the Group (see chapter 1.5).

The Group is well aware of the importance of transparency in the area of sustainable development and considers the issue of sustainable development as an essential prerequisite for the successful development of the entire PFN Group. This report should give not only investors but also the general public the opportunity to gain a more in-depth understanding of how the Group functions and its activities in the area of sustainable development.

The Group has the following key areas for its development and business:

- environment,
- social and employee issues,
- observance of human rights,
- anti-corruption measures.

These key areas were selected in accordance with the strategy, vision and internal policy of the Group. All the here-described aspects significantly affect

not only the everyday operation of the Group but also determine its further development and position in the market.

The management of the Group is convinced that the achievement of financial success is unconditionally interconnected with a responsible approach to economic matters and social issues, and the same attention must be paid to it as to other aspects of the business. Creating and maintaining safe and quality work conditions for employees, observance of human rights, considerate and the responsible handling of natural resources is a responsibility for the Group that it has voluntarily elected to fulfil. A prerequisite for success in all the selected key areas is the acceptance of and identification with this strategy across the entire Group from the owners, through to the managers and all the way to the individual employees.

Within the framework of its activities, the Group complies with all relevant international treaties, laws, internal regulations and ethical standards and acts in accordance with them.

4.1 Key area – the environment

Protection of the environment and the creation of a safe and healthy work environment for employees ranks amongst the highest priorities of the Group. The quality of both areas undergoes continuous improvement. The Group also focuses on protecting the atmosphere against pollution and makes consistent efforts to lower the negative impact of its activity on the environment.

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 transforma-

tion 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 limited atmospheric emissions. All the defined environmental aspects in the Group are monitored and assessed.

The senior management of the Group has adopted key principles to meet all environmental requirements. The employees of the Group have been instructed about these principles and are conscious of their responsibility in fulfilling and adhering to them.

To meet all environmental requirements the following fundamentals have been accepted:

COMPLIANCE WITH ENVIRONMENTAL REGULATIONS

- Meet the requirements of legal regulations in force for environmental protection and other requirements, to which the Group has made a commitment.

We monitor all legislative changes to ensure that during all activities and procedures, all generally binding legal norms related to the activities of the Group, including in relation to the environment, are unconditionally and rigorously adhered to.

MINIMISING ENVIRONMENTAL IMPACT

- Lower workplace and external noise levels.

- Reduce the amount of waste (per unit of production) and rigorously sort waste according to its hazard level.
- Handle chemical substances according to rules set by legislation in force by being considerate to the environment and by adhering to workplace health and safety codes.
- Reduce the amount of harmful substances (per unit of production) emitted into the atmosphere.
- Reduce the amount of harmful substances (per unit of production) emitted via production water into the ground water and the sewage system.
- Maximise reprocessing of production waste (recycling).
- Maximise reprocessing of production waste in the form of regranulate¹.

Through continuous development of new products, improvement in the quality of our products and protection the environment, we attempt to achieve the satisfaction of our customers and to strengthen our Group's position in the market. Product quality and environmental quality is the responsibility of every employee.

ECONOMY AND EFFICIENCY

- Continually seek out opportunities for the reduction of electricity, gas and water consumption per unit of production.
- Continually seek out opportunities for the reduction of raw materials and minimisation of packaging materials per unit of production.

¹ Regranulation – Method for recycling scrap textile into granulate, which can then be fully reused in the manufacturing process.

We adopt measures that enable us to reduce costs, to prevent all forms of waste, to utilise de-facto waste-free operations and thereby also ensure environmental protection to the greatest degree possible. We continually seek opportunities for the reduction of electricity, gas, water consumption and for minimising the consumption of packaging materials.

EMERGENCY PREPAREDNESS

- Strive for the prevention of emergency situations, and in the event that they do occur, proceed according to emergency plans ensuring the minimisation of negative environmental consequences.

PRODUCTS AND SERVICES

- Assess the environmental impact of planned new production facilities and products prior to their approval.
- Provide information about the Group's products in the area of safe use, transport, storage and disposal of these products.

CONTRACTUAL SUPPLIERS

- Strive for and require from all suppliers that their products meet all conditions for minimal environmental impact.

EDUCATION OF EMPLOYEES

- Educate, train and motivate employees so that they perform all their activities with maximum responsibility in respect to the conservation of resources and environmental protection.

OPEN APPROACH AND PUBLIC INTERESTS

- Strengthen the open approach and dialogue with employees, the public and other stakeholders by accepting and reacting to their needs.
- Regularly provide information about the effects of the Group's activities on the environment.
- Meet all requirements so that we remain a good neighbour.

The Group has drawn up a register of legislative requirements regarding selected environmental aspects. The main source of environmental aspects are primarily the individual production technologies, energy sources, wastes and the individual products. The most significant environmental aspects at the individual sections include:

- wastes and packaging issues,
- acoustic emissions and immissions,
- chemical emissions and immissions,
- raw material resource management,
- handling of environmentally damaging and hazardous substances (oils, lubricants, gas, waste water),
- handling of chemical substances.

GOALS UP TO 2030

- Install an energy efficient form of lighting at the production lines and concurrently reduce power consumption by 2020.
 - ↘ Light must be effectively directed in the required direction.
 - ↘ Only environmentally-friendly lighting shall be installed, which shall eliminate dangerous substances in light tubes – fluorescent light tubes will be replaced with LED lighting and the newly installed lines are equipped with LED lighting.
 - ↘ Lower electrical power consumption for lighting at the production lines by 2%.
- Maintain the share of purchased power from renewable resources at a level of at least 20% of the total energy mix in the Czech Republic and 14% in Egypt.
 - ↘ Replace refrigerant gas R22 in all air conditioning units.
 - ↘ In Egypt, replace all propane-powered forklift trucks with electrically-powered ones.
- Zero disposal of waste to waste dumps.
 - ↘ Systematic reduction in waste volumes and increase in recycling.
 - ↘ Zero disposal of recyclable and reusable wastes to waste dumps from 2024 onwards – this goal has already been achieved.
- Seek alternatives for reducing the environmental load caused by packaging.
 - ↘ Project for replacing wooden pallets with returnable plastic pallets (made from recycled plastic):
 - ↘ In 2018, the Group achieved its 2020 target– 100 % of pallets used internally were replaced with plastic pallets,
 - ↘ 2025 – 100 % of all pallets to replaced with plastic pallets or packaging without pallets.
- Reduction of nonwoven textile basis weights through new technologies and procedures.
 - ↘ In 2018, the Group succeeded in fulfilling the target of reduction of consumption of raw materials.
 - ↘ Reduction of consumption of raw materials by 2% by the end of 2020.
- Increase recycling.
 - ↘ Reduction of consumption of raw materials by 4% by the end of 2030.
- Commercialisation of projects targeted at using raw materials from renewable resources by the end of 2020.
- Maintaining low consumption of water consumption per unit of production.

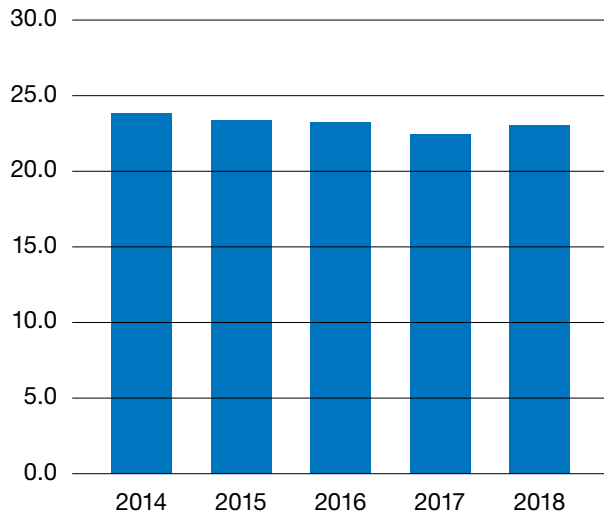
4.1.1 Carbon footprint

a) Electricity

The main source of energy for the production of nonwoven textiles is electricity, which also constitutes the main share of the Group's carbon footprint. As mentioned above, the Group has com-

mitted itself to lowering the amount of energy consumed per unit of production. Thanks to the implementation of the latest technologies and the production of materials with a lower basis weight, year by year the Group is significantly reducing its carbon footprint, which is not merely an ecological trend but also a factor that is financially beneficial to the Group. This trend clearly indicates that the Group is on the road to sustainable development. The trend in electricity consumption per unit of production output is shown in the following chart.

kWh/1,000m²



Between the years 2017 and 2018, energy consumption per unit of production increased slightly. Despite this increase, the Group keeps energy consumption per unit of production at a low level. This slight increase was the result of a different product mix produced in that year.

e) Emissions

Every year, the Group carries out an emissions assessment based on GHG Inventory reports “Inventory of greenhouse gases”, which include direct and indirect emissions.

DIRECT EMISSIONS – SCOPE 1

Emissions directly produced by the Group’s companies. These emissions are created during the activities performed directly by the given company and are controlled by the company. They include, for example, emissions from the combustion of gases, fuels or emissions from industrial processes.

INDIRECT EMISSIONS – SCOPE 2

Emissions connected with the consumption of purchased energy (electricity, heat, steam or cooling), which was not created directly at the company but is consumed as a result of the company’s activities. The sources of the emissions are not directly controlled by the company.

The development in the production of emissions by the Group in the years 2016-2018 is shown in the following two charts. The slight increase in emissions in 2018 is due to increased fuel consumption and the leakage of refrigerant gases that fall into direct emissions (Scope 1 emissions) and increased electricity consumption (Scope 2 emissions).

Tonnes of CO ₂ /year	2016	2017	2018
Direct emissions	1,663	1,637	1,733
Indirect emissions	126,991	139,776	141,408
Total emissions	128,654	141,413	143,141

kg CO ₂ /1,000m ²	2016	2017	2018
Direct emissions	0.28	0.25	0.26
Indirect emissions	21.40	21.16	21.23
Total emissions	21.68	21.41	21.49

Total emissions (tonnes of CO₂/year), due to year-round operation of the new production line (put into operation in the second half of 2017) increased, however, the Group managed to keep total emissions per unit of production low. Indirect and direct emissions per unit of production remained low and are, thereby, in accordance with the Group's strategy. In upcoming years, the Group expects to maintain the low levels of total emissions per unit of production.

f) Communal air pollution

The Group regularly measures communal air pollution. An authorised external company is used for this task. The measurement results are archived and are available to competent entities upon demand.

g) Workplace air pollution

The measured emissions at our production facilities are several orders of magnitude below the limit values, therefore, air at the workplace is not being polluted.

4.1.2 Noise

The Group regularly measures noise emission levels at the workplace and measures external noise emission levels. An authorised external company is used for this task. The measurement results are archived and are available to competent authorities upon demand.

4.1.3 Waste management

All types of wastes and packaging are stored, sorted and recorded according to valid laws. Contracted external organisations are used for waste disposal. These organisations are specialised, competent and accredited in the area of waste disposal. Emphasis is placed on increasing the awareness of all employees about the need for correct handling of all types of wastes and packaging. Since 2005, the Group has been regularly conducting training of employees from selected departments (production, logistics, maintenance, quality management) about the possible risks of environmental damage during the performance of routine tasks. Over and above the legal requirements in force, the Group sorts communal waste into paper, plastics, glass, metal, bio-waste and mixed wastes. There is a well-arranged map of the locations of the individual types of waste, with the highlighting of hazardous waste being highlighted.

A very significant part of waste from production (trimmings and rolls of 2nd grade nonwoven textile) are recycled back into the production process. The remaining waste is regranulated using two in-house regranulation lines in the Czech Republic and one in Egypt, whereby it can be utilised again for production. Development in the processing of production waste and regranulated material in the production process:

Processing of total waste in %	2016	2017	2018
Waste returned to production	22%	27%	34%
Regranulate returned to production	21%	26%	28%
Total	43%	52%	62%

On a year-on-year basis, the Company is increasing the share of processed waste, between 2017 and 2018 it increased by 10%. At the same time, the consumption of input raw materials is reduced. During the production of certain types of products, however, neither waste from production nor the regranulated material may be used, and therefore the remaining waste (production waste and regranulate) is sold to external customers who process it further in the production of plastic products. In this way, practically the entire production technology is waste-free.

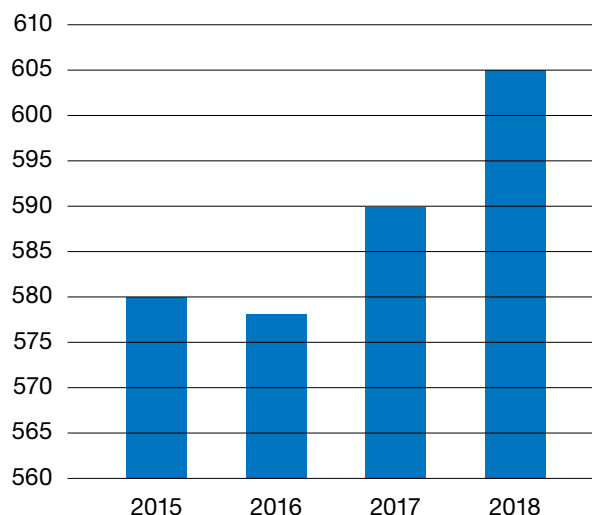
4.2 Key area 2 – social and employee issues

The Group strives to create a work environment that fosters motivation, performance and a high level of creativity in its employees.

The Group promotes fundamentals of equal opportunity and equality regardless of ethnic origin, skin colour, gender, physical disability, world opinion, religious conviction, nationality, sexual orientation, social origin or political opinion, if they are based on democratic principles and tolerances towards persons of a different conviction.

The Group has had a long-term focus on increasing the social standards above the level set by law, to improve working conditions and workplace health and safety for employees, and it makes further voluntarily investments into human capital. Fair recruiting procedures for new workers, non-discriminatory treatment of minorities and informing employees about company matters are considered to be standard.

NUMBER OF EMPLOYEES DEVELOPMENT



The Group is a significant employer not only in the Czech Republic but also in Egypt. Thanks to the construction of new production lines in South Africa and the Czech Republic, new work opportunities were created in these regions. Employees for the new positions started being recruited already in the 2nd half of 2018. The development in the number of employees of the Group is shown below.

Grouping of Company employees by country of employment:

Country	2015	2016	2017	2018
Czech Republic	480	478	490	504
Egypt	100	100	99	100
South Africa	0	0	1	1
Total	580	578	590	605

4.2.1 Workplace safety

Protection of the safety and health of employees is one of the most important priorities in the area of the comprehensive care for employees. Ensuring a healthy work environment and rigorous adherence to legal regulations governing work hygiene are an integral part of the Group's social policy.

The objective is to provide for a safe and healthy work environment at all workplaces and to take appropriate steps to eliminate potential hazards to the greatest degree possible.

OSH policy is reviewed regularly. A qualification component of employees at all levels is the effective and methodological application of continuous improvement of preventative measures, knowledge and adherence to fundamentals and responsibilities in safety and protection of health.

Among the positive factors affecting the level of workplace safety is also the modernisation and maintenance of the Company's fleet of machines and equipment and the high degree of order and cleanliness at all workplaces.

4.2.2 Social benefits

a) Pension insurance

The Group provides a pension insurance contribution based on the number of years an employee has worked at the Group. The vast majority of employees take advantage of this benefit. The objective in providing a contribution to employees into the pension insurance system with a government contribution is to express joint responsibility and par-

ticipation in creating better living conditions for its employees in their old age.

h) Food and catering

The option of discounted meals at eateries located at the production plants contributes to improving employee work conditions. Employees working night shifts or over the weekend have access to frozen or refrigerated meals that they may prepare in separate rooms directly at the workplace.

i) Support of employees and their families

The Group invests considerable resources into the support of social policy relating to its employees or their family members.

The Group provides financial gifts for the occasion of various anniversaries of its employees. Furthermore, the Group rewards long-term employees upon retirement, handles the consequences of organisational changes by increasing the legal severance pay, and it rewards blood donors. It also helps with employee housing by providing interest-free loans and provides employees with a contribution for vacation and for the recreation of the employees' children.

All employees have one week of holiday over and above the legal scope of the Labour Code (total of 5 weeks of holiday) and shortened working hours of 37.5 hours per week.

j) Benefit program

The employee benefit program includes the option of various discounts and promotional events from selected businesses. The program is regularly

updated and expanded to include new participating companies.

4.2.3 Training and recruiting

a) Education

For the Group the area of training and development of professional, technical and personal abilities and qualities of every employee is a prerequisite for ensuring the long term business development of the Group.

The senior management of the Group declares for the expected development of the Group full participation or partial-participation on the organisation or payment of costs of the employee training process. It applies this strategy for the type of training events that it considers, from its standpoint, to be absolutely necessary for the development of human resources, which form one of the fundamental pillars of the Group.

Consequently this means that persons who are significantly responsible for setting goals, development trends of the Group, in-house production, development of new technologies, carrying out business, implementing new systematic measures and elements, should be top experts in their given field and have the opportunity to purposefully and intentionally develop under certain stimulus and participation of the Company.

k) Recruitment

When filling available positions, the Group gives preference to existing Group employees ahead of external applicants, with the objective of taking advantage of the current qualifications of the employees, thereby increasing the desirable mobility within the Group and fostering the existing employee's identification with the Group.

l) Cooperation with universities

The Group cooperates with Czech universities (e.g. TU Liberec, VŠCHT Praha, VUT Brno, etc.). Cooperation consists of industrial-academic cooperation between university faculties and technical development departments of the Group focused through a project form on the exchange of know-how, experience and solutions to specific technical and research problems.

4.2.4 Sponsoring

The Group is aware of the importance of adhering to the fundamental principles of social responsibility. Better treatment of people and the surrounding environment is a consciously set objective. Only such behaviour can result in a growing ability to affect "not only" financial parameters but also social conditions, which reciprocally affect business conditions.

The Group supports several sports and cultural events in the region, for example Znojmo Children's Centre or the Přímětice Primary School volleyball team (further information available in the Sponsoring Brochure or in Annual Report 2018).

4.3 Key area 3 – observance of human rights

Observance of human rights is an integral part of the Group's policy and all its activities, and it also forms part of the document Human Rights Policy. The Group acts fully in accordance with all local and international legal regulations and demands adherence to these rules also from its business partners, suppliers and employees.

Human rights policy of the Group (wording is effective at the publishing date of the Sustainable Development Report 2018)

We, PFNonwovens a.s. and its subsidiaries, hereby declare that we observe the principles and internationally recognized human and other rights as described in the laws of Czech Republic, incl. the principles and rights which were implemented into Czech law based on the United Nations Universal Declaration of Human Rights (UDHR) and the International Labor Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, throughout our global operations, such as:

- *specific legal protection of the employee status,*
- *satisfactory and safe working conditions for performance of work,*
- *fair remuneration for an employee,*
- *proper performance of work by an employee in accordance with his employer's justified interests,*
- *equal treatment of employees and prohibition of their discrimination,*
- *freedom of association, protection of the right to organize and collective bargaining,*

→ *prohibition of forced and child labour,*

→ *occupational safety and health,*

→ *etc.*

We also recognize gender, cultural, ethnic, racial and religious equality, do not tolerate any form of discrimination and guarantee the same rights, responsibilities and opportunities to all employees regardless of race, colour, religion, gender, sexual preference/ orientation, citizenship, marital status, national origin, age or disability. In addition, we also hereby encourage our suppliers and other cooperating companies to adopt similar commitments within their businesses.

4.4 Key area 4 – anti-corruption measures

All business activities of the Group are based on the fundamental principle of equal treatment of all its customers, suppliers and other stakeholders. All activities of the Group therefore are based on fundamentally zero tolerance of corrupt behaviour in all its forms, and likewise to other forms of illegal, namely criminal behaviour.

Since the establishment of the Group, there have been no cases of corruption or suspicion of corrupt behaviour.

5

Conclusion

Through its activities and its strategy, the Group helps to deliver the 2030 vision of sustainable development defined by EDANA and published on <https://www.edana.org/docs/default-source/default-document-library/edana-sustainability-report-2019.pdf?sfvrsn=0>.



